

MCKESSON CORP
Form 10-K
May 07, 2013
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-K

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

For the fiscal year ended March 31, 2013

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

For the transition period from _____ to _____

Commission File Number: 1-13252

McKESSON CORPORATION

(Exact name of registrant as specified in its charter)

Delaware

94-3207296

(State or other jurisdiction of incorporation or organization) (I.R.S. Employer Identification No.)

One Post Street, San Francisco, California

94104

(Address of principal executive offices)

(Zip Code)

(415) 983-8300

(Registrant's telephone number, including area code)

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

(Title of each class)

(Name of each exchange on which registered)

Common stock, \$0.01 par value

New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: None

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

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

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

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this
chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or
information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

x

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

Large accelerated filer ☒

Accelerated filer ☐

Non-accelerated filer ☐ (Do not check if a smaller reporting company)

Smaller reporting company ☐

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Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act).

Yes ☐ No ☒

The aggregate market value of the voting and non-voting common equity held by non-affiliates of the registrant, computed by reference to the closing price as of the last business day of the registrant's most recently completed second fiscal quarter, September 30, 2012, was approximately \$20.2 billion.

Number of shares of common stock outstanding on April 30, 2013: 226,611,092

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's Proxy Statement for its 2013 Annual Meeting of Stockholders are incorporated by reference into Part III of this Annual Report on Form 10-K.

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McKESSON CORPORATION

PART I

Item 1. Business.

General

McKesson Corporation (“McKesson,” the “Company,” the “Registrant” or “we” and other similar pronouns), is a Fortune 14 corporation that delivers pharmaceuticals, medical supplies and healthcare information technology that make healthcare safer while reducing costs.

The Company's fiscal year begins on April 1 and ends on March 31. Unless otherwise noted, all references in this document to a particular year shall mean the Company's fiscal year.

Our Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended (the “Exchange Act,”) are available free of charge on our website (www.mckesson.com under the “Investors —Financial Information —SEC Filings” caption) as soon as reasonably practicable after we electronically file such material with, or furnish it to, the Securities and Exchange Commission (“SEC” or the “Commission”). The content on any website referred to in this Annual Report on Form 10-K is not incorporated by reference into this report, unless expressly noted otherwise.

The public may also read or copy any materials that we file with the SEC at the SEC's Public Reference Room at 100 F Street, N.E., Washington, DC 20549. The public may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. The SEC maintains a website that contains reports, proxy and information statements, and other information regarding issuers, including the Company, that file electronically with the SEC. The address of the website is www.sec.gov.

Business Segments

We operate in two segments. The McKesson Distribution Solutions segment distributes ethical and proprietary drugs, medical-surgical supplies and equipment and health and beauty care products throughout North America. This segment also provides specialty pharmaceutical solutions for biotech and pharmaceutical manufacturers, and practice management, technology, clinical support and business solutions to oncology and other specialty practices operating in the community setting. In addition, this segment sells financial, operational and clinical solutions for pharmacies (retail, hospital, alternate site) and provides consulting, outsourcing and other services. This segment includes a 49% interest in Nadro, S.A. de C.V. (“Nadro”), a pharmaceutical distributor in Mexico.

The McKesson Technology Solutions segment delivers enterprise-wide clinical, patient care, financial, supply chain, strategic management software solutions, pharmacy automation for hospitals, as well as connectivity, outsourcing and other services, including remote hosting and managed services, to healthcare organizations. This segment also includes McKesson Health Solutions, which includes our InterQual® clinical criteria solution, claims payment solutions and network performance tools. This segment's customers include hospitals, physicians, homecare providers, retail pharmacies and payers from North America, the United Kingdom, Ireland, other European countries and Israel.

Net revenues for our segments for the last three years were as follows:

(Dollars in billions)	Years Ended March 31,								
	2013			2012			2011		
Distribution Solutions	\$119.1	97	%	\$119.4	97	%	\$108.9	97	%
Technology Solutions	3.4	3	%	3.3	3	%	3.2	3	%
Total	\$122.5	100	%	\$122.7	100	%	\$112.1	100	%

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Distribution Solutions

McKesson Distribution Solutions consists of the following businesses: U.S. Pharmaceutical Distribution, McKesson Canada, Medical-Surgical Distribution, McKesson Specialty Health and McKesson Pharmacy Systems and Automation.

U.S. Pharmaceutical Distribution: This business supplies pharmaceuticals and/or other healthcare-related products to customers in three primary customer channels: (1) retail national accounts (including national and regional chains, food/drug combinations, mail order pharmacies and mass merchandisers); (2) independent retail pharmacies; and (3) institutional healthcare providers (including hospitals, health systems, integrated delivery networks, clinics and alternate site providers). This business also provides solutions and services to pharmaceutical manufacturers. This business sources materials and products from a wide-array of different suppliers, including the production of certain generic pharmaceutical drugs through a contract-manufacturing program.

Our U.S. pharmaceutical distribution business operates and serves thousands of customer locations through a network of 28 distribution centers, as well as a primary redistribution center, a strategic redistribution center and two repackaging facilities, serving all 50 states and Puerto Rico. We invest in technology and other systems at all of our distribution centers to enhance safety and reliability and provide the best product availability for our customers. For example, in most of our distribution centers we use Acumax® Plus, an award-winning technology that integrates and tracks all internal inventory-related functions such as receiving, put-away and order fulfillment. Acumax® Plus uses bar code technology, wrist-mounted computer hardware and radio frequency signals to provide customers with real-time product availability and industry-leading order quality and fulfillment in excess of 99.9% adjusted accuracy. In addition, we offer Mobile ManagerSM, which integrates portable handheld technology with Acumax® Plus to give customers complete ordering and inventory control. We also offer McKesson ConnectSM, an Internet-based ordering system that provides item lookup and real-time inventory availability as well as ordering, purchasing, third-party reconciliation and account management functionality. Together, these features help ensure customers have the right products at the right time for their facilities and patients.

To maximize distribution efficiency and effectiveness, we follow the Six Sigma methodology — an analytical approach that emphasizes setting high-quality objectives, collecting data and analyzing results to a fine degree in order to improve processes, reduce costs and minimize errors. We continue to implement information systems to help achieve greater consistency and accuracy both internally and for our customers.

The major offerings of the McKesson U.S. Pharmaceutical Distribution business by customer group can be categorized as retail national accounts, independent retail pharmacies and institutional healthcare providers.

Retail National Accounts — Business solutions that help national account customers increase revenues and profitability. Solutions include:

• **Central FillSM** — Prescription refill service that enables pharmacies to more quickly refill prescriptions remotely, more accurately and at a lower cost, while reducing inventory levels and improving customer service.

• **Redistribution Centers** — Two facilities totaling over 750 thousand square feet that offer access to inventory for single source warehouse purchasing, including pharmaceuticals and biologicals. These distribution centers also provide the foundation for a two-tiered distribution network that supports best-in-class direct store delivery.

• **EnterpriseRx®** — A Software as a Service (SaaS) pharmacy management system, that allows large retail chain, health system, and retail independent pharmacies to meet demand for prescriptions while maximizing profits and optimizing operations.

• **RxPakSM** — Bulk-to-bottle repackaging service that leverages our purchasing scale and supplier relationships to provide pharmaceuticals at reduced prices, help increase inventory turns and reduce working capital investment.

• **Inventory Management** — An integrated solution comprising forecasting software and automated replenishment technologies that reduce inventory-carrying costs.

• **McKesson OneStop Generics®** — Generic pharmaceutical purchasing program that helps pharmacies maximize their cost savings with a broad selection of generic drugs, low pricing and one-stop shopping.

• **ExpressRx TrackTM** — Pharmacy automation solution featuring state-of-the-art robotics, upgraded imaging and expanded vial capabilities, and industry-leading speed and accuracy in a radically small footprint.

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Independent Retail Pharmacies — Solutions for managed care contracting, branding and advertising, merchandising, purchasing, operational efficiency and automation that help independent pharmacists focus on patient care while improving profitability. Solutions include:

Health Mart® — Health Mart® is a national network of more than 3,000 independently-owned pharmacies and is one of the industry's most comprehensive pharmacy franchise programs. Health Mart® provides franchisees support for managed care contracting, branding and local marketing solutions, the Health Mart private label line of products, merchandising solutions and programs for enhanced patient support.

AccessHealth® — Comprehensive managed care and reconciliation assistance services that help independent pharmacies save time, access competitive reimbursement rates and improve cash flow.

McKesson Reimbursement AdvantageSM (“MRA”) — MRA is one of the industry's most comprehensive reimbursement optimization packages, comprising financial services (automated claim resubmission), analytic services and customer care.

McKesson OneStop Generics® — described above.

EnterpriseRx® — described above.

Sunmark® — Complete line of more than 700 products that provide retail independent pharmacies with value-priced alternatives to national brands.

FrontEdge™ — Strategic planning, merchandising and price maintenance program that helps independent pharmacies maximize store profitability.

McKesson Sponsored Clinical Services (SCS) Network — Access to patient-support services that allow pharmacists to earn service fees and develop stronger patient relationships.

Institutional Healthcare Providers — Electronic ordering/purchasing and supply chain management systems that help customers improve financial performance, increase operational efficiencies and deliver better patient care. Solutions include:

McKesson Pharmacy Optimization® — An experienced group of pharmacy professionals providing consulting services and pharmacy practice resources. McKesson Pharmacy Optimization® develops customized and quantifiable solutions that help hospitals create and sustain financial, operational and clinical results.

Fulfill-RxSM — Ordering and inventory management system that integrates McKesson pharmaceutical distribution services with our automation solutions, thus empowering hospitals to optimize the often complicated and disjointed processes related to unit-based cabinet replenishment and inventory management.

Asset Management — Award-winning inventory optimization and purchasing management program that helps institutional providers lower costs while ensuring product availability.

- SKY Packaging — Blister-format packaging containing the most widely prescribed dosages and strengths in generic oral-solid medications. SKY Packaging enables acute care, long-term care and institutional pharmacies to provide cost-effective, uniform packaging.

McKesson Plasma and BioLogics — A full portfolio of plasma-derivatives and biologic products.

McKesson OneStop Generics® — described above.

- McKesson 340B Solution Suite and Macro Helix® — Solutions that help providers manage, track and report on medication replenishment associated with the federal 340B Drug Pricing Program.

McKesson Canada: McKesson Canada, a wholly-owned subsidiary, is one of the largest pharmaceutical distributors in Canada. McKesson Canada, through its network of 16 distribution centers, provides logistics and distribution to more than 800 manufacturers — delivering their products to retail pharmacies, hospitals, long-term care centers, clinics and institutions throughout Canada. Beyond pharmaceutical distribution, logistics and order fulfillment, McKesson Canada has automated over 2,500 retail pharmacies and is also active in hospital automation solutions, dispensing more than 100 million doses each year. In partnership with other McKesson businesses, McKesson Canada provides a full range of services to Canadian manufacturers and healthcare providers, contributing to the quality and safety of care for patients. In March 2012, we acquired substantially all of the assets of Drug Trading Company Limited, the independent banner business of the Katz Group Canada Inc. (“Katz Group”), and Medicine Shoppe Canada Inc., the franchise business of the Katz Group. The acquisition of the assets from the Drug Trading Company Limited consists

of a marketing and purchasing arm of independently owned pharmacies in Canada. The acquisition of Medicine Shoppe Canada Inc. consists of the franchise business of providing services to independent pharmacies in Canada.

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Medical-Surgical Distribution: This business provides medical-surgical supply distribution, equipment, logistics and other services to healthcare providers including physicians' offices, surgery centers, extended care facilities, homecare and occupational health sites through a network of distribution centers within the U.S. This business is a leading provider of supplies to the full range of alternate-site healthcare facilities, including physicians' offices, clinics and surgery centers (primary care), long-term care, occupational health facilities and homecare sites (extended care).

Through a variety of technology products and services geared towards the supply chain, our Medical-Surgical Distribution business is focused on helping its customers operate more efficiently while providing one of the industry's most extensive product offerings, including our own private label line. On February 22, 2013, we acquired all of the outstanding shares of PSS World Medical, Inc. ("PSS World Medical") of Jacksonville, Florida. PSS World Medical markets and distributes medical products and services to front-line caregivers throughout the United States, differentiating itself with innovative approaches to customer service and operational excellence. The unified organization will bring extensive distribution capabilities, deep product and technology expertise and a broad portfolio of business services to an expanding industry, helping our customers improve efficiency and productivity, and deliver better care.

McKesson Specialty Health: This business provides solutions for oncology and other specialty practices operating in communities across the country, as well as for pharmaceutical and biotech suppliers who manufacture specialty drugs and vaccines. Through expertise in specialty drug distribution, commercialization, revenue cycle and practice management and reimbursement support, McKesson Specialty Health seeks to empower the community patient care delivery system and facilitates collaboration among community healthcare providers, drug manufacturers and payers. We provide direct-to-physician specialty distribution services, ensuring supply chain safety and delivery of specialty drugs in manufacturer recommended conditions. Third party logistics, or 3PL, are offered primarily for vaccine distribution, including our exclusive distributor relationship in the Centers for Disease Control and Prevention's (CDC) Vaccines for Children program. When classifying a pharmaceutical product or service as "specialty," we consider the following factors: high cost; complex treatment regimes, such as oncology and rheumatoid arthritis; special handling, storage and delivery requirements; and, in some cases, exclusive distribution arrangements. This business also provides practice management and other consulting services to healthcare providers, pharmaceutical manufacturers and third party payers supporting the clinical research, marketing and distribution of specialty pharmaceutical products and services. Our use of the term "specialty" to define a portion of our distribution business may not be comparable to that used by other industry participants, including our competitors.

We also offer our industry leading Lynx® integrated technologies, the iKnowMedSM Electronic Health Record, and clinical and practice management tools, all of which help community practices improve inventory management, practice workflow and reimbursement processes, as well as deliver business efficiencies and clinical-decision support. McKesson Specialty Health works with manufacturers across all phases of the product development and commercialization lifecycle, including clinical research, to optimize delivery of complex medication to patients. Through custom distribution and safety programs, we help support appropriate product utilization, as well as the development and management of Risk Evaluation Mitigation Strategies ("REMS"), reimbursement, healthcare informatics and patient access programs, and to enable manufacturers to deliver cost effective patient access to needed therapies. McKesson Specialty Health supports The US Oncology Network and US Oncology Research. The US Oncology Network is one of the nation's largest networks of community-based oncology physicians dedicated to advancing high-quality, evidence-based cancer care. US Oncology Research is one of the nation's largest research networks, specializing in Phase I — Phase IV oncology clinical trials.

McKesson Pharmacy Systems and Automation: This business supplies integrated pharmacy management systems, automated dispensing systems and related services to retail, outpatient, central fill, specialty and mail order pharmacies. Its primary approach is to provide the customer with a pharmacy management system that best suits the particular needs of their business operation. This objective is achieved by offering three pharmacy management products: EnterpriseRx®, an industry-leading, Software as a Service or SaaS-based management system that intelligently integrates all workflow and communication processes within the pharmacy environment; Pharmaserv®, a fully integrated, server-based pharmacy management system that gives the customer complete control of their

pharmacy data; and PharmacyRx, a cost-effective, SaaS-based pharmacy management system that can be installed quickly and makes processing prescriptions fast and easy. These offerings allow large retail chain, hospital outpatient pharmacies and small and independent pharmacies to meet the high demand for prescriptions while maximizing profits and optimizing operations. We also own a 39% interest in Parata Systems, LLC ("Parata"), which sells automated pharmacy and supply management systems and services to retail and institutional pharmacies.

Technology Solutions

Our Technology Solutions segment provides a comprehensive portfolio of software, automation, support and services to help healthcare organizations improve quality and patient safety, reduce the cost and variability of care and better manage their resources and revenue stream. This segment also includes our InterQual® clinical criteria solution, claims payment solutions and network performance tools. Technology Solutions markets its products and services to integrated delivery networks, hospitals, physician practices, home healthcare providers, retail pharmacies and payers.

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The product portfolio for the Technology Solutions segment is designed to address a wide array of healthcare clinical and business performance needs ranging from medication safety and information access to revenue cycle management, resource utilization and physician adoption of electronic health records (“EHR”). Analytics software enables organizations to measure progress as they automate care processes for optimal clinical outcomes, business and operating results and regulatory compliance. To ensure that organizations achieve the maximum value for their information technology investment, we also offer a wide range of services to support the implementation and use of solutions as well as assist with business and clinical redesign, process re-engineering and staffing (both information technology and back-office).

Technology Solutions consists of the following businesses: McKesson Health Solutions, Enterprise Medical Imaging and Ancillary Solutions, RelayHealth, Revenue Management Solutions, Enterprise Information Solutions, Hospital Automation and International Technology.

McKesson Health Solutions: This suite of services and software products is designed to manage the cost and quality of care for payers, providers, hospitals and government organizations. Solution sets include:

- InterQual® Criteria for clinical decision support and utilization management;
- Claims payment solutions to facilitate accurate and efficient medical claim payments;
- Business intelligence tools for measuring, reporting and improving clinical and financial performance;
- Network management tools to enable health plans to transform the performance of their networks;
- RelayHealth® financial solutions to facilitate communication between healthcare providers and patient aggregate data for claims management and trend analysis, and optimize revenue cycle management processes.

Enterprise Medical Imaging and Ancillary Solutions: In addition to document imaging to facilitate maintenance and access to complete medical records, we offer medical imaging and information management systems for healthcare enterprises, including a picture archiving communications system, a radiology information system and a comprehensive cardiovascular information system. Our enterprise-wide approach to medical imaging enables organizations to take advantage of specialty-specific workstations while building an integrated image repository that manages all of the images and information captured throughout the care continuum. Workforce management solutions assist caregivers with staffing and maintaining labor rule continuity between scheduling, time and attendance and payroll. We also offer a comprehensive supply chain management solution that integrates enterprise resource planning applications, including financials, materials, human resources/payroll, with scheduling, point of use, surgical and anesthesia services and enterprise-wide analytics.

RelayHealth: Through our vendor-neutral RelayHealth® and its intelligent network, the Company provides health information exchange solutions that streamline clinical and administrative communication between patients, providers, payers, pharmacies, manufacturers, government and financial institutions. RelayHealth® helps to accelerate the delivery of high-quality care and improve financial performance through online consultation of physicians by patients, electronic prescribing by physicians, and point-of-service resolution of pharmacy claims by payers. We provide disease management programs to improve the health status and health outcomes of patients with chronic conditions, nurse advice services to provide health information and recommend appropriate levels of care, and clinical and analytical software to support utilization, case and disease management workflows and a comprehensive solution for homecare. We also provide performance management solutions designed to enhance an organization's ability to plan and optimize quality care delivery. Enterprise visibility and performance analytics provide business intelligence that enables providers to manage capacity, outcomes, productivity and patient flow.

Revenue Management Solutions: We help providers focus their resources on delivering healthcare while managing their revenue cycle operations and information technology through a comprehensive suite of managed services. Services include full and partial revenue cycle outsourcing, remote hosting and business office administration. We also provide a complete solution for physician practices of all sizes, whether they are independent or employed, that includes software, revenue cycle outsourcing and connectivity services. Software solutions include practice management and EHR software for physicians of every size and specialty. Our physician practice offering includes outsourced billing, collection, data input, medical coding, billing, contract management, cash collections, accounts receivable management and extensive reporting of metrics related to the physician practice. We also offer a full suite

of physician and hospital consulting services, including financial management, coding and compliance services, revenue cycle services and strategic services.

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Enterprise Information Solutions: We provide comprehensive clinical and financial information systems for hospitals and health systems of all sizes. These systems are designed to improve the safety and quality of patient care and improve clinical, financial and operational performance. Clinical functionality includes a data repository, care planning, physician order entry and documentation, nursing documentation with bar-coded medication administration, pharmacy, surgical management, emergency department and ambulatory EHR systems, and a Web-based physician portal. Revenue management solutions are designed to improve financial performance by reducing days in accounts receivable, preventing insurance claim denials, reducing costs and improving productivity. Solutions include online patient billing, contract management, electronic claims processing and coding compliance checking. These solutions streamline patient access and help organizations to forecast financial responsibility for constituents before and during care, allowing providers to collect their reimbursements more quickly and at a lower cost. We also provide professional services to help customers achieve business results from their software or automation investment. A wide array of service options is available, including consulting for business and/or clinical process improvement and re-design as well as implementation, project management, technical and education services relating to all products in the Technology Solutions segment as well as providing the technical infrastructure designed to maximize application accessibility, availability, security and performance.

In April 2013, we committed to sell the following Technology Solutions businesses:

Hospital Automation: Automation solutions include technologies that help hospitals re-engineer and improve their medication use processes. Examples include centralized pharmacy automation for dispensing unit-dose medications, unit-based cabinet technologies for secure medication storage and rapid retrieval and an anesthesia cart for dispensing of medications in the operating room. Based on a foundation of bar-code scanning technology, these integrated solutions are designed to reduce errors and bring new levels of safety to patients.

International Technology: We provide comprehensive patient administration systems and clinical products to health and social care systems of all sizes in the United Kingdom and other European countries. Patient administration systems are designed to improve financial performance, ensure continuity of business operations, enabling seamless reporting and billing and drive improvements in quality and continuity of care. We also provide workforce management solutions for the National Health Service in the United Kingdom. The workforce management tools provide a cost effective, efficient method for evidence based strategic workforce planning.

Business Combinations and Discontinued Operations

We have undertaken strategic initiatives in recent years designed to further focus on our core healthcare businesses and enhance our competitive position. We expect to continue to undertake such strategic initiatives in the future.

These initiatives are detailed in Financial Notes 2, 8 and 27, "Business Combinations," "Discontinued Operation" and "Subsequent Event," to the consolidated financial statements appearing in this Annual Report on Form 10-K.

Competition

In every area of healthcare distribution operations, our Distribution Solutions segment faces strong competition, both in price and service, from national, regional and local full-line, short-line and specialty wholesalers, service merchandisers, self-warehousing chains, manufacturers engaged in direct distribution, third-party logistics companies and large payer organizations. In addition, this segment faces competition from various other service providers and from pharmaceutical and other healthcare manufacturers as well as other potential customers of the segment, which may from time-to-time decide to develop, for their own internal needs, supply management capabilities that would otherwise be provided by the segment. Price, quality of service, innovation and, in some cases, convenience to the customer are generally the principal competitive elements in this segment.

Our Technology Solutions segment experiences substantial competition from many firms, including other software services firms, consulting firms, shared service vendors, certain hospitals and hospital groups, payers, care management organizations, hardware vendors and internet-based companies with technology applicable to the healthcare industry. Competition varies in size from small to large companies, in geographical coverage and in scope and breadth of products and services offered.

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Patents, Trademarks, Copyrights and Licenses

McKesson and its subsidiaries hold patents, copyrights, trademarks and trade secrets related to McKesson products and services. We pursue patent protection for our innovation, and obtain copyrights covering our original works of authorship, when such protection is advantageous. Through these efforts, we have developed a portfolio of patents and copyrights in the U.S. and worldwide. In addition, we have registered or applied to register certain trademarks and service marks in the U.S. and in foreign countries. Our employees are required to execute agreements that prohibit the disclosure of confidential information and establish an obligation to assign to McKesson intellectual property that they create during their employment.

We believe that, in the aggregate, McKesson's confidential information, patents, copyrights, and trademarks are important to its operations and market position, but we do not consider any of our businesses to be dependent upon any one patent, copyright, trademark, or trade secret, or any family or families of the same. We cannot guarantee that our intellectual property portfolio will be sufficient to deter misappropriation, theft, or misuse of our technology, nor that we can successfully enjoin infringers. We periodically receive notices alleging that our products or services infringe on third party patents and other intellectual property rights. These claims may result in McKesson entering settlement agreements, paying damages, discontinuing use or sale of accused products, or ceasing other activities.

While the outcome of any litigation or dispute is inherently uncertain, we do not believe that the resolution of any of these infringement notices would have a material adverse impact on our results of operation.

We hold inbound licenses for certain intellectual property that is used internally, and in some cases, utilized in McKesson's products or services. While it may be necessary in the future to seek or renew licenses relating to various aspects of our products and services, we believe, based upon past experience and industry practice, such licenses generally can be obtained on commercially reasonable terms. We believe our operations and products and services are not materially dependent on any single license or other agreement with any third party.

Other Information about the Business

Customers: During 2013, sales to our ten largest customers accounted for approximately 51% of our total consolidated revenues. Sales to our largest customer, CVS Caremark Corporation ("CVS"), accounted for approximately 17% of our total consolidated revenues. At March 31, 2013, trade accounts receivable from our ten largest customers were approximately 44% of total trade accounts receivable. Accounts receivable from CVS and Wal-Mart Stores, Inc. ("Walmart") were approximately 16% and 10% of total trade accounts receivable. We also have agreements with group purchasing organizations ("GPOs"), each of which functions as a purchasing agent on behalf of member hospitals, pharmacies and other healthcare providers. The accounts receivables balances are with individual members of the GPOs. Substantially all of these revenues and accounts receivable are included in our Distribution Solutions segment.

Suppliers: We obtain pharmaceutical and other products from manufacturers, none of which accounted for more than approximately 6% of our purchases in 2013. The loss of a supplier could adversely affect our business if alternate sources of supply are unavailable. We believe that our relationships with our suppliers, on the whole, are good. The ten largest suppliers in 2013 accounted for approximately 43% of our purchases.

A significant portion of our distribution arrangements with the manufacturers provides us compensation based on a percentage of our purchases. In addition, we have certain distribution arrangements with pharmaceutical manufacturers that include an inflation-based compensation component whereby we benefit when the manufacturers increase their prices as we sell our existing inventory at the new higher prices. For these manufacturers, a reduction in the frequency and magnitude of price increases, as well as restrictions in the amount of inventory available to us, could have a material adverse impact on our gross profit margin.

Research and Development: Our development expenditures primarily consist of our investment in software held for sale. We spent \$529 million, \$487 million and \$471 million for development activities in 2013, 2012 and 2011 and of these amounts, we capitalized 9%, 10% and 14%. Development expenditures are primarily incurred by our Technology Solutions segment. Our Technology Solutions segment's product development efforts apply computer technology and installation methodologies to specific information processing needs of hospitals and other customers. We believe that a substantial and sustained commitment to such expenditures is important to the long-term success of

this business. Additional information regarding our development activities is included in Financial Note 1, “Significant Accounting Policies,” to the consolidated financial statements appearing in this Annual Report on Form 10-K.

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Environmental Regulation: Our operations are subject to regulations under various federal, state, local and foreign laws concerning the environment, including laws addressing the discharge of pollutants into the air and water, the management and disposal of hazardous substances and wastes and the cleanup of contaminated sites. We could incur substantial costs, including cleanup costs, fines and civil or criminal sanctions and third-party damage or personal injury claims, if in the future we were to violate or become liable under environmental laws.

We are committed to maintaining compliance with all environmental laws applicable to our operations, products and services and to reducing our environmental impact across all aspects of our business. We meet this commitment through an environmental strategy and sustainability program.

We sold our chemical distribution operations in 1987 and retained responsibility for certain environmental obligations. Agreements with the Environmental Protection Agency and certain states may require environmental assessments and cleanups at several closed sites. These matters are described further in Financial Note 22, "Other Commitments and Contingent Liabilities," to the consolidated financial statements appearing in this Annual Report on Form 10-K.

The liability for environmental remediation and other environmental costs is accrued when the Company considers it probable and can reasonably estimate the costs. Environmental costs and accruals, including that related to our legacy chemical distribution operations, are presently not material to our operations or financial position. Although there is no assurance that existing or future environmental laws applicable to our operations or products will not have a material adverse impact on our operations or financial condition, we do not currently anticipate material capital expenditures for environmental matters. Other than the expected expenditures that may be required in connection with our legacy chemical distribution operations, we do not anticipate making substantial capital expenditures either for environmental issues, or to comply with environmental laws and regulations in the future. The amount of our capital expenditures for environmental compliance was not material in 2013 and is not expected to be material in the next year.

Employees: On March 31, 2013, we employed approximately 43,500 persons compared to 37,700 and 36,400 on March 31, 2012 and 2011.

Financial Information About Foreign and Domestic Operations: Information as to foreign and domestic operations is included in Financial Notes 1 and 25, "Significant Accounting Policies" and "Segments of Business," to the consolidated financial statements appearing in this Annual Report on Form 10-K.

Forward-Looking Statements

This Annual Report on Form 10-K, including "Management's Discussion and Analysis of Financial Condition and Results of Operations" in Item 7 of Part II of this report and the "Risk Factors" in Item 1A of Part I of this report, contains forward-looking statements within the meaning of section 27A of the Securities Act of 1933, as amended and section 21E of the Securities Exchange Act of 1934, as amended. Some of these statements can be identified by use of forward-looking words such as "believes," "expects," "anticipates," "may," "will," "should," "seeks," "approximately," "intends," "estimates," or the negative of these words, or other comparable terminology. The discussion of financial trends, strategy, plans or intentions may also include forward-looking statements. Forward-looking statements involve risks and uncertainties that could cause actual results to differ materially from those projected, anticipated, or implied. Although it is not possible to predict or identify all such risks and uncertainties, they may include, but are not limited to, the factors discussed in Item 1A of Part I of this report under "Risk Factors." The reader should not consider the list to be a complete statement of all potential risks and uncertainties.

These and other risks and uncertainties are described herein and in other information contained in our publicly available SEC filings and press releases. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date such statements were first made. Except to the extent required by federal securities laws, we undertake no obligation to publicly release the result of any revisions to these forward-looking statements to reflect events or circumstances after the date hereof, or to reflect the occurrence of unanticipated events.

Item 1A. Risk Factors.

The risks described below could have a material adverse impact on our financial position, results of operations, liquidity and cash flows. Although it is not possible to predict or identify all such risks and uncertainties, they may

include, but are not limited to, the factors discussed below. Our business operations could also be affected by additional factors that are not presently known to us or that we currently consider not to be material to our operations. The reader should not consider this list to be a complete statement of all risks and uncertainties.

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We are subject to legal proceedings that could have a material adverse impact on our financial position and results of operations.

From time-to-time and in the ordinary course of our business, we and certain of our subsidiaries may become involved in various legal proceedings involving antitrust, commercial, employment, environmental, intellectual property, regulatory, tort and other various claims. All such legal proceedings are inherently unpredictable, and the outcome can result in excessive verdicts and/or injunctive relief that may affect how we operate our business or we may enter into settlements of claims for monetary damages. In some cases, substantial non-economic remedies or punitive damages may be sought. For some complaints filed against the Company, we are currently unable to estimate the amount of possible losses that might be incurred should these legal proceedings be resolved against the Company.

The outcome of litigation and other legal matters is always uncertain and outcomes that are not justified by the evidence or existing law can occur. The Company believes that it has valid defenses to the legal matters pending against it and is defending itself vigorously. Nevertheless, it is possible that resolution of one or any combination of more than one legal matter could result in a material adverse impact on our financial position or results of operations. For example, we are involved in a number of legal proceedings described in Financial Note 22, "Other Commitments and Contingent Liabilities," to the accompanying consolidated financial statements that could have such an impact, including legal proceedings alleging that we engaged in illegal conduct that caused average wholesale prices to rise for certain prescription drugs during specified periods.

Litigation is costly, time-consuming and disruptive to normal business operations. The defense of these matters could also result in continued diversion of our management's time and attention away from business operations, which could also harm our business. Even if these matters are not resolved against us, the uncertainty and expense associated with unresolved legal proceedings could harm our business and reputation. For additional information regarding certain of the legal proceedings in which we are involved, see Financial Note 22, "Other Commitments and Contingent Liabilities," to the accompanying consolidated financial statements.

Changes in the United States healthcare industry and regulatory environment could have a material adverse impact on our results of operations.

Our products and services are primarily intended to function within the structure of the healthcare financing and reimbursement system currently being used in the United States. In recent years, the healthcare industry in the United States has changed significantly in an effort to reduce costs. These changes have included cuts in Medicare and Medicaid reimbursement levels, consolidation of pharmaceutical and medical-surgical supply distributors and the development of large, sophisticated purchasing groups. We expect the healthcare industry in the United States to continue to change and for healthcare delivery models to evolve in the future.

Changes in the healthcare industry's or our pharmaceutical suppliers' pricing, selling, inventory, distribution or supply policies or practices could significantly reduce our revenues and net income. Due to the diverse range of healthcare supply management and healthcare information technology products and services that we offer, such changes could have a material adverse impact on our results of operations, while not affecting some of our competitors who offer a narrower range of products and services.

The majority of our U.S. pharmaceutical distribution business' agreements with manufacturers are structured to ensure that we are appropriately and predictably compensated for the services we provide; however, failure to successfully renew these contracts in a timely and favorable manner could have a material adverse impact on our results of operations. In addition, branded pharmaceutical price inflation can be the partial economic basis of some of our distribution business agreements with pharmaceutical manufacturers. If the frequency or rate of branded price increases slows, it could have a material adverse impact on our results of operations.

In addition, we distribute generic pharmaceuticals, which can be subject to both price deflation and price inflation. In recent years, our financial results have improved from our generic drug offerings combined with an increase in the number of generic drug formularies available in the marketplace. However, in fiscal year 2014 we anticipate the number of branded to generics conversions to decrease as compared to recent years. Continued volatility in the availability, pricing trends or reimbursement of these generic drugs, or significant fluctuations in the rate of increase in the number of generic drugs, could have a material adverse impact on our results of operations.

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Generic drug manufacturers are increasingly challenging the validity or enforceability of patents on branded pharmaceutical products. During the pendency of these legal challenges, a generics manufacturer may begin manufacturing and selling a generic version of the branded product prior to the final resolution to its legal challenge over the branded product's patent. To the extent we source, contract manufacture, and distribute such generic products, the brand-name company could assert infringement claims against us. While we generally obtain indemnification against such claims from generic manufacturers as a condition of distributing their products, there can be no assurances that these rights will be adequate or sufficient to protect us.

In recent years, pharmaceutical suppliers have been subject to increasing consolidation. As a result, a small number of very large companies control a significant share of the market. Accordingly, we depend on fewer suppliers for our products and therefore we may be less able to negotiate price terms with suppliers.

Many healthcare organizations have also consolidated to create larger healthcare enterprises with greater market power. If this consolidation trend continues, it could reduce the size of our target market and give the resulting enterprises greater bargaining power, which may lead to erosion of the prices for our products and services. In addition, when healthcare organizations combine they often consolidate infrastructure including IT systems, which in turn may erode the diversity of our customer and revenue base.

The healthcare industry is highly regulated, and further regulation of our distribution businesses and computer-related products and services could impose increased costs, negatively impact our profit margins, and the profit margins of our customers, delay the introduction or implementation of our new products, or otherwise negatively impact our business and expose the Company to litigation and regulatory investigations.

Healthcare Fraud: We are subject to extensive and frequently changing local, state and federal laws and regulations relating to healthcare fraud, waste and abuse, and the government, both state and federal, continues to strengthen its position and scrutiny over practices involving fraud, waste and abuse affecting Medicare, Medicaid and other government healthcare programs. Our relationships with pharmaceutical and medical-surgical product manufacturers and healthcare providers, as well as our provision of products and services to government entities, subject our business to laws and regulations on fraud and abuse, which among other things: (1) prohibit persons from soliciting, offering, receiving or paying any remuneration in order to induce the referral of a patient for treatment or for inducing the ordering or purchasing of items or services that are in any way paid for by Medicare, Medicaid or other government-sponsored healthcare programs; (2) impose a number of restrictions upon referring physicians and providers of designated health services under Medicare and Medicaid programs; and (3) prohibit the knowing submission of a false or fraudulent claim for payment to, and knowing retention of an overpayment by, a federal health care program such as Medicare and Medicaid. Many of the regulations applicable to us, including those relating to marketing incentives, are vague or indefinite and have not been interpreted by the courts. They may be interpreted or applied by a prosecutorial, regulatory, or judicial authority in a manner that could require us to make changes in our operations. If we fail to comply with applicable laws and regulations, we could become liable for damages, suffer civil and criminal penalties, including the loss of licenses or our ability to participate in Medicare, Medicaid and other federal and state healthcare programs.

Reimbursements: Both our profit margins and the profit margins of our customers may be adversely affected by laws and regulations reducing reimbursement rates for pharmaceuticals, medical treatments and related services, or changing the methodology by which reimbursement levels are determined. For example, the Patient Protection and Affordable Care Act and the Health Care and Education Reconciliation Act (collectively the "Affordable Care Act"), signed into law in 2010, revised the federal upper limits for Medicaid reimbursement for multiple source generic drugs available for purchase by retail community pharmacies on a nationwide basis to a limit of not less than 175% of the weighted average (determined on the basis of utilization) of the most recently reported monthly average manufacturer price ("AMP") using a smoothing process. In addition, Medicare, Medicaid and the State Children's Health Insurance Program ("SCHIP") Extension Act of 2007 requires the Centers for Medicare and Medicaid Services ("CMS") to adjust the calculation of the Medicare Part B drug average sales price to an actual sales volume basis. CMS has proposed new rules for calculating AMP ("Revised AMP") and is also offering states the option to replace traditional reimbursement metrics for certain drugs with alternatives such as the average acquisition cost ("AAC")

method. Under AAC, reimbursement is based on the actual acquisition costs from invoiced amounts and from a statistically validated cost of dispensing survey.

In addition, CMS has begun conducting a national survey of pharmacies to create a national average drug acquisition cost benchmark (“NADAC”). States may use the results of this survey to set pharmacy payment rates. CMS released the first draft of the pricing data determined through the NADAC survey as well as an alternate reimbursement methodology called National Average Retail Price (“NARP”). NARP represents the average consumer purchase price of the most commonly dispensed brand and generic drugs. States will have the option of using any of these metrics to determine appropriate Medicaid reimbursement to pharmacies for generic or brand drugs.

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We expect that the use of a Revised AMP benchmark or the use of an alternative reimbursement metric, such as AAC or NARP, would result in a reduction in the Medicaid reimbursement rates to our customers for certain pharmaceuticals, which could indirectly impact the prices that we can charge our customers and cause corresponding declines in our profitability.

The federal government may adopt measures that could further reduce Medicare and/or Medicaid spending, or impose additional requirements on healthcare entities. For instance, on August 2, 2011, the President signed into law the Budget Control Act of 2011, which provided for an automatic 2% reduction of Medicare program payments for all healthcare providers in January 2013. On January 2, 2013, the President signed into law the American Taxpayer Relief Act of 2012, which delayed this reduction until March 2013, at which time the President issued an executive order implementing it. This automatic reduction is known as “sequestration.” Additionally, concerns held by federal policymakers about the federal deficit and national debt levels could result in enactment of further federal spending reductions, further entitlement reform legislation affecting the Medicare program, or both. We cannot predict what alternative or additional deficit reduction initiatives or Medicare payment reductions, if any, will ultimately be enacted into law, or the timing or effect any such initiatives or reductions will have on us.

There can be no assurance that the preceding changes would not have a material adverse impact on our results of operations.

Operating, Security and Licensure Standards: We are subject to the operating and security standards of the Drug Enforcement Administration (the “DEA”), the U.S. Food and Drug Administration (“FDA”), various state boards of pharmacy, state health departments, the U.S. Department of Health and Human Services (“HHS”), the CMS and other comparable agencies. Certain of our businesses may be required to register for permits and/or licenses with, and comply with operating and security standards of the DEA, FDA, HHS, CMS, various state boards of pharmacy, state health departments and/or comparable state agencies as well as foreign agencies and certain accrediting bodies, depending upon the type of operations and location of product development, manufacture, distribution, and sale. As part of these operating, security and licensure standards, we regularly receive requests for information and occasionally subpoenas from government authorities. Although we believe that we are in compliance in all material respects with applicable laws and regulations, there can be no assurance that a regulatory agency or tribunal would not reach a different conclusion concerning the compliance of our operations with applicable laws and regulations. In addition, there can be no assurance that we will be able to maintain or renew existing permits, licenses or any other regulatory approvals or obtain without significant delay future permits, licenses or other approvals needed for the operation of our businesses. Any noncompliance by us with applicable laws and regulations or the failure to maintain, renew or obtain necessary permits and licenses could have a material adverse impact on our results of operations.

Pedigree Tracking: There have been increasing efforts by Congress and state and federal agencies, including state boards of pharmacy and departments of health and the FDA, to regulate the pharmaceutical distribution system in order to prevent the introduction of counterfeit, adulterated and/or mislabeled drugs into the pharmaceutical distribution system (“pedigree tracking”). Certain states have adopted or are considering laws and regulations that are intended to protect the integrity of the pharmaceutical distribution system, while other government agencies are currently evaluating their recommendations. For example, Florida has adopted pedigree tracking requirements and California has enacted a law requiring chain of custody technology using radio frequency tagging and electronic pedigrees, which will be effective for us in July 2016.

In addition, the Food and Drug Administration Amendments Act of 2007, which went into effect on October 1, 2007, requires the FDA to establish standards and identify and validate effective technologies for the purpose of securing the pharmaceutical supply chain against counterfeit drugs. These standards may include any track-and-trace or authentication technologies, such as radio frequency identification devices and other similar technologies. On March 26, 2010, the FDA released the Serialized Numerical Identifier (“SNI”) guidance for manufacturers who serialize pharmaceutical packaging. We expect to be able to accommodate these SNI regulations in our distribution operations. Nonetheless, these pedigree tracking laws and regulations could increase the overall regulatory burden and costs associated with our pharmaceutical distribution business, and could have a material adverse impact on our results of operations.

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Privacy: State, federal and foreign laws regulate the confidentiality of sensitive personal information, how that information may be used, and the circumstances under which such information may be released. These regulations govern the disclosure and use of confidential personal and patient medical record information and require the users of such information to implement specified privacy and security measures. Regulations currently in place, including regulations governing electronic health data transmissions, continue to evolve and are often unclear and difficult to apply. Although we modified our policies, procedures and systems to comply with the current requirements of applicable state, federal and foreign laws, including the Health Insurance Portability and Accountability Act of 1996 (“HIPAA”) and the Health Information Technology for Economic and Clinical Health (“HITECH”) Act portion of the American Recovery and Reinvestment Act of 2009, new laws and regulations in this area could restrict the ability of our customers to obtain, use or disseminate personal or patient information, or it could require us to incur significant additional costs to re-design our products in a timely manner, either of which could have a material adverse impact on our results of operations. In addition, the HITECH Act expanded HIPAA privacy and security requirements and increased financial penalties for violations. It also extended certain provisions of the federal privacy and security standards to us in our capacity as a business associate of our payer and provider customers. These standards may be interpreted by a regulatory authority in a manner that could require us to make a material change to our operations. Furthermore, our failure to maintain confidentiality of sensitive personal information in accordance with applicable regulatory requirements could expose us to breach of contract claims, fines and penalties, costs for remediation and harm to our reputation.

Health Care Reform: The Affordable Care Act significantly expanded health insurance coverage to uninsured Americans and changed the way health care is financed by both governmental and private payers. While certain provisions of the Affordable Care Act took effect immediately, others have delayed effective dates. We do not currently anticipate that the Affordable Care Act or any resulting federal and state healthcare reforms will have a material impact on our business, financial condition and results of operations. However, given the scope of the changes made and under consideration, as well as the uncertainties associated with implementation of healthcare reforms, we cannot predict their full effect on the Company at this time.

Interoperability Standards: There is increasing demand among customers, industry groups and government authorities that healthcare software and systems provided by various vendors be compatible with each other. This need for interoperability is leading to the development of standards by various groups, and certain federal and state agencies are also developing standards that could become mandatory for systems purchased by these agencies. For example, the HITECH Act requires meaningful use of “certified” healthcare information technology products by healthcare providers in order to receive stimulus funds from the federal government, and CMS has issued rules defining meaningful use criteria. These rules are subject to interpretation by the entities designed to certify such technology and also may be changed or supplemented by the federal government in the future. A combination of our solutions has been certified as meeting the initial meaningful use criteria, and we plan to seek certification for meeting additional meaningful use criteria. However, we may incur increased development costs and delays in upgrading our customer software and systems to be in compliance with these varying and evolving rules. In addition, these new rules may lengthen our sales and implementation cycle and we may incur costs in periods prior to the corresponding recognition of revenue. To the extent these rules are narrowly construed, subsequently changed or supplemented, or that we are delayed in achieving certification under these evolving rules for applicable products, our customers may postpone or cancel their decisions to purchase or implement our software and systems.

FDA Regulation of Medical Software: The FDA has increasingly focused on the regulation of medical software, computer products and computer-assisted products as medical devices under the federal Food, Drug and Cosmetic Act. For example, effective April 18, 2011, the FDA issued a new rule regulating certain computer data systems as medical devices. If the FDA chooses to regulate any of our products as medical devices, it can impose extensive requirements upon us. If we fail to comply with the applicable requirements, the FDA could respond by imposing fines, injunctions or civil penalties, requiring recalls or product corrections, suspending production, refusing to grant pre-market clearance of products, withdrawing clearances and initiating criminal prosecution. Any additional FDA regulations governing computer products, once issued, may increase the cost and time to market new or existing

products or may prevent us from marketing our products.

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Standards for Submission of Health Care Claims: HHS previously adopted two rules that impact healthcare claims submitted for reimbursement. The first rule modifies the standards for electronic health care transactions (e.g., eligibility, claims submission and payment and electronic remittance) from Version 4010/4010A to Version 5010. The enforcement deadline for the 5010 rule was extended through June 30, 2012 and many healthcare providers have now begun implementing the 5010 rule. The second rule updated and expanded the standard medical code sets for diagnosis and procedure coding from International Classification of Diseases, Ninth Revision (“ICD-9”) to International Classification of Diseases, Tenth Revision (“ICD-10”). HHS has postponed the compliance date for ICD-10 conversion, previously October 1, 2013, until October 1, 2014. Updating systems to Version 5010 is required for use of the ICD-10 code set. Generally, claims submitted not using Version 5010 and ICD-10 when required will not be processed, and health plans not accepting transactions using Version 5010 and ICD-10 may experience significant increases in customer service inquiries. We may incur increased development costs and delays in delivering solutions and upgrading our software and systems to be in compliance with these new rules. In addition, these rules may lengthen our sales and implementation cycle and we may incur costs in periods prior to the corresponding recognition of revenue. Delays in providing software and systems that are in compliance with the new rules may result in postponement or cancellation of our customers' decisions to purchase our software and systems.

Medical Billing and Coding: Medical billing, coding and collection activities are governed by numerous federal and state civil and criminal laws. In connection with these laws, we may be subjected to federal or state government investigations and possible penalties may be imposed upon us, false claims actions may have to be defended, private payers may file claims against us and we may be excluded from Medicare, Medicaid or other government-funded healthcare programs. Any such proceeding or investigation could have a material adverse impact on our results of operations.

Changes in the Canadian healthcare industry and regulatory environment could have a material adverse impact on our results of operations.

The provincial governments in Canada provide partial funding for the purchase of pharmaceuticals and independently regulate the sale and reimbursement of drugs. Similar to the United States, the Canadian healthcare industry has undergone significant changes in recent years in an effort to reduce program costs. For example, in 2006 the Ontario government significantly revised the drug reimbursement system with the passage of the Transparent Drug System for Patients Act. In recent years, to reduce the cost for taxpayers, various provinces took further steps to reform the rules regarding the sale of generic drugs. These changes include the significant lowering of prices for generic pharmaceuticals and, in some provinces, the elimination or reduction of professional allowances paid to pharmacists by generic manufacturers. These reforms may adversely affect the distribution of drugs as well as the pricing for prescription drugs for the Company's operations in Canada. Other provinces are considering similar changes, which would also lower pharmaceutical pricing and service fees. Individually or in combination, such changes in the Canadian healthcare environment may significantly reduce our Canadian revenue and operating profit.

Competition may erode our profit.

In every area of healthcare distribution operations, our Distribution Solutions segment faces strong competition, both in price and service, from national, regional and local full-line, short-line and specialty wholesalers, service merchandisers, self-warehousing chains, manufacturers engaged in direct distribution, third-party logistics companies and large payer organizations. In addition, this segment faces competition from various other service providers and from pharmaceutical and other healthcare manufacturers as well as other potential customers of the segment, which may from time-to-time decide to develop, for their own internal needs, supply management capabilities that would otherwise be provided by the segment. Price, quality of service, and in some cases, convenience to the customer are generally the principal competitive elements in this segment.

Our Technology Solutions segment experiences substantial competition from many firms, including other software services firms, consulting firms, shared service vendors, certain hospitals and hospital groups, payers, care management organizations, hardware vendors and internet-based companies with technology applicable to the healthcare industry. Competition varies in size from small to large companies, in geographical coverage and in scope and breadth of products and services offered. These competitive pressures could have a material adverse impact on our

results of operations.

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A material reduction in purchases or the loss of a large customer or group purchasing organization, as well as substantial defaults in payment by a large customer or group purchasing organization, could have a material adverse impact on our financial condition, results of operations and liquidity.

In recent years, a significant portion of our revenue growth has been with a limited number of large customers. During 2013, sales to our ten largest customers accounted for approximately 51% of our total consolidated revenues. Sales to our largest customer, CVS, accounted for approximately 17% of our total consolidated revenues. At March 31, 2013, trade accounts receivable from our ten largest customers were approximately 44% of total trade accounts receivable. Accounts receivable from CVS and Walmart were approximately 16% and 10% of total trade accounts receivable. As a result, our sales and credit concentration is significant. We also have agreements with group purchasing organizations (“GPOs”), each of which functions as a purchasing agent on behalf of member hospitals, pharmacies and other healthcare providers, as well as with government entities and agencies. A material default in payment, change in our customer mix, reduction in purchases, or the loss of a large customer or GPO could have a material adverse impact on our financial condition, results of operations and liquidity.

We generally sell our products and services to customers on credit that is short-term in nature and unsecured. Any adverse change in general economic conditions can adversely reduce sales to our customers, affect consumer buying practices or cause our customers to delay or be unable to pay accounts receivable owed to us, which may in turn materially reduce our revenue growth and cause a material decrease in our profitability and cash flow. Further, interest rate fluctuations and changes in capital market conditions may also affect our customers' ability to obtain credit to finance their business under acceptable terms, which in turn may materially reduce our revenue growth and cause a decrease in our profitability.

Contracts with the U.S. federal government and other governments and their agencies pose additional risks relating to future funding and compliance.

Contracts with the U.S. federal government and other governments and their agencies are subject to various uncertainties, restrictions and regulations, including oversight audits by various government authorities and profit and cost controls. Government contracts also are exposed to uncertainties associated with funding. Contracts with the U.S. federal government, for example, are subject to the uncertainties of Congressional funding. Governments are typically under no obligation to maintain funding at any specific level, and funds for government programs may even be eliminated. As a result, our government clients may terminate our contracts for convenience or decide not to renew our contracts with little or no prior notice. The loss of such contracts could have a material adverse impact on our results of operations.

In addition, because government contracts are subject to specific procurement regulations and a variety of other socio-economic requirements, we must comply with such requirements. For example, for contracts with the U.S. federal government, with certain exceptions, we must comply with the Federal Acquisition Regulation, the Truth in Negotiations Act, and the Cost Accounting Standards. We must also comply with various other government regulations and requirements as well as various statutes related to employment practices, environmental protection, recordkeeping and accounting. These regulations and requirements affect how we transact business with our clients and, in some instances, impose additional costs on our business operations. Government contracts also contain terms that expose us to higher levels of risk and potential liability than non-government contracts.

We also are subject to government audits, investigations, and proceedings. For example, government agencies routinely review and audit government contractors to determine whether allowable costs are in accordance with applicable government regulations. These audits can result in adjustments to the amount of contract costs we believe are reimbursable by the agencies and the amount of our overhead costs allocated to the agencies.

If we violate these rules or regulations, fail to comply with a contractual or other requirement or do not satisfy an audit, a variety of penalties can be imposed by the government including disallowance of costs claimed, monetary damages and criminal and civil penalties. In addition, any or all of our government contracts could be terminated, we could be suspended or debarred from all government contract work. The occurrence of any of these actions could harm our reputation and could have a material adverse impact on our results of operations.

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Our future results could be materially affected by a number of public health issues whether occurring in the United States or abroad.

Public health issues, whether occurring in the United States or abroad, could disrupt our operations, disrupt the operations of suppliers or customers, or have a broader adverse impact on consumer spending and confidence levels that would negatively affect our suppliers and customers. We have developed contingency plans to address infectious disease scenarios and the potential impact on our operations, and we will continue to update these plans as necessary. However, there can be no assurance that these plans will be effective in eliminating the negative impact of any such diseases on the Company's operating results. We may be required to suspend operations in some or all of our locations, which could have a material adverse impact on our business, financial condition and results of operations. We are dependent upon sophisticated information systems. The malfunction, failure or breach of these systems to perform as designed could have a material adverse impact on our results of operations.

Our business relies on the secure electronic transmission, storage, and hosting of sensitive information, including protected health information, financial information and other sensitive information relating to our customers, company and workforce. We also rely on sophisticated information systems in our business to obtain, rapidly process, analyze and manage data to: (1) facilitate the purchase and distribution of thousands of inventory items from numerous distribution centers; (2) receive, process and ship orders and handle other product and services on a timely basis; (3) manage the accurate billing and collections for thousands of customers; and (4) process payments to suppliers. If these systems are interrupted, damaged or breached by an unforeseen event or actions of a third party, including a cyber attack, or fail for any extended period of time, it could have a material adverse impact on our results of operations.

Cyber attacks can result from deliberate attacks or unintentional incidents involving unauthorized access to computer systems or data that could result in the misappropriation or loss of assets or the disclosure of sensitive information, the corruption of data, or other disruption of business operations. Similarly, denial-of-service or other Internet-based attacks may range from mere vandalism of electronic systems to systematic theft of sensitive information and intellectual property. Although we actively devote significant resources to protect and maintain the confidentiality of all information in our possession, preventing all cyber incidents is inherently difficult. Therefore, any compromise of our electronic systems, including the unauthorized access, use or disclosure of sensitive information or a significant disruption of our computing assets and networks, would adversely affect our reputation, our ability to fulfill contractual obligations and could have a material adverse impact on our results of operations. Moreover, unauthorized access, use, or disclosure of such sensitive information could result in a civil, criminal or regulatory action, including potential fines and penalties. Any real or perceived compromise of our security or disclosure of sensitive information may also result in lost revenues by deterring customers from using or purchasing our products and services in the future.

We could experience losses or liability not covered by insurance.

In order to provide prompt and complete service to our major Distribution Solutions segment's customers, we maintain significant product inventory at certain of our distribution centers. While we seek to maintain property insurance coverage in amounts sufficient for our business, there can be no assurance that our property insurance will be adequate or available on acceptable terms. One or more large casualty losses caused by fire, earthquake or other natural disaster in excess of our coverage limits could have a material adverse impact on our results of operations.

Our business exposes us to risks that are inherent in the distribution, manufacturing, dispensing and administration of pharmaceuticals and medical-surgical supplies, the provision of ancillary services, the conduct of our payer businesses (which include care management programs and our nurse advice services) and the provision of products that assist clinical decision-making and relate to patient medical histories and treatment plans. If customers or individuals assert liability claims against our products and/or services, any ensuing litigation, regardless of outcome, could result in a substantial cost to us, divert management's attention from operations and decrease market acceptance of our products. We attempt to limit our liability to customers by contract; however, the limitations of liability set forth in the contracts may not be enforceable or may not otherwise protect us from liability for damages. Additionally, we may be subject to claims that are not explicitly covered by contract, such as a claim directly by a patient. We also maintain general

liability coverage; however, this coverage may not continue to be available on acceptable terms, may not be available in sufficient amounts to cover one or more large claims against us and may include larger self-insured retentions or exclusions for certain products. In addition, the insurer might disclaim coverage as to any future claim. A successful product or professional liability claim not fully covered by our insurance could have a material adverse impact on our results of operations.

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The failure of our healthcare technology businesses to attract and retain customers due to challenges in software product integration or to keep pace with technological advances may significantly reduce our results of operations. Our healthcare technology businesses, the bulk of which resides in our Technology Solutions segment, deliver enterprise wide and single entity clinical, patient care, financial, supply chain, strategic management software solutions and pharmacy automation to hospitals, physicians, homecare providers, retail and mail order pharmacies and payers. Challenges integrating software products could impair our ability to attract and retain customers, and it could have a material adverse impact on our consolidated results of operations and a disproportionate impact on the results of operations of our Technology Solutions segment.

Future advances in the healthcare information systems industry could lead to new technologies, products or services that are competitive with the technology products and services offered by our various businesses. Such technological advances could also lower the cost of such products and services or otherwise result in competitive pricing pressure or render our products obsolete.

The success of our technology businesses will depend, in part, on our ability to be responsive to technological developments, pricing pressures and changing business models. To remain competitive in the evolving healthcare information systems marketplace, our technology businesses must also develop new products on a timely basis. The failure to develop competitive products and to introduce new products on a timely basis could curtail the ability of our technology businesses to attract and retain customers, and thereby it could have a material adverse impact on our results of operations.

Proprietary protections may not be adequate and products may be found to infringe the rights of third parties.

We rely on a combination of trade secret, patent, copyright and trademark laws, nondisclosure and other contractual provisions and technical measures to protect our proprietary rights in our products and solutions. There can be no assurance that these protections will be adequate or that our competitors will not independently develop products or solutions that are equivalent or superior to ours. In addition, despite protective measures, we may be subject to unauthorized use of our technology due to copying, reverse-engineering or other infringement. Although we believe that our products, solutions and services do not infringe the proprietary rights of third parties, from time-to-time third parties have asserted infringement claims against us and there can be no assurance that third parties will not assert infringement claims against us in the future. If we were found to be infringing others' rights, we may be required to pay substantial damage awards and forced to develop non-infringing products or technology, obtain a license or cease selling or using the products that contain the infringing elements. Additionally, we may find it necessary to initiate litigation to protect our trade secrets, to enforce our patent, copyright and trademark rights and to determine the scope and validity of the proprietary rights of others. These types of litigation can be costly and time consuming. These litigation expenses, damage payments or costs of developing replacement products or technology could have a material adverse impact on our results of operations.

System errors or failures of our products to conform to specifications could cause unforeseen liabilities or injury, harm our reputation and have a material adverse impact on our results of operations.

The software and software systems ("systems") that we sell or operate are very complex. As with complex systems offered by others, our systems may contain errors, especially when first introduced. For example, our Technology Solutions segment's business systems are intended to provide information to healthcare professionals in the course of delivering patient care. Therefore, users of our systems have a greater sensitivity to errors than the general market for software products. If our software or systems lead to faulty clinical decisions or injury to patients, we could be subject to claims or litigation by our clients, clinicians or patients. In addition, such failures could damage our reputation and could negatively affect future sales.

Failure of a client's system to perform in accordance with our documentation could constitute a breach of warranty and could require us to incur additional expense in order to make the system comply with the documentation. If such failure is not remedied in a timely manner, it could constitute a material breach under a contract, allowing the client to cancel the contract, obtain refunds of amounts previously paid or assert claims for significant damages.

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Various risks could interrupt customers' access to their data residing in our service center, exposing us to significant costs.

We provide remote hosting services that involve operating both our software and the software of third-party vendors for our customers. The ability to access the systems and the data that we host and support on demand is critical to our customers. Our operations and facilities are vulnerable to interruption and/or damage from a number of sources, many of which are beyond our control, including, without limitation: (1) power loss and telecommunications failures; (2) fire, flood, hurricane and other natural disasters; (3) software and hardware errors, failures or crashes; and (4) cyber attacks, computer viruses, hacking and other similar disruptive problems. We attempt to mitigate these risks through various means including disaster recovery plans, separate test systems and change controls, information security procedures, and continued development and enhancement of our cyber security, but our precautions may not protect against all risks. If customers' access is interrupted because of problems in the operation of our facilities, we could be exposed to significant claims, particularly if the access interruption is associated with problems in the timely delivery of medical care. If customers' access is interrupted from failure or breach of our operational or information security systems, or those of our third party service providers, we could suffer reputational harm or be exposed to liabilities arising from the unauthorized and improper use or disclosure of confidential or proprietary information. We must maintain disaster recovery and business continuity plans that rely upon third-party providers of related services and if those vendors fail us at a time that our center is not operating correctly, we could incur a loss of revenue and liability for failure to fulfill our contractual service commitments. Any significant instances of system downtime could negatively affect our reputation and ability to sell our remote hosting services.

The length of our sales and implementation cycles for our Technology Solutions segment could have a material adverse impact on our future results of operations.

Many of the solutions offered by our Technology Solutions segment have long sales and implementation cycles, which could range from a few months to two years or more from initial contact with the customer to completion of implementation. How and when to implement, replace, or expand an information system, or modify or add business processes, are major decisions for healthcare organizations. Many of the solutions we provide typically require significant capital expenditures and time commitments by the customer. Any decision by our customers to delay or cancel implementation could have a material adverse impact on our results of operations. Furthermore, delays or failures to meet milestones established in our agreements may result in a breach of contract, termination of the agreement, damages and/or penalties as well as a reduction in our margins or a delay in our ability to recognize revenue.

We may be required to record a significant charge to earnings if our goodwill or intangible assets become impaired. We are required under U.S. generally accepted accounting principles ("GAAP") to test our goodwill for impairment, annually or more frequently if indicators for potential impairment exist. Indicators that are considered include significant changes in performance relative to expected operating results, significant changes in the use of the assets, significant negative industry, or economic trends or a significant decline in the Company's stock price and/or market capitalization for a sustained period of time. In addition, we periodically review our intangible assets for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. Factors that may be considered a change in circumstances indicating that the carrying value of our intangible assets may not be recoverable include slower growth rates and the loss of a significant customer. We may be required to record a significant charge to earnings in our consolidated financial statements during the period in which any impairment of our goodwill or intangible assets is determined. This could have a material adverse impact on our results of operations. There are inherent uncertainties in management's estimates, judgments and assumptions used in assessing recoverability of goodwill and intangible assets. Any changes in key assumptions, including failure to meet business plans, a further deterioration in the market or other unanticipated events and circumstances, may affect the accuracy or validity of such estimates and could potentially result in an impairment charge.

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Our foreign operations may subject us to a number of operating, economic, political and regulatory risks that may have a material adverse impact on our financial condition and results of operations.

We have operations based in, and we source and contract manufacture pharmaceutical and medical-surgical products in, a number of foreign countries. In the future, we look to continue to grow our foreign operations both organically and through acquisitions and investments; however, increasing our foreign operations carries additional risks.

Operations outside of the United States may be affected by changes in trade protection laws, policies and measures and other regulatory requirements affecting trade and investment; unexpected changes in regulatory requirements for software, social, political, labor or economic conditions in a specific country or region; import/export regulations in both the United States and foreign countries and difficulties in staffing and managing foreign operations. Political changes and natural disasters, some of which may be disruptive, can interfere with our supply chain, our customers and all of our activities in a particular location. We may also be affected by potentially adverse tax consequences and difficulties associated with repatriating cash generated or held abroad. Additionally, foreign operations expose us to foreign currency fluctuations that could adversely impact our results of operations based on the movements of the applicable foreign currency exchange rates in relation to the U.S. dollar.

Foreign operations are also subject to risks of violations of laws prohibiting improper payments and bribery, including the U.S. Foreign Corrupt Practices Act and similar regulations in foreign jurisdictions. Failure to comply with these laws could subject us to civil and criminal penalties that could have a material adverse impact on our financial condition and results of operations.

We also may experience difficulties and delays inherent in sourcing products and contract manufacturing from foreign countries, including but not limited to: (1) difficulties in complying with the requirements of applicable federal, state and local governmental authorities in the United States and of foreign regulatory authorities; (2) inability to increase production capacity commensurate with demand or the failure to predict market demand; (3) other manufacturing or distribution problems including changes in types of products produced, limits to manufacturing capacity due to regulatory requirements, physical limitations, or scarce or inadequate resources that could impact continuous supply; and (4) damage to our reputation due to real or perceived quality issues. Manufacturing difficulties could result in production shutdowns, product shortages and other similar delays in product manufacturing that could have a material adverse impact on our financial condition and results of operations.

Tax legislation initiatives or challenges to our tax positions could have a material adverse impact on our results of operations.

We are a large multinational corporation with operations in the United States and international jurisdictions. As such, we are subject to the tax laws and regulations of the United States federal, state and local governments and of many international jurisdictions. From time-to-time, legislation may be enacted that could adversely affect our tax positions. There can be no assurance that our effective tax rate and the resulting cash flow will not be adversely affected by these changes in legislation. For example, if legislation is passed to repeal the LIFO (last-in, first-out) method of inventory accounting for income tax purposes, it would adversely impact our cash flow, and if legislation is passed to change the current U.S. taxation treatment of income from foreign operations, it may adversely impact our income tax expense. The tax laws and regulations of the various countries where we have major operations are extremely complex and subject to varying interpretations. Although we believe that our historical tax positions are sound and consistent with applicable laws, regulations and existing precedent, there can be no assurance that these tax positions will not be challenged by relevant tax authorities or that we would be successful in any such challenge.

Our business could be hindered if we are unable to complete and integrate acquisitions successfully.

An element of our strategy is to identify, pursue and consummate acquisitions that either expand or complement our business. Since 2011, we have completed approximately \$5.8 billion of business acquisitions. Integration of acquisitions involves a number of significant risks, including the diversion of management's attention to the assimilation of the operations of businesses we have acquired; difficulties in the integration of operations and systems; the realization of potential operating synergies; the assimilation and retention of the personnel of the acquired companies; accounting, regulatory or compliance issues that could arise, including internal control over financial reporting; challenges in retaining the customers, including physician affiliates, of the combined businesses. Further,

acquisitions may have a material adverse impact on our operating results if unanticipated expenses or charges to earnings were to occur, including unanticipated depreciation and amortization expenses over the useful lives of certain assets acquired, as well as costs related to potential impairment charges, assumed litigation and unknown liabilities. In addition, we may potentially require additional financing in order to fund future acquisitions, which may or may not be attainable and is subject to potential volatility in the credit markets. If we are unable to successfully complete and integrate strategic acquisitions in a timely manner, our business and our growth strategies could be negatively affected.

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Volatility and disruption to the global capital and credit markets may adversely affect our ability to access credit, our cost of credit and the financial soundness of our customers and suppliers.

Volatility and disruption in the global capital and credit markets, including the bankruptcy or restructuring of certain financial institutions, reduced lending activity by other financial institutions, decreased liquidity and increased costs in the commercial paper market and the reduced market for securitizations, may adversely affect the availability and cost of credit already arranged and the availability, terms and cost of credit in the future, including any arrangements to renew or replace our current credit or financing arrangements. Although we believe that our operating cash flow, financial assets, current access to capital and credit markets, including our existing credit and sales facilities, will give us the ability to meet our financing needs for the foreseeable future, there can be no assurance that continued or increased volatility and disruption in the global capital and credit markets will not impair our liquidity or increase our costs of borrowing.

Our \$1.35 billion accounts receivable sales facility is generally renewed annually and will expire in May 2013. Historically, we have primarily used the accounts receivable sales facility to fund working capital requirements, as needed. We anticipate extending or renewing this facility before its expiration. Although we believe we will be able to renew this facility, there is no assurance that we will be able to do so.

Our business could also be negatively impacted if our customers or suppliers experience disruptions resulting from tighter capital and credit markets or a slowdown in the general economy. As a result, customers may modify, delay or cancel plans to purchase or implement our products or services and suppliers may increase their prices, reduce their output or change their terms of sale. Additionally, if customers' or suppliers' operating and financial performance deteriorates or if they are unable to make scheduled payments or obtain credit, customers may not be able to pay, or may delay payment of accounts receivable owed to us and suppliers may restrict credit, impose different payment terms or be unable to make payments due to us for fees, returned products or incentives. Any inability of customers to pay us for our products and services or any demands by suppliers for different payment terms may have a material adverse impact on our results of operations and cash flow.

Changes in accounting standards issued by the Financial Accounting Standards Board ("FASB") or other standard-setting bodies may adversely affect our financial statements.

Our financial statements are subject to the application of U.S. GAAP, which is periodically revised and/or expanded. Accordingly, from time-to-time we are required to adopt new or revised accounting standards issued by recognized authoritative bodies, including the FASB and the SEC. It is possible that future accounting standards we are required to adopt could change the current accounting treatment that we apply to our consolidated financial statements and that such changes could have a material adverse impact on our results of operations and financial condition.

Item 1B. Unresolved Staff Comments.

None.

Item 2. Properties.

Because of the nature of our principal businesses, our plant, warehousing, office and other facilities are operated in widely dispersed locations, mostly throughout the U.S. and Canada. The warehouses are typically owned or leased on a long-term basis. We consider our operating properties to be in satisfactory condition and adequate to meet our needs for the next several years without making capital expenditures materially higher than historical levels. Information as to material lease commitments is included in Financial Note 20, "Lease Obligations," to the consolidated financial statements appearing in this Annual Report on Form 10-K.

Item 3. Legal Proceedings.

Certain legal proceedings in which we are involved are discussed in Financial Note 22, "Other Commitments and Contingent Liabilities," to the consolidated financial statements appearing in this Annual Report on Form 10-K.

Item 4. Mine Safety Disclosures.

Not applicable.

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Executive Officers of the Registrant

The following table sets forth information regarding the executive officers of the Company, including their principal occupations during the past five years. The number of years of service with the Company includes service with predecessor companies.

There are no family relationships between any of the executive officers or directors of the Company. The executive officers are elected on an annual basis generally and their term expires at the first meeting of the Board of Directors ("Board") following the annual meeting of stockholders, or until their successors are elected and have qualified, or until death, resignation or removal, whichever is sooner.

Name	Age	Position with Registrant and Business Experience
John H. Hammergren	54	Chairman of the Board since July 2002; President and Chief Executive Officer since April 2001; and a director since July 1999. Service with the Company — 17 years.
Jeffrey C. Campbell	52	Executive Vice President and Chief Financial Officer since April 2004. Service with the Company — 9 years.
Patrick J. Blake	49	Executive Vice President and Group President since June 2009; President of McKesson Specialty Care Solutions (now McKesson Specialty Health) from April 2006 to June 2009. Service with the Company — 17 years.
Jorge L. Figueredo	52	Executive Vice President, Human Resources since May 2008; Senior Vice President, Human Resources, Dow Jones, Inc. from February 2007 to January 2008. Service with the Company — 5 years.
Paul C. Julian	57	Executive Vice President and Group President since April 2004. Service with the Company — 17 years.
Laureen E. Seeger	51	Executive Vice President, General Counsel and Chief Compliance Officer since April 2010 (functionally has served as chief compliance officer since March 2006); Executive Vice President and General Counsel from July 2009 to April 2010; Executive Vice President, General Counsel and Secretary from March 2006 to July 2009. Service with the Company — 13 years.
Randall N. Spratt	61	Executive Vice President, Chief Technology Officer and Chief Information Officer since April 2009; Executive Vice President, Chief Information Officer from July 2005 to April 2009. Service with the Company — 27 years.
Brian S. Tyler	46	Executive Vice President, Corporate Strategy and Business Development since August 2012; President, U.S. Pharmaceutical from January 2011 to August 2012; President, McKesson Medical-Surgical from April 2006 to December 2010. Service with the Company — 16 years.

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PART II

Item 5. Market for the Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.

(a) Market Information: The principal market on which the Company's common stock is traded is the New York Stock Exchange ("NYSE").

The following table sets forth the high and low sales prices for our common stock as reported on NYSE for each quarterly period of the two most recently completed fiscal years:

	2013		2012	
	High	Low	High	Low
First quarter	\$94.47	\$85.95	\$87.32	\$77.55
Second quarter	\$97.23	\$84.65	\$84.96	\$70.86
Third quarter	\$100.00	\$85.57	\$85.70	\$66.61
Fourth quarter	\$111.55	\$96.67	\$88.91	\$74.89

(b) Holders: The number of record holders of the Company's common stock at March 31, 2013 was approximately 7,300.

Dividends: In April 2011, the Company's quarterly dividend was raised from \$0.18 to \$0.20 per common share for dividends declared after such date, until further action by the Company's Board of Directors (the "Board"). The Company declared regular cash dividends of \$0.80 per share (or \$0.20 per share per quarter) in the years ended March 31, 2013 and 2012.

The Company anticipates that it will continue to pay quarterly cash dividends in the future. However, the payment and amount of future dividends remain within the discretion of the Board and will depend upon the Company's future earnings, financial condition, capital requirements and other factors.

(d) Securities Authorized for Issuance under Equity Compensation Plans: Information relating to this item is provided under Part III, Item 12, to this Annual Report on Form 10-K.

Share Repurchase Plans: Stock repurchases may be made from time-to-time in open market transactions, privately negotiated transactions, through accelerated share repurchase ("ASR") programs, or by any combination of such methods. The timing of any repurchases and the actual number of shares repurchased will depend on a variety of factors, including our stock price, corporate and regulatory requirements, restrictions under our debt obligations and other market and economic conditions.

In the first quarter of 2013, the Board authorized the repurchase of an additional \$700 million of the Company's common stock, bringing the total authorization outstanding to \$1.0 billion.

During the first three quarters of 2013, we repurchased 3.8 million shares for \$359 million through open market transactions at an average price per share of \$94.76.

In January 2013, the Board authorized the repurchase of an additional \$500 million of the Company's common stock, bringing the total authorization outstanding to \$1.1 billion.

During the fourth quarter of 2013, we repurchased 6.2 million shares for \$650 million through open market transactions at an average price per share of \$106.00. In addition, in March 2013, we entered into an ASR program with a third party financial institution to repurchase \$150 million of the Company's common stock. As of March 31, 2013, we had received 1.2 million shares representing the minimum number of shares due under this program. This ASR program was completed on April 17, 2013 and we received 0.2 million additional shares on April 22, 2013. The total number of shares repurchased under this ASR program was 1.4 million shares at an average price per share of \$107.63.

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During the fourth quarter of 2013, we retired 1.8 million shares repurchased for \$217 million by the Company. The retired shares constitute authorized but unissued shares.

The following table provides information on the Company's share repurchases during the fourth quarter of 2013:

Share Repurchases ⁽¹⁾

(In millions, except price per share)	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Programs	Approximate Dollar Value of Shares that May Yet Be Purchased Under the Programs
January 1, 2013 - January 31, 2013	—	\$—	—	\$1,140
February 1, 2013 - February 28, 2013	2.7	103.82	2.7	860
March 1, 2013 - March 31, 2013	4.7	107.69	4.7	340
Total	7.4		7.4	340

This table does not include shares tendered to satisfy the exercise price in connection with cashless exercises of (1) employee stock options or shares tendered to satisfy tax-withholding obligations in connection with employee equity awards.

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Stock Price Performance Graph*: The following graph compares the cumulative total stockholder return on the (f) Company's common stock for the periods indicated with the Standard & Poor's 500 Index and the Value Line Healthcare Sector Index (composed of 156 companies in the health care industry, including the Company).

	March 31, 2008	2009	2010	2011	2012	2013
McKesson Corporation	\$100.00	\$67.62	\$127.96	\$155.58	\$174.45	\$216.44
S&P 500 Index	\$100.00	\$61.91	\$92.73	\$107.24	\$116.39	\$132.64
Value Line Healthcare Sector Index	\$100.00	\$77.09	\$106.21	\$126.60	\$143.64	\$179.39

* Assumes \$100 invested in McKesson's common stock and in each index on March 31, 2008 and that all dividends are reinvested.

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Item 6. Selected Financial Data.

FIVE-YEAR HIGHLIGHTS

		As of and for the Years Ended March 31,				
(In millions, except per share data and ratios)		2013	2012	2011	2010	2009
Operating Results						
Revenues		\$122,455	\$122,734	\$112,084	\$108,702	\$106,632
Percent change		(0.2)%	9.5%	3.1%	1.9%	4.8%
Gross profit		\$6,984	\$6,567	\$5,970	\$5,676	\$5,378
Income from continuing operations before income taxes		1,919	1,919	1,635	1,864	1,064
Income after income taxes						
Continuing operations		1,338	1,403	1,130	1,263	823
Discontinued operation		—	—	72	—	—
Net income		1,338	1,403	1,202	1,263	823
Financial Position						
Working capital		\$1,813	\$1,917	\$3,631	\$4,492	\$3,065
Days sales outstanding for: ⁽¹⁾						
Customer receivables		26	24	25	25	24
Inventories		33	31	31	34	31
Drafts and accounts payable		51	49	47	48	43
Total assets		\$34,786	\$33,093	\$30,886	\$28,189	\$25,267
Total debt, including capital lease obligations		4,873	3,980	4,004	2,297	2,512
Stockholders' equity		7,070	6,831	7,220	7,532	6,193
Property acquisitions		246	225	233	199	195
Acquisitions, net of cash and cash equivalents acquired		1,873	1,156	292	18	358
Common Share Information						
Common shares outstanding at year-end		227	235	252	271	271
Shares on which earnings per common share were based						
Diluted		239	251	263	273	279
Basic		235	246	258	269	275
Diluted earnings per common share ⁽²⁾						
Continuing operations		\$5.59	\$5.59	\$4.29	\$4.62	\$2.95
Discontinued operation		—	—	0.28	—	—
Total		5.59	5.59	4.57	4.62	2.95
Cash dividends declared		192	202	188	131	134
Cash dividends declared per common share		0.80	0.80	0.72	0.48	0.48
Book value per common share ^{(2) (3)}		31.15	29.07	28.65	27.79	22.87
Market value per common share - year end		107.96	87.77	79.05	65.72	35.04

Supplemental Data

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Capital employed ⁽⁴⁾	\$11,943		\$10,811		\$11,224		\$9,829		\$8,705	
Debt to capital ratio ⁽⁵⁾	40.8	%	36.8	%	35.7	%	23.4	%	28.9	%
Net debt to net capital employed ⁽⁶⁾	25.5	%	10.8	%	5.1	%	(23.5)	)%	6.1	%
Average stockholders' equity ⁽⁷⁾	\$7,294		\$7,108		\$7,105		\$6,768		\$6,214	
Return on stockholders' equity ⁽⁸⁾	18.3	%	19.7	%	16.9	%	18.7	%	13.2	%

Footnotes to Five-Year Highlights:

- (1) Based on year-end balances and sales or cost of sales for the last 90 days of the year.
- (2) Certain computations may reflect rounding adjustments.
- (3) Represents stockholders' equity divided by year-end common shares outstanding.
- (4) Consists of the sum of total debt and stockholders' equity.
- (5) Ratio is computed as total debt divided by capital employed.
- (6) Ratio is computed as total debt, net of cash and cash equivalents ("net debt"), divided by the sum of net debt and stockholders' equity ("net capital employed").
- (7) Represents a five-quarter average of stockholders' equity.
- (8) Ratio is computed as net income divided by a five-quarter average of stockholders' equity.

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FINANCIAL REVIEW

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.

GENERAL

Management's discussion and analysis of financial condition and results of operations, referred to as the Financial Review, is intended to assist the reader in the understanding and assessment of significant changes and trends related to the results of operations and financial position of the Company together with its subsidiaries. This discussion and analysis should be read in conjunction with the consolidated financial statements and accompanying financial notes in Item 8 of Part II of this Annual Report on Form 10-K. The Company's fiscal year begins on April 1 and ends on March 31. Unless otherwise noted, all references to a particular year shall mean the Company's fiscal year.

Certain statements in this report constitute forward-looking statements. See Item 1 - Business - Forward-Looking Statements in Part I of this Annual Report on Form 10-K for additional factors relating to these statements; also see Item 1A - Risk Factors in Part I of this Annual Report on Form 10-K for a list of certain risk factors applicable to our business, financial condition and results of operations.

We conduct our business through two operating segments: McKesson Distribution Solutions and McKesson Technology Solutions. See Financial Note 25, "Segments of Business," to the consolidated financial statements appearing in this Annual Report on Form 10-K for a description of these segments.

RESULTS OF OPERATIONS

Overview:

(Dollars in millions, except per share data)	Years Ended March 31,			Change			
	2013	2012	2011	2013	2012		
Revenues	\$122,455	\$122,734	\$112,084	—	%	10	%
Gross Profit	\$6,984	\$6,567	\$5,970	6	%	10	%
Operating Expenses	(4,678)	(4,269)	(3,936)	10		8	
Litigation Charges	(72)	(149)	(213)	(52)		(30)	
Gain on Business Combination	81	—	—	NM		—	
Total Operating Expenses	(4,669)	(4,418)	(4,149)	6		6	
Other Income, Net	35	21	36	67		(42)	
Impairment of an Equity Investment	(191)	—	—	NM		—	
Interest Expense	(240)	(251)	(222)	(4)		13	
Income from Continuing Operations Before Income Taxes	1,919	1,919	1,635	—		17	
Income Tax Expense	(581)	(516)	(505)	13		2	
Income from Continuing Operations	1,338	1,403	1,130	(5)		24	
Discontinued Operation - gain on sale, net of tax	—	—	72	—		—	
Net Income	\$1,338	\$1,403	\$1,202	(5)		17	
Diluted Earnings Per Common Share							
Continuing Operations	\$5.59	\$5.59	\$4.29	—	%	30	%
Discontinued Operation	—	—	0.28	—		—	
Total	\$5.59	\$5.59	\$4.57	—		22	
Weighted Average Diluted Common Shares	239	251	263	(5)	%	(5)	%
NM – not meaningful							

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FINANCIAL REVIEW (Continued)

Revenues for 2013 approximated 2012 and increased in 2012 compared to 2011. Revenues over the last two years benefited from market growth, which includes growing drug utilization and price increases, in our Distribution Solutions segment, which accounted for approximately 97% of our consolidated revenues, as well as due to our business acquisitions. In addition, revenues for 2013 were impacted by price deflation associated with brand to generics drug conversion and the loss of customers.

Gross profit and gross profit margin increased over each of the last two years. As a percentage of revenues, gross profit increased 35 basis points ("bp") to 5.70% in 2013 and 2 bp to 5.35% in 2012. Gross profit margin increased in 2013 compared to 2012 primarily due to higher generics income, business acquisitions, higher buy margin, a \$44 million benefit associated with the receipt of our share of settlements of antitrust class action lawsuits brought against drug manufacturers and a lower proportion of revenues attributed to sales to customers' warehouses. Additionally, gross profit margin was unfavorably impacted in 2012 by \$31 million of product alignment charges. These increases in the 2013 gross profit margin were partially offset by a decrease in sell margin.

Gross profit margin increased in 2012 compared to 2011 primarily due to business acquisitions, higher generics income in our Distribution Solutions segment and an increase in higher margin revenues in our Technology Solutions segment. These increases were partially offset by a decline in sell margin and by \$31 million of product alignment charges. Additionally, gross profit margin in 2011 was impacted by a \$51 million benefit associated with the receipt of our share of a settlement of an antitrust class action lawsuit brought against a drug manufacturer and a \$72 million asset impairment charge for capitalized software held for sale.

Operating expenses increased over each of the last two years. Operating expenses increased in 2013 compared to 2012 primarily due to our acquisitions, higher employee compensation and benefit costs, a \$40 million charge for a legal dispute and a \$36 million charge for goodwill impairment. These increases were partially offset by an \$81 million gain on business combination and lower Average Wholesale Price ("AWP") litigation charges. Operating expenses increased in 2012 compared to 2011 primarily due to expenses associated with supporting our higher revenues, business acquisitions, and higher employee compensation and benefits costs. These increases were partially offset by lower AWP litigation charges. AWP litigation charges were \$72 million, \$149 million and \$213 million in 2013, 2012 and 2011.

On April 6, 2012, we purchased the remaining 50% ownership interest in our corporate headquarters building located in San Francisco, California for \$90 million, which was funded from cash on hand. We previously held a 50% ownership interest and were the primary tenant in this building. This transaction was accounted for as a step acquisition, which requires that we re-measure our previously held 50% ownership interest to fair value and record the difference between the fair value and carrying value as a gain in the consolidated statements of operations. The re-measurement to fair value resulted in a non-cash pre-tax gain of \$81 million (\$51 million after-tax), which was recorded as a gain on business combination within Corporate in the consolidated statements of operations during the first quarter of 2013.

Other income, net was \$35 million, \$21 million and \$36 million in 2013, 2012 and 2011.

Based on a recent evaluation we committed to a plan to sell our 49% equity interest in Nadro, S.A. de C.V. ("Nadro") and in the fourth quarter of 2013 recorded a pre-tax non-cash impairment charge of \$191 million reducing the investment's carrying value to its estimated fair value. The charge reflects deterioration in Nadro's market position, projected lower revenue growth rates and operating margins and continued business challenges in the wholesale pharmaceutical distribution business in Mexico.

Interest expense decreased in 2013 compared to 2012 and increased in 2012 compared with 2011. Interest expense fluctuates based on timing, amounts and interest rates of term debt that is repaid and new debt issued, as well as fees paid on bridge loan facilities used in acquiring businesses.

Our reported income tax rates were 30.3%, 26.9% and 30.9% in 2013, 2012 and 2011. Fluctuations in our reported income tax rates are primarily due to changes within our business mix, including varying proportions of income attributable to foreign countries that have lower income tax rates, and discrete items. In 2013, 2012 and 2011, income

tax expense includes \$29 million, \$66 million and \$34 million of net income tax benefits for discrete items, which primarily relates to the recognition of previously unrecognized tax benefits and accrued interest. Included in the 2012 discrete tax benefit, is a \$31 million credit to income tax expense as a result of the reversal of an income tax reserve relating to our AWP litigation.

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McKESSON CORPORATION

FINANCIAL REVIEW (Continued)

Net income was \$1,338 million, \$1,403 million and \$1,202 million in 2013, 2012 and 2011, and diluted earnings per common share were \$5.59, \$5.59 and \$4.57. Net income for 2011 includes a \$72 million after-tax gain (\$0.28 per diluted share) on the sale of a wholly-owned subsidiary, McKesson Asia Pacific Pty Limited ("MAP"). Historical financial results for this subsidiary were not material.

Diluted earnings per common share were favorably affected by decreases in our weighted average shares outstanding primarily due to the cumulative effect of share repurchases over the past three years. In 2013, 2012 and 2011, we repurchased 13 million, 20 million and 29 million of our common shares.

Revenues:

	Years Ended March 31,			Change			
(Dollars in millions)	2013	2012	2011	2013	2012		
Distribution Solutions							
Direct distribution & services	\$86,816	\$85,523	\$77,554	2	%	10	%
Sales to customers' warehouses	18,646	20,453	18,631	(9	)	10	
Total U.S. pharmaceutical distribution & services	105,462	105,976	96,185	—		10	
Canada pharmaceutical distribution & services	9,981	10,303	9,784	(3	)	5	
Medical-Surgical distribution & services	3,611	3,145	2,920	15		8	
Total Distribution Solutions	119,054	119,424	108,889	—		10	
Technology Solutions							
Services	2,724	2,594	2,483	5		4	
Software & software systems	576	596	590	(3	)	1	
Hardware	101	120	122	(16	)	(2)
Total Technology Solutions	3,401	3,310	3,195	3		4	
Total Revenues	\$122,455	\$122,734	\$112,084	—		10	

Revenues for 2013 approximated the prior year and increased 10% to \$122.7 billion in 2012. Changes in our revenues were primarily impacted by our Distribution Solutions segment, which accounted for approximately 97% of our consolidated revenues. The increase in revenues in 2012 includes our December 2010 acquisition of US Oncology Holdings, Inc. ("US Oncology").

Direct distribution and services revenues increased in 2013 compared to 2012 primarily due to market growth, which includes growing drug utilization and price increases, expanded volume with existing customers and new customers, partially offset by price deflation associated with brand to generic drug conversions, the loss of customers and two less sales days. Direct distribution and services revenues increased in 2012 compared to 2011 primarily due to market growth and from our acquisition of US Oncology. These increases were partially offset by price deflation associated with brand to generic drug conversions.

Sales to customers' warehouses for 2013 decreased compared to 2012 primarily due to price deflation associated with brand to generic drugs conversions, net of brand price inflation and two less sales days. Sales to customers' warehouses for 2012 increased compared to 2011 primarily due to a new customer and new business with existing customers.

Sales to customers' warehouses represent large volume sales of pharmaceuticals primarily to a limited number of large self-warehousing retail chain customers whereby we order bulk product from the manufacturer, receive and process the product through our central distribution facility and subsequently deliver the bulk product (generally in the same form as received from the manufacturer) directly to our customers' warehouses. This distribution method is typically not marketed or sold by the Company as a stand-alone service; rather, it is offered as an additional distribution method for our large retail chain customers that have an internal self-warehousing distribution network. Sales to customers' warehouses provide a benefit to these customers because they can utilize the Company as one source for both their direct-to-store business and their warehouse business. We generally have significantly lower gross profit margins on sales to customers' warehouses as we pass much of the efficiency of this low cost-to-serve model on to the customer.

These sales do, however, contribute to our gross profit dollars.

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FINANCIAL REVIEW (Continued)

The customer mix of revenues from our U.S. Pharmaceutical Distribution business was as follows:

	Years Ended March 31,				2011	
	2013		2012		2011	
Direct Sales						
Retail Chains	33	%	34	%	33	%
Institutions	37		34		34	
Independents	11		11		12	
Subtotal	81		79		79	
Sales to retail customers' warehouses	19		21		21	
Total	100	%	100	%	100	%

As previously described, a limited number of our large retail chain customers purchase products through both our direct and warehouse distribution methods, the latter of which generally has a significantly lower gross profit margin due to the low cost-to-serve model. When evaluating and pricing customer contracts, we do so based on our assessment of total customer profitability. As a result, we do not evaluate our performance or allocate resources based on sales to customers' warehouses or gross profit associated with such sales.

Canadian pharmaceutical distribution and services revenues decreased 3% in 2013 compared to 2012. Excluding an unfavorable foreign currency exchange rate fluctuation of 1%, revenues decreased primarily due to five less sales days, government-imposed price reduction for generic pharmaceuticals in certain provinces and changes in our customer mix. These decreases were partially offset by market growth and an increase in revenues associated with our March 2012 acquisition of the assets of Drug Trading Company Limited, the independent banner business of the Katz Group Canada Inc. ("Katz Group"), and Medicine Shoppe Canada Inc., the franchise business of the Katz Group (collectively, "Katz Assets"). Canadian pharmaceutical distribution and services revenues increased 5% in 2012 compared to 2011. Excluding a favorable foreign currency exchange rate fluctuation of 2% during 2012, revenues increased primarily due to market growth, five additional sales days and a small acquisition in the second quarter of 2011, partially offset by government-imposed price reduction for generic pharmaceuticals in certain provinces. Medical-Surgical distribution and services revenues increased in 2013 compared to 2012 primarily due to market growth, new customers and our February 22, 2013 acquisition of PSS World Medical, Inc. ("PSS World Medical"). These increases were partially offset by five less sales days. Medical-Surgical distribution and services revenues increased in 2012 compared to 2011 primarily due to market growth, new customers and five additional sales days. Technology Solutions revenues increased in 2013 compared to 2012 primarily due to acquisitions, higher volume of claims processing and an increase in maintenance revenues from new and existing customers, partially offset by revenue deferral on certain products in our international business. Technology Solutions revenues increased in 2012 compared to 2011 primarily due to higher revenues for claims processing, increased revenues associated with the sale and installation of our software products, an increase in maintenance revenues from new and existing customers and a number of small acquisitions made during 2012.

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FINANCIAL REVIEW (Continued)

Gross Profit:

(Dollars in millions)	Years Ended March 31,			Change			
	2013	2012	2011	2013	2012		
Gross Profit							
Distribution Solutions ⁽¹⁾	\$5,439	\$5,057	\$4,565	8	11	%	%
Technology Solutions ⁽²⁾	1,545	1,510	1,405	2	7		
Total	\$6,984	\$6,567	\$5,970	6	10		

Gross Profit Margin

Distribution Solutions	4.57	%	4.23	%	4.19	%	34	bp	4	bp
Technology Solutions	45.43		45.62		43.97		(19	)	165	
Total	5.70		5.35		5.33		35		2	

bp - basis points

Gross profit for our Distribution Solutions segment for 2013 and 2011 includes receipt of \$44 million and \$51 (1) million representing our share of settlements of antitrust class action lawsuits brought against drug manufacturers, which were recorded as a reduction to cost of sales.

Gross profit for our Technology Solutions segment for 2013, 2012 and 2011 includes an asset impairment charge (2) for capitalized software held for sale of \$10 million, \$31 million of product alignment charges and a \$72 million asset impairment charge for capitalized software held for sale.

Gross profit increased 6% to \$7.0 billion in 2013 and 10% to \$6.6 billion in 2012. As a percentage of revenues, gross profit increased by 35 bp in 2013 and by 2 bp in 2012. Gross profit margin increased in 2013 primarily reflecting an increase in our Distribution Solutions segment. Gross profit margin increased in 2012 reflecting increases in both of our operating segments.

Distribution Solutions segment's gross profit margin increased in 2013 compared to 2012 primarily due to increased sales of higher margin generic drugs, our business acquisitions, an increase in buy margin and a lower proportion of revenues within the segment attributed to sales to customers' warehouses. These increases were partially offset by a decrease in sell margin. Buy margin primarily reflects volume and timing of compensation from branded pharmaceutical manufacturers. Our Distribution Solutions segment's gross profit margin for 2013 was also favorably affected by the receipt of \$44 million representing our share of settlements of antitrust class action lawsuits brought against drug manufacturers.

Distribution Solutions segment's gross profit margin increased in 2012 compared to 2011 primarily due to our acquisition of US Oncology and increased sales of higher margin generic drugs, partially offset by a decline in sell margin and the receipt of \$51 million in 2011 representing our share of a settlement of an antitrust class action lawsuit brought against a drug manufacturer.

Our last-in, first-out ("LIFO") net inventory expense was \$13 million in 2013, \$11 million in 2012 and \$3 million for 2011. Our Distribution Solutions segment uses the LIFO method of accounting for the majority of its inventories, which results in cost of sales that more closely reflects replacement cost than under other accounting methods. The practice in the Distribution Solutions segment's distribution businesses is to pass on to customers published price changes from suppliers. Manufacturers generally provide us with price protection, which limits price-related inventory losses. During 2013 and 2012, we began to experience a modest net inflationary trend in our pharmaceuticals indices, as price increases on branded pharmaceuticals exceeded the impact of price declines and shifts toward generic pharmaceuticals, including the effect of branded pharmaceutical products that have lost market exclusivity. Additional information regarding our LIFO accounting is included under the caption "Critical Accounting Policies and Estimates," included in this Financial Review.

Technology Solutions segment's gross profit margin decreased in 2013 compared to 2012, primarily due to a change in product and services mix and a \$10 million impairment of capitalized software held for sale. Additionally, 2012

gross profit margin includes \$31 million of product alignment charges.

Technology Solutions segment's gross profit margin increased in 2012 compared to 2011 primarily due an increase in higher margin revenues, a \$72 million asset impairment charge related to our Horizon Enterprise Management™ (“HzERM”) software product in 2011 and lower amortization expense related to HzERM. These increases were partially offset by product alignment charges of \$31 million in 2012.

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FINANCIAL REVIEW (Continued)

During the third quarter of 2012, we approved a plan to align our hospital clinical and revenue cycle healthcare software products within our Technology Solutions segment. As part of this alignment strategy, we began converging our core clinical and revenue cycle Horizon and Paragon product lines onto Paragon's Microsoft®-based platform. Additionally, we stopped development of our HzERM software product. The plan resulted in a pre-tax charge of \$51 million in 2012, of which \$31 million was recorded to cost of sales and \$20 million was recorded to operating expenses within our Technology Solutions segment. The majority of these charges were incurred in the third quarter of 2012. The pre-tax charge included \$24 million of non-cash asset impairment charges, primarily for the write-off of prepaid licenses and commissions and capitalized internal use software that were determined to be obsolete as they would not be utilized going forward, \$10 million for severance, \$7 million for customer allowances and \$10 million for other charges.

Our capitalized software held for sale is amortized over three years. At each balance sheet date, or earlier if an indicator of an impairment exists, we evaluate the recoverability of unamortized capitalized software costs based on estimated future undiscounted revenues net of estimated related costs over the remaining amortization period. At the end of the second quarter of 2010, our HzERM software product became generally available. In October 2010, we decreased our estimated revenues over the next 24 months for our HzERM software product and, as a result, concluded that the estimated future revenues, net of estimated related costs, were insufficient to recover its carrying value. Accordingly, we recorded a \$72 million non-cash impairment charge in the second quarter of 2011 within our Technology Solutions segment's cost of sales to reduce the carrying value of the software product to its net realizable value.

Operating Expenses:

(Dollars in millions)	Years Ended March 31,			Change	
	2013	2012	2011	2013	2012
Operating Expenses					
Distribution Solutions ^{(1) (2)}	\$3,071	\$2,854	\$2,673	8 %	7 %
Technology Solutions ⁽³⁾	1,252	1,151	1,108	9	4
Corporate ⁽⁴⁾	346	413	368	(16)	12
Total	\$4,669	\$4,418	\$4,149	6	6

Operating Expenses as a Percentage of Revenues

Distribution Solutions	2.58	%	2.39	%	2.45	%	19	bp	(6)	bp
Technology Solutions	36.81		34.77		34.68		204		9	
Total	3.81		3.60		3.70		21		(10)	

(1) Operating expenses for 2013, 2012 and 2011 include \$72 million, \$149 million and \$213 million of AWP litigation charges.

(2) Operating expenses for 2013 include a \$40 million charge for a legal dispute in our Canadian business.

(3) Operating expenses for 2013 and 2012 include a goodwill impairment charge of \$36 million and product alignment charges of \$20 million.

(4) Corporate expenses for 2013 are net of an \$81 million pre-tax gain on business combination.

Operating expenses increased 6% to \$4.7 billion in 2013 and 6% to \$4.4 billion in 2012. Operating expenses increased in 2013 primarily due to our business acquisitions, higher employee compensation and benefit costs, a \$40 million charge for a legal dispute in our Canadian business and a \$36 million non-cash pre-tax goodwill impairment charge. These increases were partially offset by an \$81 million gain on business combination and lower AWP litigation charges. Operating expenses increased in 2012 primarily due to the addition of US Oncology, higher employee compensation and benefits costs and an increase in expenses associated with supporting higher revenues, partially offset by lower AWP litigation charges. Operating expenses include pre-tax charges of \$72 million, \$149 million and

\$213 million in 2013, 2012 and 2011 relating to our AWP litigation.

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FINANCIAL REVIEW (Continued)

Acquisition expenses and related adjustments, which include transaction and integration expenses that are directly related to acquisitions by the Company and gains and losses related to business combinations were \$2 million, \$31 million and \$52 million in 2013, 2012 and 2011. Expenses for 2013 primarily consist of charges incurred to acquire and integrate PSS World Medical; these expenses were almost fully offset by an \$81 million gain on business combination. Expenses for 2012 and 2011 were primarily incurred to acquire and integrate US Oncology. Additional acquisition-related expenses are expected to be incurred as we integrate our businesses.

(In millions)	Years Ended March 31,		
	2013	2012	2011
Operating Expenses			
Transaction closing expenses	\$16	\$3	\$22
Restructuring, severance and relocation	31	6	9
Other integration related expenses	25	22	12
Gain on business combination	(81)	—	—
Total	(9)	31	43
Other Income: reimbursement of post-acquisition interest expense from former US Oncology shareholders	—	—	(16)
Interest Expense: bridge loan fees	11	—	25
Total Acquisition Expenses and Related Adjustments	\$2	\$31	\$52

The acquisition expenses and related adjustments by segment were as follows:

(In millions)	Years Ended March 31,		
	2013	2012	2011
Operating Expenses			
Distribution Solutions	\$47	\$24	\$41
Technology Solutions	8	6	—
Corporate	(64)	1	2
Total	(9)	31	43
Corporate - Other Income	—	—	(16)
Corporate - Interest Expense	11	—	25
Total Acquisition Expenses and Related Adjustments	\$2	\$31	\$52

Amortization expense of acquired intangible assets purchased in connection with acquisitions was as follows:

(In millions)	Years Ended March 31,		
	2013	2012	2011
Cost of Sales			
Distribution Solutions	\$2	\$1	\$—
Technology Solutions	14	19	16
Total	16	20	16
Operating Expenses			
Distribution Solutions	146	120	70
Technology Solutions	52	51	46
Corporate	1	—	—
Total	199	171	116
Total Acquisition-related Amortization	\$215	\$191	\$132

Increases in our amortization expense of acquired intangible assets primarily reflect our recent business acquisitions. Additionally, certain intangible assets associated with a 2007 acquisition were fully amortized in 2012.

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FINANCIAL REVIEW (Continued)

Distribution Solutions segment's operating expenses and operating expenses as a percentage of revenues increased in 2013 compared to 2012 primarily due to our business acquisitions, a \$40 million charge for a legal dispute in our Canadian business and higher employee compensation and benefits costs. These increases were partially offset by lower AWP litigation charges. Additionally, this ratio is negatively impacted as a result of decreases in revenue resulting from deflation.

Distribution Solutions segment's operating expenses increased in 2012 compared to 2011 primarily reflecting the addition of US Oncology, higher employee compensation and benefits expenses and an increase in expenses associated with supporting higher revenues, partially offset by a lower AWP litigation charge. Operating expenses as a percentage of revenues decreased in 2012 compared to 2011 primarily due to operating leverage and lower AWP litigation charge, partially offset by the addition of US Oncology.

The Company has a reserve relating to AWP public entity claims, which is reviewed at least quarterly and whenever events or circumstances indicate changes, including consideration of the pace and progress of discussions relating to potentially resolving other public entity claims.

The following is the activity related to the AWP litigation reserve for the years ended March 31, 2013, 2012 and 2011:

(In millions)	Years Ended March 31,		
	2013	2012	2011
AWP Litigation reserve at beginning of period	\$453	\$330	\$143
Charges incurred	72	149	213
Payments made	(483)	(26)	(26)
AWP litigation reserve at end of period	\$42	\$453	\$330

Pre-tax charges relating to changes in the Company's AWP litigation reserve, including accrued interest, are recorded in the Distribution Solutions segment. The charges for 2013 primarily related to state Medicaid claims. The charges for 2012 primarily related to the Douglas County, Kansas Action settlement and the state and federal Medicaid claims. The charges for 2011 primarily related to state and federal Medicaid claims. In view of the number of outstanding cases and expected future claims, and the uncertainties of the timing and outcome of this type of litigation, it is possible that the ultimate costs of these matters may exceed or be less than the reserve.

Since 2009 the Company has cooperated with and responded to an investigation by the Regie de l'assurance maladie du Quebec ("RAMQ"), a provincial government agency with administrative authority over the conduct of pharmaceutical businesses in the province of Quebec, Canada. The investigation focused on certain discounts and payments offered to pharmacies in Quebec, as well as payments received by the Company from certain manufacturers. In the third quarter of 2013, we engaged in settlement discussions to resolve potential legal claims against the Company and its customers and suppliers arising from the investigation. In consideration of the pace and progress of settlement discussions, in the third quarter of 2013, we recorded a pre-tax charge of \$40 million for estimated probable loss from potential legal claims arising from the investigation. The charge was recorded to operating expenses within our Distribution Solutions segment. On April 19, 2013, the Company entered into a settlement agreement with the RAMQ, to settle all potential claims of the RAMQ arising from the investigation. The agreement provides that the Company will pay \$40 million to the RAMQ, and provides for a full release of all potential claims by the RAMQ arising from the investigation.

Refer to Financial Note 22, "Other Commitments and Contingent Liabilities," to the consolidated financial statements appearing in this Annual Report on Form 10-K for further information.

Technology Solutions segment's operating expenses and operating expenses as a percentage of revenues increased in 2013 compared to 2012 primarily due to our continued investment in research and development activities, a \$36 million goodwill impairment charge and business acquisitions. These increases were partially offset by product alignment charges of \$20 million incurred in 2012.

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FINANCIAL REVIEW (Continued)

During the fourth quarter of 2013, we recorded \$46 million of non-cash pre-tax impairment charges in our Technology Solutions segment. These charges were the result of a significant decrease in estimated revenues for a software product. The charge included a \$36 million goodwill impairment to reduce the carrying value of goodwill within the applicable reporting unit to its implied fair value. In addition, the goodwill had a nominal tax basis. This impairment charge was recorded in operating expenses within our consolidated statement of operations. The balance of the charge represents a \$10 million impairment to reduce the carrying value of the unamortized capitalized software held for sale costs for this product to its net realizable value. We concluded that the estimated future undiscounted revenues, net of estimated related costs, were insufficient to recover its carrying value. This impairment charge was recorded in cost of sales within our consolidated statement of operations.

Technology Solutions segment's operating expenses and operating expenses as a percentage of revenues increased in 2012 compared to 2011 primarily due to our continued investment in research and development activities, a number of small business acquisitions in 2012 and product alignment charges of \$20 million. These increases were partially offset by cost containment efforts.

Corporate expenses decreased in 2013 compared to 2012 primarily due to the gain on business combination and a charitable contribution in 2012. These decreases were partially offset by an increase in a reserve for an environmental liability, acquisition-related expenses and other corporate initiatives. Corporate expenses for 2012 increased compared to 2011 primarily due to higher employee compensation and benefits costs and a charitable contribution.

Other Income, Net:

(Dollars in millions)	Years Ended March 31,			Change	
	2013	2012	2011	2013	2012
Distribution Solutions	\$20	\$16	\$5	25 %	220 %
Technology Solutions	4	5	4	(20)	25
Corporate	11	—	27	100	(100)
Total	\$35	\$21	\$36	67	(42)

Other income, net increased in 2013 compared to 2012 primarily due to an impairment of an asset in 2012. Other income, net decreased in 2012 compared to 2011 primarily due to a receipt in 2011 of \$16 million representing the reimbursement of post-acquisition interest expense by former shareholders of US Oncology, which was recorded in Corporate and an impairment of an asset in 2012.

Impairment of an Equity Investment:

Based on a recent evaluation, we committed to a plan to sell our 49% equity interest in Nadro, S.A. de C.V. ("Nadro") and in the fourth quarter of 2013 recorded a pre-tax impairment charge of \$191 million reducing the investment's carrying value to its estimated fair value. The charge reflects deterioration in Nadro's market position, projected lower revenue growth rates and operating margins and continued business challenges in the wholesale pharmaceutical distribution business in Mexico. Cumulative foreign currency translation losses of \$69 million were included in the assessment of the investment's carrying value for purposes of calculating the impairment charge. Cumulative foreign currency translation losses (net of tax), are included in Accumulated Other Comprehensive Income on our consolidated balance sheet. The charge was recorded in impairment of an equity investment in the consolidated statements of operations within our Distribution Solutions segment. The ultimate selling price of our investment in Nadro may be different than our current assessment of fair value. The fair value of the investment will be reviewed quarterly for any additional impairment.

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FINANCIAL REVIEW (Continued)

Segment Operating Profit and Corporate Expenses, Net:

(Dollars in millions)	Years Ended March 31,			Change	
	2013	2012	2011	2013	2012
Segment Operating Profit ⁽¹⁾					
Distribution Solutions ^{(2) (3) (4) (5)}	\$2,197	\$2,219	\$1,897	(1) %	17 %
Technology Solutions ^{(6) (7) (8)}	297	364	301	(18)	21
Subtotal	2,494	2,583	2,198	(3)	18
Corporate Expenses, Net ⁽⁹⁾	(335)	(413)	(341)	(19)	21
Interest Expense	(240)	(251)	(222)	(4)	13
Income From Continuing Operations Before Income Taxes	\$1,919	\$1,919	\$1,635	—	17

Segment Operating Profit Margin

Distribution Solutions	1.85	%	1.86	%	1.74	%	(1) bp	12 bp
Technology Solutions	8.73		11.00		9.42		(227)	158

(1) Segment operating profit includes gross profit, net of operating expenses, plus other income (expense), net for our two operating segments.

(2) Operating profit for 2013 includes a \$191 million charge for impairment of our equity investment in Nadro.

(3) Operating profit for 2013, 2012 and 2011 includes AWP litigation charges of \$72 million, \$149 million and \$213 million.

(4) Operating profit for 2013 includes a \$40 million charge for a legal dispute in our Canadian business.

(5) Operating profit for 2013 and 2011 includes the receipt of \$44 million and \$51 million representing our share of settlements of antitrust class action lawsuits brought against drug manufacturers.

(6) Operating profit for 2013 includes asset impairment charges of \$46 million.

(7) Operating profit for 2012 includes product alignment charges of \$51 million.

(8) Operating profit for 2011 includes \$72 million asset impairment charges from capitalized software held for sale.

(9) Corporate expenses for 2013 are net of an \$81 million pre-tax gain on business combination.

Operating profit margin for our Distribution Solutions segment decreased in 2013 compared to 2012 primarily due to a \$191 million impairment charge on an equity investment and higher operating expenses as a percentage of revenues, which includes our business acquisitions. These increases were partially offset by an increase in gross profit margin and lower AWP litigation charges. Operating profit margin for our Distribution Solutions segment increased in 2012 compared to 2011 primarily due to higher gross profit margin, which included a full year of results from US Oncology, and lower operating expenses as a percentage of revenues, which included lower AWP litigation charges. Operating profit margin in our Technology Solutions segment decreased in 2013 compared to 2012 primarily due to an increase in operating expenses as a percentage of revenues and a decrease in gross profit margin. Operating profit margin in our Technology Solutions segment increased in 2012 compared to 2011 primarily reflecting an increase in gross profit margin, partially offset by an increase in operating expenses as a percentage of revenues.

Corporate expenses, net of other income decreased in 2013 compared to 2012 primarily due to the gain on business combination and an increase in other income. Corporate expenses, net of other income increased in 2012 compared to 2011 primarily due an increase in operating expenses and a decrease in other income.

Interest Expense: Interest expense decreased in 2013 compared to 2012 primarily due to the repayment of \$400 million of long-term debt in February 2012, partially offset by \$11 million of bridge loan fees paid in connection with our acquisition of PSS World Medical. Interest expense increased in 2012 compared to 2011 primarily due to \$1.7 billion of long-term debt issued in February 2011 in connection with our acquisition of US Oncology. Refer to our discussion under the caption "Credit Resources" within this Financial Review for additional information regarding our financing activities.

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FINANCIAL REVIEW (Continued)

Income Taxes: Our reported income tax rates were 30.3%, 26.9% and 30.9% in 2013, 2012 and 2011. Fluctuations in our reported income tax rates are primarily due to changes within our business mix, including varying proportions of income attributable to foreign countries that have lower income tax rates. In 2013, 2012 and 2011, income tax expense included \$29 million, \$66 million and \$34 million of net income tax benefits for discrete items, which primarily relates to the recognition of previously unrecognized tax benefits and accrued interest. Included in the 2012 discrete tax benefit is a \$31 million credit to income tax expense as a result of the reversal of an income tax reserve relating to our AWP litigation.

We have received tax assessments of \$98 million from the U.S. Internal Revenue Service (“IRS”) relating to 2003 through 2006. We disagree with a substantial portion of the tax assessments primarily relating to transfer pricing. We are pursuing administrative relief through the appeals process. We have also received assessments from the Canada Revenue Agency (“CRA”) for a total of \$199 million related to transfer pricing for 2003 through 2008. Payments of most of the assessments to the CRA have been made to stop the accrual of interest. We have appealed the assessment for 2003 to the Tax Court of Canada and have filed a notice of objection for 2004 through 2007, and are in the process of filing a notice of objection for 2008. The trial between McKesson Canada Corporation and the CRA, argued in the Tax Court of Canada, concluded in early February 2012, and we are waiting for the decision. We continue to believe in the merits of our tax positions and that we have adequately provided for any potential adverse results relating to these examinations in our financial statements. However, the final resolution of these issues could result in an increase or decrease to income tax expense.

Discontinued Operation: In July 2010, our Technology Solutions segment sold its wholly-owned subsidiary, MAP, a provider of phone and web-based healthcare services in Australia and New Zealand, for net sales proceeds of \$109 million. The divestiture generated a pre-tax and after-tax gain of \$95 million and \$72 million. As a result of the sale, we were able to utilize capital loss carry-forwards for which we previously recorded a valuation allowance of \$15 million. The release of the valuation allowance is included as a tax benefit in our after-tax gain on the divestiture. The after-tax gain on disposition was recorded as a discontinued operation in our consolidated statement of operations in 2011. The historical financial operating results and net assets of MAP were not material to our consolidated financial statements for all periods presented.

Net Income: Net income was \$1,338 million, \$1,403 million and \$1,202 million in 2013, 2012 and 2011 and diluted earnings per common share were \$5.59, \$5.59 and \$4.57. Net income and diluted earnings per common share for 2013, 2012 and 2011 include after-tax AWP litigation charges of \$45 million, \$60 million and \$149 million, or \$0.19, \$0.24 and \$0.57 per diluted common share. Net income and diluted earnings per common share for 2011 also included an after-tax gain of \$72 million, or \$0.28 per diluted share relating to our sale of MAP.

Weighted Average Diluted Common Shares Outstanding: Diluted earnings per common share was calculated based on a weighted average number of shares outstanding of 239 million, 251 million and 263 million for 2013, 2012 and 2011. The decreases in the number of weighted average diluted common shares outstanding primarily reflect the cumulative effect of share repurchases over the past three years, partially offset by the exercise and settlement of share-based awards.

International Operations

International operations accounted for 8.3%, 8.6% and 8.9% of 2013, 2012 and 2011 consolidated revenues.

International operations are subject to certain risks, including currency fluctuations. We monitor our operations and adopt strategies responsive to changes in the economic and political environment in each of the countries in which we operate. Additional information regarding our international operations is also included in Financial Note 25, “Segments of Business,” to the consolidated financial statements appearing in this Annual Report on Form 10-K.

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FINANCIAL REVIEW (Continued)

Business Combinations

Fiscal 2013

In addition to our April 2012 acquisition of the remaining 50% ownership interest in our corporate headquarters building located in San Francisco, California, on February 22, 2013, we acquired all of the outstanding shares of PSS World Medical, Inc. ("PSS World Medical") of Jacksonville, Florida for \$29.00 per share plus the assumption of PSS World Medical's debt, or approximately \$1.9 billion in aggregate, consisting of cash consideration of \$1.3 billion, net of cash acquired, and the assumption of long-term debt with a fair value of \$0.6 billion. The cash paid at acquisition was funded from cash on hand and the issuance of long-term debt. PSS World Medical markets and distributes medical products and services throughout the United States. The acquisition of PSS World Medical expands our existing Medical-Surgical business. Financial results for PSS World Medical since the acquisition date are included in the results of operations for the fourth quarter and year ended March 31, 2013 within our Medical-Surgical distributions and services business, which is part of our Distribution Solutions segment.

Fiscal 2012

On March 25, 2012, we acquired substantially all of the assets of Drug Trading Company Limited, the independent banner business of the Katz Group Canada Inc. ("Katz Group"), and Medicine Shoppe Canada Inc., the franchise business of the Katz Group (collectively, "Katz Assets") for \$925 million, which was funded from cash on hand. The acquisition of the assets from the Drug Trading Company Limited consists of a marketing and purchasing arm of independently owned pharmacies in Canada. The acquisition of Medicine Shoppe Canada Inc. consists of the franchise business of providing services to independent pharmacies in Canada. Financial results for the acquired Katz Assets have been included in the results of operations within our Canadian pharmaceutical distribution and services business, which is part of our Distribution Solutions segment, beginning in the first quarter of 2013.

Fiscal 2011

On December 30, 2010, we acquired all of the outstanding shares of US Oncology for approximately \$2.1 billion, consisting of cash consideration of \$0.2 billion, net of cash acquired, and the assumption of liabilities with a fair value of \$1.9 billion. The cash paid at acquisition was funded from cash on hand. As an integrated oncology company, US Oncology is affiliated with community-based oncologists, and works with patients, hospitals, payers and the medical industry across all phases of the cancer research and delivery continuum. The acquisition of US Oncology expands our existing specialty pharmaceutical distribution business and adds practice management services for oncologists. Financial results for US Oncology have been included in the results of operations within our Distribution Solutions segment beginning in the fourth quarter of 2011.

During the last three years, we also completed a number of other smaller acquisitions within both of our operating segments. Financial results for our business acquisitions have been included in our consolidated financial statements since their respective acquisition dates. Purchase prices for our business acquisitions have been allocated based on estimated fair values at the date of acquisition.

Goodwill recognized for our business acquisitions is generally not expected to be deductible for tax purposes. However, if we acquire the assets of a company, the goodwill may be deductible for tax purposes. The pro forma results of operations for our business acquisitions and the results of operations for these acquisitions since the acquisition date have not been presented because the effects were not material to the consolidated financial statements on either an individual or an aggregate basis.

Refer to Financial Notes 2 and 14, "Business Combinations" and "Debt and Financing Activities," to the consolidated financial statements appearing in this Annual Report on Form 10-K for additional information.

2014 Outlook

Information regarding the Company's 2014 outlook is contained in our Form 8-K dated May 7, 2013. This Form 8-K should be read in conjunction with the sections Item 1 - Business - Forward-Looking Statements and Item 1A - Risk Factors in Part 1 of this Annual Report on Form 10-K.

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McKESSON CORPORATION

FINANCIAL REVIEW (Continued)

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

We consider an accounting estimate to be critical if the estimate requires us to make assumptions about matters that were uncertain at the time the accounting estimate was made and if different estimates that we reasonably could have used in the current period, or changes in the accounting estimate that are reasonably likely to occur from period to period, could have a material impact on our financial condition or results from operations. Below are the estimates that we believe are critical to the understanding of our operating results and financial condition. Other accounting policies are described in Financial Note 1, "Significant Accounting Policies," to the consolidated financial statements appearing in this Annual Report on Form 10-K. Because of the uncertainty inherent in such estimates, actual results may differ from these estimates.

Allowance for Doubtful Accounts: We provide short-term credit and other customer financing arrangements to customers who purchase our products and services. Other customer financing primarily relates to guarantees provided to our customers, or their creditors, regarding the repurchase of inventories. We also provide financing to certain customers related to the purchase of pharmacies, which serve as collateral for the loans. We estimate the receivables for which we do not expect full collection based on historical collection rates and specific knowledge regarding the current creditworthiness of our customers and record an allowance in our consolidated financial statements for these amounts.

In determining the appropriate allowance for doubtful accounts, which includes portfolio and specific reserves, the Company reviews accounts receivable aging, industry trends, customer financial strength, credit standing, historical write-off trends and payment history to assess the probability of collection. If the frequency and severity of customer defaults due to our customers' financial condition or general economic conditions change, our allowance for uncollectible accounts may require adjustment. As a result, we continuously monitor outstanding receivables and other customer financing and adjust allowances for accounts where collection may be in doubt. During 2013, sales to our ten largest customers accounted for approximately 51% of our total consolidated revenues. Sales to our largest customer, CVS Caremark Corporation ("CVS"), accounted for approximately 17% of our total consolidated revenues. At March 31, 2013, trade accounts receivable from our ten largest customers were approximately 44% of total trade accounts receivable. Accounts receivable from CVS and Wal-Mart Stores, Inc. ("Walmart") were approximately 16% and 10% of total trade accounts receivable. As a result, our sales and credit concentration is significant. A default in payments, a material reduction in purchases from these, or any other large customer or the loss of a large customer could have a material adverse impact on our financial condition, results of operations and liquidity.

Reserve methodologies are assessed annually based on historical losses and economic, business and market trends. In addition, reserves are reviewed quarterly and updated if unusual circumstances or trends are present. We believe the reserves maintained and expenses recorded in 2013 are appropriate and consistent with historical methodologies employed. At this time, we are not aware of any internal process or customer issues that might lead to a significant increase in the foreseeable future in our allowance for doubtful accounts as a percentage of net revenue.

At March 31, 2013, trade and notes receivables were \$8,853 million prior to allowances of \$121 million. In 2013, 2012 and 2011 our provision for bad debts was \$28 million, \$30 million and \$18 million. At March 31, 2013 and 2012, the allowance as a percentage of trade and notes receivables was 1.4% and 1.3%. An increase or decrease of a hypothetical 0.1% in the 2013 allowance as a percentage of trade and notes receivables would result in an increase or decrease in the provision for bad debts of approximately \$9 million. The selected 0.1% hypothetical change does not reflect what could be considered the best or worst case scenarios. Additional information concerning our allowance for doubtful accounts may be found in Schedule II included in this Annual Report on Form 10-K.

Inventories: We report inventories at the lower of cost or market ("LCM"). Inventories for our Distribution Solutions segment consist of merchandise held for resale. For our Distribution Solutions segment, the majority of the cost of domestic inventories is determined using the LIFO method. Technology Solutions segment inventories consist of computer hardware with cost generally determined by the standard cost method, which approximates average cost. Rebates, cash discounts and other incentives received from vendors relating to the purchase or distribution of

inventory are considered as product discounts and are accounted for as a reduction in the cost of inventory and are recognized when the inventory is sold. Total inventories were \$10.3 billion and \$10.1 billion at March 31, 2013 and 2012.

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McKESSON CORPORATION

FINANCIAL REVIEW (Continued)

The LIFO method was used to value approximately 80% and 88% of our inventories at March 31, 2013 and 2012. At March 31, 2013 and 2012, our LIFO reserves, net of LCM adjustments, were \$120 million and \$107 million. Our LIFO valuation amount includes both pharmaceutical and non-pharmaceutical products. In 2013, 2012 and 2011, we recognized net LIFO expense of \$13 million, \$11 million and \$3 million within our consolidated statements of operations, which related to our non-pharmaceutical products. A LIFO expense is recognized when the net effect of price increases on branded pharmaceuticals and non-pharmaceutical products held in inventory exceeds the impact of price declines and shifts towards generic pharmaceuticals, including the effect of branded pharmaceutical products that have lost market exclusivity. A LIFO credit is recognized when the net effect of price declines and shifts towards generic pharmaceuticals exceeds the impact of price increases on branded pharmaceuticals and non-pharmaceutical products held in inventory.

We believe that the average inventory costing method provides a reasonable estimation of the current cost of replacing inventory (i.e., “market”). As such, our LIFO inventory is valued at the lower of LIFO or market. Primarily due to historical net deflation in our pharmaceutical inventories, pharmaceutical inventories at LIFO were \$60 million and \$76 million higher than market as of March 31, 2013 and 2012. As a result, we recorded a LCM credit of \$16 million and \$80 million in 2013 and 2012 within our consolidated statements of operations to adjust our LIFO inventories to market. During 2013 and 2012, we began to experience a modest net inflationary trend in our pharmaceuticals indices, as price increases on branded pharmaceuticals exceeded the impact of price declines and shifts toward generic pharmaceuticals, including the effect of branded pharmaceutical products that have lost market exclusivity. In 2014, we expect this trend to continue. As a result, we may recognize an increase in net LIFO expense in 2014.

In determining whether inventory valuation issues exist, we consider various factors including estimated quantities of slow-moving inventory by reviewing on-hand quantities, outstanding purchase obligations and forecasted sales. Shifts in market trends and conditions, changes in customer preferences due to the introduction of generic drugs or new pharmaceutical products or the loss of one or more significant customers are factors that could affect the value of our inventories. We write down inventories, which are considered excess and obsolete, as a result of these reviews. These factors could make our estimates of inventory valuation differ from actual results.

Business Combinations: We account for acquired businesses using the acquisition method of accounting, which requires that the assets acquired and liabilities assumed be recorded at the date of acquisition at their respective fair values. Any excess of the purchase price over the estimated fair values of the net assets acquired is recorded as goodwill. Acquisition-related expenses and related restructuring costs are expensed as incurred.

Several valuation methods may be used to determine the fair value of assets acquired and liabilities assumed. For intangible assets, we typically use the income method. This method starts with a forecast of all of the expected future net cash flows for each asset. These cash flows are then adjusted to present value by applying an appropriate discount rate that reflects the risk factors associated with the cash flow streams. Some of the more significant estimates and assumptions inherent in the income method or other methods include the amount and timing of projected future cash flows, the discount rate selected to measure the risks inherent in the future cash flows and the assessment of the asset's life cycle and the competitive trends impacting the asset, including consideration of any technical, legal, regulatory, or economic barriers to entry. Determining the useful life of an intangible asset also requires judgment as different types of intangible assets will have different useful lives and certain assets may even be considered to have indefinite useful lives. Refer to Financial Note 2, “Business Combinations,” to the consolidated financial statements appearing in this Annual Report on Form 10-K for additional information regarding our acquisitions.

Goodwill and Intangible Assets: As a result of acquiring businesses, we have \$6,405 million and \$5,032 million of goodwill at March 31, 2013 and 2012 and \$2,270 million and \$1,750 million of intangible assets, net at March 31, 2013 and 2012. We maintain goodwill assets on our books unless the assets are considered to be impaired. We perform an impairment test on goodwill balances annually in the fourth quarter or more frequently if indicators for potential impairment exist. Indicators that are considered include significant changes in performance relative to expected operating results, significant changes in the use of the assets, significant negative industry or economic

trends, or a significant decline in the Company's stock price and/or market capitalization for a sustained period of time.

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FINANCIAL REVIEW (Continued)

Impairment testing is conducted at the reporting unit level, which is generally defined as a component — one level below our Distribution Solutions and Technology Solutions operating segments, for which discrete financial information is available and segment management regularly reviews the operating results of that reporting unit.

Components that have essentially similar operations, products, services, customers and operating margin are aggregated as a single reporting unit. Management judgment is involved in determining which components may be combined and changes in these combinations could affect the outcome of the testing.

The first step in goodwill testing requires us to compare the estimated fair value of a reporting unit to its carrying value. This step may be performed utilizing either a qualitative or quantitative assessment. If the carrying value of the reporting unit is lower than its estimated fair value, no further evaluation is necessary. If the carrying value of the reporting unit is higher than its estimated fair value, the second step must be performed to measure the amount of impairment loss. Under the second step, the implied fair value of goodwill is calculated in a hypothetical analysis by subtracting the fair value of all assets and liabilities of the reporting unit, including any unrecognized intangibles assets, from the fair value of the reporting unit calculated in the first step of the impairment test. If the carrying value of goodwill for the reporting unit exceeds the implied fair value of goodwill, an impairment charge is recorded for that excess.

To estimate the fair value of our reporting units, we use a combination of the market approach and the income approach. Under the market approach, we estimate fair value by comparing the business to similar businesses, or guideline companies whose securities are actively traded in public markets. Under the income approach, we use a discounted cash flow model in which cash flows anticipated over several periods, plus a terminal value at the end of that time horizon, are discounted to their present value using an appropriate expected rate of return. In addition, we compare the aggregate of the reporting units' fair values to our market capitalization as further corroboration of the fair values.

Some of the more significant estimates and assumptions inherent in the goodwill impairment estimation process using the market approach include the selection of appropriate guideline companies, the determination of market value multiples for both the guideline companies and the reporting unit, the determination of applicable premiums and discounts based on any differences in marketability between the business and the guideline companies and for the income approach, the required rate of return used in the discounted cash flow method, which reflects capital market conditions and the specific risks associated with the business. Other estimates inherent in both the market and income approaches include long-term growth rates, projected revenues and earnings and cash flow forecasts for the reporting units.

Estimates of fair value result from a complex series of judgments about future events and uncertainties and rely heavily on estimates and assumptions at a point in time. Judgments made in determining an estimate of fair value may materially impact our results of operations. The valuations are based on information available as of the impairment review date and are based on expectations and assumptions that have been deemed reasonable by management. Any changes in key assumptions, including failure to meet business plans, a further deterioration in the market or other unanticipated events and circumstances, may affect the accuracy or validity of such estimates and could potentially result in an impairment charge. In 2013, we recorded a goodwill impairment charge of \$36 million in our Technology Solutions segment. In 2012 and 2011, we concluded that there were no impairments of goodwill as the fair value of each reporting unit exceeded its carrying value.

Currently, all of our intangible assets are subject to amortization and are generally amortized on a straight-line basis over their estimated useful lives, ranging from one to twenty years. We review intangible assets for impairment whenever events or changes in circumstances indicate that the carrying value of the assets may not be recoverable. Determination of recoverability is based on the lowest level of identifiable estimated future undiscounted cash flows resulting from use of the asset and its eventual disposition. Measurement of any impairment loss is based on the excess of the carrying value of the asset over its fair value. Assumptions and estimates about future values and remaining useful lives of our purchased intangible assets are complex and subjective. They can be affected by a

variety of factors, including external factors such as industry and economic trends, and internal factors such as changes in our business strategy and our internal forecasts. There were no material impairments of intangibles in 2013, 2012 or 2011. Our ongoing consideration of all the factors described previously could result in impairment charges in the future, which could adversely affect our net income.

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McKESSON CORPORATION

FINANCIAL REVIEW (Continued)

Supplier Reserves: We establish reserves against amounts due from suppliers relating to various price and rebate incentives, including deductions or billings taken against payments otherwise due to them. These reserve estimates are established based on judgment after considering the status of current outstanding claims, historical experience with the suppliers, the specific incentive programs and any other pertinent information available. We evaluate the amounts due from suppliers on a continual basis and adjust the reserve estimates when appropriate based on changes in factual circumstances. As of March 31, 2013 and 2012, supplier reserves were \$164 million and \$115 million. The ultimate outcome of any outstanding claims may be different from our estimate. All of the supplier reserves at March 31, 2013 and 2012 pertain to our Distribution Solutions segment. An increase or decrease in the supplier reserve as a hypothetical 0.1% of trade payables at March 31, 2013 would result in an increase or decrease in the cost of sales of approximately \$16 million in 2013. The selected 0.1% hypothetical change does not reflect what could be considered the best or worst case scenarios.

Income Taxes: Our income tax expense and deferred tax assets and liabilities reflect management's best assessment of estimated current and future taxes to be paid. We are subject to income taxes in the U.S. and numerous foreign jurisdictions. Significant judgments and estimates are required in determining the consolidated income tax provision and in evaluating income tax uncertainties. We review our tax positions at the end of each quarter and adjust the balances as new information becomes available.

Deferred income taxes arise from temporary differences between the tax and financial statement recognition of revenue and expense. In evaluating our ability to recover our deferred tax assets, we consider all available positive and negative evidence including our past operating results, the existence of cumulative net operating losses in the most recent years and our forecast of future taxable income. In estimating future taxable income, we develop assumptions including the amount of future federal, state and foreign pre-tax operating income, the reversal of temporary differences and the implementation of feasible and prudent tax planning strategies. These assumptions require significant judgment about the forecasts of future taxable income and are consistent with the plans and estimates we use to manage the underlying businesses. We had deferred income tax assets (net of valuation allowances) of \$1,247 million and \$1,335 million at March 31, 2013 and 2012 and deferred tax liabilities of \$3,114 million and \$2,495 million. Deferred tax assets primarily consist of timing differences on our compensation and benefit related accruals and net loss and credit carryforwards. Deferred tax liabilities primarily consist of basis differences for inventory valuation (including inventory valued at LIFO) and other assets. We established valuation allowances of \$118 million and \$101 million for 2013 and 2012 against certain deferred tax assets, which primarily relate to federal, state and foreign loss carryforwards for which the ultimate realization of future benefits is uncertain. Changes in tax laws and rates could also affect recorded deferred tax assets and liabilities in the future. Should tax laws change, including those laws pertaining to LIFO, our cash flows could be materially impacted.

In addition, the calculation of our tax liabilities includes estimates for uncertainties in the application of complex tax regulations across multiple global jurisdictions where we conduct our operations. We recognize liabilities for tax and related interest for issues in the U.S. and other tax jurisdictions based on our estimate of whether, and the extent to which, additional taxes and related interest will be due. These tax liabilities and related interest are reflected net of the impact of related tax loss carryforwards, as such tax loss carryforwards will be applied against these tax liabilities and will reduce the amount of cash tax payments due upon the eventual settlement with the tax authorities. These estimates may change due to changing facts and circumstances; however, due to the complexity of these uncertainties, the ultimate resolution may result in a settlement that differs from our current estimate of tax liabilities and related interest. If our current estimate of tax and interest liabilities is less than the ultimate settlement, an additional charge to income tax expense may result. If our current estimate of tax and interest liabilities is more than the ultimate settlement, income tax benefits may be recognized.

If our assumptions and estimates described above were to change, an increase/decrease of 1% in our effective tax rate as applied to income from continuing operations would have increased/decreased tax expense by approximately \$19 million, or \$0.08 per diluted share, for 2013.

Share-Based Compensation: Our compensation programs include share-based compensation. We account for all share-based compensation transactions using a fair-value based measurement method. The share-based compensation expense, for the portion of the awards that is ultimately expected to vest, is recognized on a straight-line basis over the requisite service period.

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McKESSON CORPORATION

FINANCIAL REVIEW (Continued)

We estimate the grant-date fair value of employee stock options using the Black-Scholes options-pricing model. Our estimates of employee stock option values rely on assumptions we input into the model. The key assumptions involve estimates of future uncertain events. The key assumptions influencing the fair value estimates, among others, are the expected life of the option, the expected stock price volatility and the expected dividend yield. In determining the expected life of the option, we primarily use historical experience as our best estimate of future exercise patterns. We use a combination of historical and implied market volatility to determine the expected stock price volatility factor. We believe that the combination of both historical and implied volatility provides a reasonable estimate of our future stock price movements. Once the fair values of employee stock options are determined, accounting requirements do not permit them to be changed, even if the estimates used are different from actual experience.

In addition, we develop an estimate of the number of share-based awards which will ultimately vest primarily based on historical experience. Changes in the estimated forfeiture rate can have a material effect on share-based compensation expense. If the actual forfeiture rate materially differs from the estimated forfeiture rate, then an adjustment is made to revise the estimated forfeiture rate, which will result in an increase or decrease to the expense recognized in the financial statements. We re-assess the estimated forfeiture rate established upon grant periodically throughout the requisite service period. Forfeiture estimates are adjusted to reflect actual forfeitures when an award vests. The actual forfeitures in future reporting periods could be materially higher or lower than our current estimates. Our assessments of estimated share-based compensation expense are affected by our stock price as well as assumptions regarding a number of complex and subjective variables and the related tax impact. These variables include the volatility of our stock price, employee stock option exercise behavior, timing, number and types of annual share-based awards, the attainment of performance goals and the forfeiture rates. As a result, future share-based compensation expense may differ from the Company's historical amounts.

Loss Contingencies: We are subject to various claims, other pending and potential legal actions for damages, investigations relating to governmental laws and regulations and other matters arising out of the normal conduct of our business. When a loss is considered probable and reasonably estimable, we record a liability in the amount of our best estimate for the ultimate loss. However, the likelihood of a loss with respect to a particular contingency is often difficult to predict and determining a meaningful estimate of the loss or a range of loss may not be practicable based on the information available and the potential effect of future events and decisions by third parties that will determine the ultimate resolution of the contingency. Moreover, it is not uncommon for such matters to be resolved over many years, during which time relevant developments and new information must be reevaluated at least quarterly to determine both the likelihood of potential loss and whether it is possible to reasonably estimate a range of possible loss. When a loss is probable but a reasonable estimate cannot be made, disclosure of the proceeding is provided. Disclosure also is provided when it is reasonably possible that a loss will be incurred or when it is reasonably possible that the amount of a loss will exceed the recorded provision. We review all contingencies at least quarterly to determine whether the likelihood of loss has changed and to assess whether a reasonable estimate of the loss or range of the loss can be made. As discussed above, development of a meaningful estimate of loss or a range of potential loss is complex when the outcome is directly dependent on negotiations with or decisions by third parties, such as regulatory agencies, the court system and other interested parties. Such factors bear directly on whether it is possible to reasonably estimate a range of potential loss and boundaries of high and low estimate.

FINANCIAL CONDITION, LIQUIDITY AND CAPITAL RESOURCES

We expect our available cash generated from operations, together with our existing sources of liquidity from our accounts receivable sales facility, revolving credit facility and commercial paper issuance, will be sufficient to fund our long-term and short-term capital expenditures, working capital and other cash requirements. In addition, we may access the long-term debt capital markets from time-to-time.

Net cash flow from operating activities was \$2,483 million in 2013 compared to \$2,950 million in 2012 and \$2,338 million in 2011. Operating activities for 2013 were primarily affected by \$483 million of payments made for AWP litigation settlements.

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McKESSON CORPORATION

FINANCIAL REVIEW (Continued)

Operating activities for 2012 reflect an increase in drafts and accounts payable primarily associated with longer payment terms for certain purchases, partially offset by an increase in receivables and higher inventories primarily associated with revenue growth.

Operating activities for 2011 reflect an increase in receivables primarily associated with revenue growth, partially offset by improved management of inventories and longer payment terms for certain purchases.

Cash flows from operations can be significantly impacted by factors such as the timing of receipts from customers and payments to vendors.

Net cash used in investing activities was \$2,209 million in 2013 compared to \$1,502 million in 2012 and \$624 million in 2011. Investing activities for 2013 included \$1,873 million of cash payments for acquisitions, including \$1,299 million for our acquisition of PSS World Medical. Investing activities in 2013 also included \$246 million and \$160 million in capital expenditures for property acquisitions and capitalized software.

Investing activities for 2012 included \$1,156 million of cash payments for acquisitions, including \$919 million for our acquisition of the Katz Assets. Investing activities in 2012 also included \$225 million and \$178 million in capital expenditures for property acquisitions and capitalized software.

Investing activities for 2011 included \$292 million of cash payments for acquisitions, including \$244 million for our acquisition of US Oncology, and \$109 million of cash received from the sale of MAP. Investing activities in 2011 also included \$233 million and \$155 million in capital expenditures for property acquisitions and capitalized software.

Financing activities utilized cash of \$956 million in 2013 compared to \$1,905 million in 2012 and \$1,841 million in 2011. Financing activities for 2013 include cash receipts of \$1,325 million and cash paid of \$1,725 million from short-term borrowings. In addition, in connection with our acquisition of PSS World Medical, we borrowed \$900 million for bridge financing in February 2013, which was fully repaid in March 2013. Financing activities for 2013 also include cash receipts of \$1,798 million for the issuance of long-term debt and cash paid of \$1,143 million for repayments of long-term debt. In December 2012, we issued \$500 million of 0.95% Notes due 2015 and \$400 million of 2.70% Notes due 2022. In March 2013, we issued \$500 million of 1.40% Notes due 2018 and \$400 million of 2.85% Notes due 2023. Long-term debt repayments include \$500 million paid on the maturity of our 5.25% Notes due in March 2013 and \$635 million paid to redeem the debt acquired on the acquisition of PSS World Medical. Additionally, financing activities for 2013 included \$1,214 million of cash paid for stock repurchases and \$194 million of dividends paid.

Financing activities for 2012 included \$1,874 million of cash paid for share repurchases, \$400 million of cash paid on the maturity of our 7.75% Notes in February 2012, \$195 million of dividends paid, \$400 million of cash receipts from secured borrowings and \$167 million of cash receipts from employees' exercises of stock options.

Financing activities for 2011 reflect \$1,689 million of cash received from the issuance of long-term debt. In February 2011, we issued \$600 million of 3.25% notes due 2016, \$600 million of 4.75% notes due 2021, and \$500 million of 6.00% notes due 2041. Net proceeds from the issuance of the long-term notes, after discounts and offering expenses, were used to pay off the \$1,730 million of debt assumed as part of the acquisition of US Oncology. Also as part of our acquisition of US Oncology, we borrowed \$1,000 million for bridge financing which was fully repaid by February 2011. Financing activities for 2011 also included \$2,050 million of cash paid for share repurchases, \$171 million of cash paid for dividends and \$367 million of cash receipts from employees' exercises of stock options.

The Company's Board has authorized the repurchase of McKesson's common stock from time-to-time in open market transactions, privately negotiated transactions, through accelerated share repurchase ("ASR") programs, or by any combination of such methods. The timing of any repurchases and the actual number of shares repurchased will depend on a variety of factors, including our stock price, corporate and regulatory requirements, restrictions under our debt obligations and other market and economic conditions.

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McKESSON CORPORATION

FINANCIAL REVIEW (Continued)

The Board authorized the repurchase of the Company's common stock as follows: \$1.0 billion in April 2010, \$1.0 billion in October 2010, \$1.0 billion in April 2011, \$650 million in January 2012, \$700 million in April 2012 and \$500 million in January 2013. Total share repurchases transacted through ASR programs and open market transactions over the last three years were as follows:

(In millions, except per share data)	Years Ended March 31,		
	2013	2012	2011
Number of shares repurchased ⁽¹⁾	13	20	29
Average price paid per share	\$100.82	\$83.47	\$69.62
Total value of shares repurchased ⁽¹⁾	\$1,159	\$1,850	\$2,032

(1) Excludes shares surrendered for tax withholding.

The total authorization outstanding for repurchases of the Company's common stock was \$340 million at March 31, 2013.

During the fourth quarter of 2013, we retired 1.8 million shares repurchased for \$217 million by the Company. The retired shares constitute authorized but unissued shares. We elected to allocate any excess of share repurchase price over par value between additional paid-in capital and retained earnings. As such, \$195 million was recorded as a decrease to retained earnings.

We believe that our operating cash flow, financial assets and current access to capital and credit markets, including our existing credit facilities, will give us the ability to meet our financing needs for the foreseeable future. However, there can be no assurance that continued or increased volatility and disruption in the global capital and credit markets will not impair our liquidity or increase our costs of borrowing.

Selected Measures of Liquidity and Capital Resources:

(Dollars in millions)	March 31,		
	2013	2012	2011
Cash and cash equivalents	\$2,456	\$3,149	\$3,612
Working capital	1,813	1,917	3,631
Debt, net of cash and cash equivalents	2,417	831	392
Debt to capital ratio ⁽¹⁾	40.8	% 36.8	% 35.7
Net debt to net capital employed ⁽²⁾	25.5	10.8	5.1
Return on stockholders' equity ⁽³⁾	18.3	19.7	16.9

(1) Ratio is computed as total debt divided by the sum of total debt and stockholders' equity.

(2) Ratio is computed as total debt, net of cash and cash equivalents ("net debt"), divided by the sum of net debt and stockholders' equity ("net capital employed").

(3) Ratio is computed as net income for the last four quarters, divided by a five-quarter average of stockholders' equity.

Cash equivalents, which are available-for-sale, are carried at fair value. Cash equivalents are primarily invested in AAA rated prime and U.S. government money market funds denominated in U.S. dollars, Canadian government securities, overnight repurchase agreements collateralized by U.S. Treasury bonds, Canadian government securities and/or securities that are guaranteed or sponsored by the U.S. government and an AAA rated prime money market fund denominated in British pound sterling.

The remaining cash and cash equivalents are deposited with several financial institutions. Deposits at U.S. banks exceed the amount insured by the Federal Deposit Insurance Corporation. We mitigate the risk of our short-term investment portfolio by depositing funds with reputable financial institutions and monitoring risk profiles and investment strategies of money market funds.

Our cash and equivalents balance as of March 31, 2013 included approximately \$1.5 billion of cash held by our subsidiaries outside of the United States. Our primary intent is to utilize this cash in the foreign operations as well as to fund certain research and development activities for an indefinite period of time. Although the vast majority of cash held outside the United States is available for repatriation, doing so could subject us to U.S. federal, state and

local income tax. During the fourth quarter of 2011 and pursuant to IRS regulations, we temporarily borrowed and repaid \$1.0 billion of cash held by our subsidiaries outside the United States. The duration of this temporary loan to the United States was less than 60 days.

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McKESSON CORPORATION

FINANCIAL REVIEW (Continued)

Working capital primarily includes cash and cash equivalents, receivables and inventories net of drafts and accounts payable, short-term borrowings, deferred revenue and other current liabilities. Our Distribution Solutions segment requires a substantial investment in working capital that is susceptible to large variations during the year as a result of inventory purchase patterns and seasonal demands. Inventory purchase activity is a function of sales activity and other requirements.

Consolidated working capital decreased at March 31, 2013 compared to March 31, 2012 primarily due to decrease in cash and cash equivalents balance. Consolidated working capital decreased at March 31, 2012 compared to March 31, 2011, primarily due to increases in drafts and accounts payable and other accrued liabilities, partially offset by increases in receivables and inventories.

Our ratio of net debt to net capital employed increased at March 31, 2013 compared to March 31, 2012 primarily due to lower cash and cash equivalents balance. Our ratio of net debt to net capital employed increased at March 31, 2012 compared to March 31, 2011 primarily due to a lower cash and cash equivalents balance.

In April 2011, the quarterly dividend was raised from \$0.18 to \$0.20 per common share for dividends declared after such date, until further action by the Board. Dividends were \$0.80 per share in 2013 and 2012, and \$0.72 per share in 2011. The Company anticipates that it will continue to pay quarterly cash dividends in the future. However, the payment and amount of future dividends remain within the discretion of the Board and will depend upon the Company's future earnings, financial condition, capital requirements and other factors. In 2013, 2012 and 2011, we paid total cash dividends of \$194 million, \$195 million and \$171 million.

Contractual Obligations:

The table below presents our significant financial obligations and commitments at March 31, 2013:

(In millions)	Total	Years Within 1	Over 1 to 3	Over 3 to 5	After 5
On balance sheet					
Long-term debt ⁽¹⁾	\$4,873	\$352	\$1,101	\$1,001	\$2,419
Other ⁽²⁾	465	27	203	79	156
Off balance sheet					
Interest on borrowings ⁽³⁾	1,841	200	353	280	1,008
Purchase obligations ⁽⁴⁾	473	423	50	—	—
Operating lease obligations ⁽⁵⁾	851	213	283	153	202
Other ⁽⁶⁾	280	153	78	1	48
Total	\$8,783	\$1,368	\$2,068	\$1,514	\$3,833

(1) Represents maturities of the Company's long-term obligations including an immaterial amount of capital lease obligations.

(2) Represents our estimated benefit payments, including assumed executive lump sum payments, for the unfunded benefit plans and minimum funding requirements for the pension plans. Actual lump sum payments could significantly differ from the estimated amounts depending on the timing of executive retirements and the lump sum interest rate in effect upon retirement.

(3) Primarily represents interest that will become due on our fixed rate long-term debt obligations.

A purchase obligation is defined as an arrangement to purchase goods or services that is enforceable and legally binding on the Company. These obligations primarily relate to inventory purchases, capital commitments and service agreements.

(5) Represents minimum rental payments for operating leases.

Includes agreements with certain of our Canadian customers' financial institutions under which we have guaranteed the repurchase of our customers' inventory of \$155 million and our customers' debt of \$53 million in the event these customers are unable to meet their obligations to those financial institutions.

At March 31, 2013, the liability recorded for uncertain tax positions, excluding associated interest and penalties, was approximately \$453 million. Since the ultimate amount and timing of any future cash settlements cannot be predicted with reasonable certainty, the estimated liability has been excluded from the contractual obligations table.

In addition, at March 31, 2013, our banks and insurance companies have issued \$98 million of standby letters of credit and surety bonds, which were issued on our behalf mostly related to our customer contracts and in order to meet the security requirements for statutory licenses and permits, court and fiduciary obligations and our workers' compensation and automotive liability programs.

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McKESSON CORPORATION

FINANCIAL REVIEW (Continued)

Credit Resources:

We fund our working capital requirements primarily with cash and cash equivalents, as well as short-term borrowings under the accounts receivable sales facility, revolving credit facility and from commercial paper issuances.

Senior Bridge Term Loan Facility

In connection with our acquisition of PSS World Medical, in December 2012 we entered into a \$2.1 billion unsecured Senior Bridge Term Loan Agreement (“2013 Bridge Loan”). In February 2013, we reduced the 2013 Bridge Loan commitment to \$900 million. On February 22, 2013, we borrowed \$900 million under the 2013 Bridge Loan. The proceeds from the 2013 Bridge Loan and our existing cash on hand were used to redeem the assumed debt from PSS World Medical and pay the equity shareholders of PSS World Medical. On March 8, 2013, we repaid the 2013 Bridge Loan with the funds obtained from the issuance of long-term debt and the 2013 Bridge Term Loan Agreement was terminated. During the time it was outstanding, the 2013 Bridge Loan balance bore interest of 1.20% per annum, based on the London Interbank Offered Rate plus a margin based on the Company's credit rating. Corporate interest expense for 2013 includes \$11 million related to fees incurred on the 2013 Bridge Loan.

In connection with our execution of an agreement to acquire US Oncology, in November 2010 we entered into a \$2.0 billion unsecured Senior Bridge Term Loan Agreement (“2011 Bridge Loan”). In December 2010, we reduced the 2011 Bridge Loan commitment to \$1.0 billion. On January 31, 2011, we borrowed \$1.0 billion under the 2011 Bridge Loan. On February 28, 2011, we repaid the 2011 Bridge Loan with the funds obtained from the issuance of long-term debt and the 2011 Bridge Term Loan Agreement was terminated. During the time it was outstanding, the 2011 Bridge Loan bore interest of 1.76% per annum, based on the London Interbank Offered Rate plus a margin based on the Company's credit rating. Corporate interest expense for 2011 includes \$25 million related to fees incurred on the 2011 Bridge Loan.

PSS World Medical Debt Acquired

Upon our purchase of PSS World Medical in February 2013, we assumed the outstanding debt of PSS World Medical. Prior to our acquisition, PSS World Medical called for redemption of all its outstanding 6.375% Senior Notes due 2022. Due to the change in control provisions of the 3.125% Senior Convertible Notes due 2014, the notes were convertible to cash at the option of the note holders. All the note holders opted to receive cash. In the fourth quarter of 2013, we redeemed both of these notes, including accrued interest for \$643 million using cash on hand and borrowings under our 2013 Bridge Loan.

US Oncology Debt Acquired

Upon our purchase of US Oncology in December 2010, we assumed the outstanding debt of US Oncology Holdings, Inc. and its wholly-owned subsidiary US Oncology, Inc. Immediately prior to our acquisition, US Oncology Holdings, Inc. called for redemption of all of its outstanding Senior Unsecured Floating Rate Toggle Notes due 2012 and US Oncology, Inc. called for redemption of all of its outstanding 9.125% Senior Secured Notes due 2017 and 10.75% Senior Subordinated Notes due 2014. In the fourth quarter of 2011, we paid interest of \$50 million and redeemed these notes, including the remaining accrued interest for \$1,738 million using cash on hand and borrowings under our 2011 Bridge Loan.

Long-Term Debt

On March 8, 2013, we issued 1.40% notes due March 15, 2018 in an aggregate principal amount of \$500 million and 2.85% notes due March 15, 2023 in an aggregate principal amount of \$400 million. Interest on these notes is payable on March 15 and September 15 of each year beginning on September 15, 2013. We utilized net proceeds, after discounts and offering expenses, of \$891 million from the issuance of these notes to repay borrowings under the 2013 Bridge Loan.

On December 4, 2012, we issued 0.95% notes due December 4, 2015 in an aggregate principal amount of \$500 million (“Notes due 2015”) and 2.70% notes due December 15, 2022 in an aggregate principal amount of \$400 million (“Notes due 2022”). Interest on the Notes due 2015 is payable on June 4 and December 4 of each year beginning on June 4, 2013 and on the Notes due 2022 is payable on June 15 and December 15 of each year beginning

on June 15, 2013. We utilized net proceeds, after discounts and offering expenses, of \$892 million from the issuance of these notes for general corporate purposes and replenishing working capital that was used to repay long-term debt that matured in February 2012 and in March 2013.

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McKESSON CORPORATION

FINANCIAL REVIEW (Continued)

On February 28, 2011, we issued 3.25% notes due March 1, 2016 in an aggregate principal amount of \$600 million, 4.75% notes due on March 1, 2021 in an aggregate principal amount of \$600 million and 6.00% notes due March 1, 2041 in an aggregate principal amount of \$500 million. Interest on these notes is paid on March 1 and September 1 of each year. We utilized net proceeds, after discounts and offering expenses, of \$1,673 million from the issuance of these notes for general corporate purposes, including the repayment of borrowings under the 2011 Bridge Loan. We repaid our \$500 million 5.25% Notes on March 1, 2013 and our \$400 million 7.75% Notes on February 1, 2012, both of which had matured.

Accounts Receivable Sales Facility

In May 2012, we renewed our existing accounts receivable sales facility (the “Facility”) for a one year period under terms substantially similar to those previously in place. The committed balance of the Facility is \$1.35 billion, although from time-to-time, the available amount of the Facility may be less than \$1.35 billion based on accounts receivable concentration limits and other eligibility requirements. The renewed Facility will expire in May 2013. We anticipate extending or renewing the Facility before its expiration.

There were no borrowings in 2011 under the Facility. During 2012, we borrowed \$400 million under the Facility. At March 31, 2012, there were \$400 million in secured borrowings and \$400 million of related securitized accounts receivable outstanding under the Facility, which are included in short-term borrowings and receivables in the consolidated balance sheets. During the first quarter of 2013, these short-term borrowings were repaid using cash on hand. In addition, during 2013, we borrowed a total of \$1,325 million under the Facility, all of which was repaid during the year using cash on hand. At March 31, 2013, there were no secured borrowings and related securitized accounts receivable outstanding under the Facility.

Revolving Credit Facility

In September 2011, we renewed our existing syndicated \$1.3 billion five-year senior unsecured revolving credit facility. This renewed credit facility has terms and conditions substantially similar to those previously in place and matures in September 2016. Borrowings under this renewed credit facility bear interest based upon either the London Interbank Offered Rate or a prime rate. There were no borrowings under this credit facility during 2013, 2012 and 2011. As of March 31, 2013 and 2012, there were no borrowings outstanding under this credit facility.

Commercial Paper

There were no commercial paper issuances during 2013, 2012 and 2011 and no amounts outstanding at March 31, 2013 and 2012.

Debt Covenants

Our various borrowing facilities and long-term debt are subject to certain covenants. Our principal debt covenant is our debt to capital ratio under our unsecured revolving credit facility, which cannot exceed 56.5%. For the purpose of calculating this ratio, borrowings under the accounts receivable sales facility are excluded. If we exceed this ratio, repayment of debt outstanding under the revolving credit facility could be accelerated. As of March 31, 2013, we were in compliance with our financial covenants. A reduction in our credit ratings, or the lack of compliance with our covenants, could negatively impact our ability to finance operations or issue additional debt at acceptable interest rates.

Funds necessary for future debt maturities and our other cash requirements are expected to be met by existing cash balances, cash flow from operations, existing credit sources and other capital market transactions.

Additional information regarding our accounts receivable sales facility is included in Financial Notes 1 and 14, “Significant Accounting Policies” and “Debt and Financing Activities,” to the consolidated financial statements appearing in this Annual Report on Form 10-K.

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McKESSON CORPORATION

FINANCIAL REVIEW (Concluded)

RELATED PARTY BALANCES AND TRANSACTIONS

Information regarding our related party balances and transactions is included in Financial Note 24, "Related Party Balances and Transactions," to the consolidated financial statements appearing in this Annual Report on Form 10-K.

NEW ACCOUNTING PRONOUNCEMENTS

New accounting pronouncements that we have recently adopted, as well as those that have been recently issued but not yet adopted by us, are included in Financial Note 1, "Significant Accounting Policies," to the consolidated financial statements appearing in this Annual Report on Form 10-K.

Item 7A. Quantitative and Qualitative Disclosures about Market Risk

Interest rate risk: Our long-term debt bears interest predominately at fixed rates, whereas our short-term borrowings are at variable interest rates. If the underlying weighted average interest rate on our variable rate debt were to have changed by a hypothetical 50 bp in 2013, interest expense would not have been materially different from that reported. Our cash and cash equivalents balances earn interest at variable rates. Should interest rates decline, our interest income may be negatively impacted. If the underlying weighted average interest rate on our cash and cash equivalents balances changed by 50 bp in 2013, interest income would have increased or decreased by approximately \$12 million. The selected hypothetical change in interest rates does not reflect what could be considered the best or worst case scenarios.

As of March 31, 2013 and 2012, the net fair value liability of financial instruments with exposure to interest rate risk was approximately \$5.5 billion and \$4.1 billion. The estimated fair value of our long-term debt and other financing was determined using quoted market prices and other inputs that were derived from available market information and may not be representative of actual values that could have been realized or that will be realized in the future. Fair value is subject to fluctuations based on our performance, our credit ratings, changes in the value of our stock and changes in interest rates for debt securities with similar terms.

Foreign exchange risk: We record revenues and earnings from Canada, the United Kingdom, Ireland, other European countries, Israel and Mexico, which exposes us to changes in foreign exchange rates. We seek to manage our foreign exchange risk in part through operational means, including managing same currency revenues in relation to same currency costs, and same currency assets in relation to same currency liabilities. Foreign exchange risk is also managed through the use of foreign currency forward-exchange contracts. These contracts are used to offset the potential earnings effects from mostly intercompany foreign currency investments and loans. As of March 31, 2013, a hypothetical adverse 10% change in quoted foreign currency exchange rates would not have had a material impact on our net fair value of financial instruments that have exposure to foreign currency risk.

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McKESSON CORPORATION

MANAGEMENT'S ANNUAL REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

The management of McKesson Corporation is responsible for establishing and maintaining an adequate system of internal control over financial reporting, as such term is defined in Exchange Act Rules 13a-15(f) and 15d-15(f). With the participation of the Chief Executive Officer and the Chief Financial Officer, our management conducted an assessment of the effectiveness of our internal control over financial reporting based on the framework and criteria established in Internal Control - Integrated Framework, issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this assessment, our management has concluded that our internal control over financial reporting was effective as of March 31, 2013.

Deloitte & Touche LLP, an independent registered public accounting firm, audited the financial statements included in this Annual Report on Form 10-K and has also audited the effectiveness of the Company's internal control over financial reporting as of March 31, 2013. This audit report appears on page 52 of this Annual Report on Form 10-K. May 7, 2013

/s/ John H. Hammergren
John H. Hammergren
Chairman of the Board, President and Chief Executive
Officer
(Principal Executive Officer)

/s/ Jeffrey C. Campbell
Jeffrey C. Campbell
Executive Vice President and Chief Financial Officer
(Principal Financial Officer)

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McKESSON CORPORATION

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of McKesson Corporation:

We have audited the accompanying consolidated balance sheets of McKesson Corporation and subsidiaries (the "Company") as of March 31, 2013 and 2012, and the related consolidated statements of operations, comprehensive income, stockholders' equity, and cash flows for each of the three fiscal years in the period ended March 31, 2013. Our audits also included the consolidated financial statement schedule ("financial statement schedule") listed in the Index at Item 15. We also have audited the Company's internal control over financial reporting as of March 31, 2013, based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. The Company's management is responsible for these financial statements and financial statement schedule, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Annual Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on these financial statements and financial statement schedule, and an opinion on the Company's internal control over financial reporting based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

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

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of McKesson Corporation and subsidiaries as of March 31, 2013 and 2012, and the results of their operations and their cash flows for each of the three fiscal years in the period ended March 31, 2013, in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, such financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein. Also, in our opinion, the Company

maintained, in all material respects, effective internal control over financial reporting as of March 31, 2013, based on the criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission.

/s/ Deloitte & Touche LLP
San Francisco, California
May 7, 2013

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McKESSON CORPORATION

CONSOLIDATED STATEMENTS OF OPERATIONS

(In millions, except per share amounts)

	Years Ended March 31,		
	2013	2012	2011
Revenues	\$122,455	\$122,734	\$112,084
Cost of Sales	(115,471)	(116,167)	(106,114)
Gross Profit	6,984	6,567	5,970
Operating Expenses			
Selling	(805)	(764)	(767)
Distribution	(1,042)	(997)	(920)
Research and development	(480)	(440)	(407)
Administrative	(2,351)	(2,068)	(1,842)
Litigation charges	(72)	(149)	(213)
Gain on business combination	81	—	—
Total Operating Expenses	(4,669)	(4,418)	(4,149)
Operating Income	2,315	2,149	1,821
Other Income, Net	35	21	36
Impairment of an Equity Investment	(191)	—	—
Interest Expense	(240)	(251)	(222)
Income from Continuing Operations Before Income Taxes	1,919	1,919	1,635
Income Tax Expense	(581)	(516)	(505)
Income from Continuing Operations	1,338	1,403	1,130
Discontinued Operation – gain on sale, net of tax	—	—	72
Net Income	\$1,338	\$1,403	\$1,202
Earnings Per Common Share			
Diluted			
Continuing operations	\$5.59	\$5.59	\$4.29
Discontinued operation – gain on sale	—	—	0.28
Total	\$5.59	\$5.59	\$4.57
Basic			
Continuing operations	\$5.71	\$5.70	\$4.37
Discontinued operation – gain on sale	—	—	0.28
Total	\$5.71	\$5.70	\$4.65
Weighted Average Common Shares			
Diluted	239	251	263
Basic	235	246	258

See Financial Notes

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McKESSON CORPORATION

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(In millions)

	Years Ended March 31,		
	2013	2012	2011
Net Income	\$1,338	\$1,403	\$1,202
Other Comprehensive Income (Loss), net of tax			
Foreign currency translation adjustments, net of income tax expense (benefit) of (\$2), \$2 and \$2	(52	) (56	) 76
Unrealized losses on cash flow hedges, net of income tax benefit of nil, nil and nil	—	(5) —
Retirement related benefit plans, net of income tax expense (benefit) of (\$10), (\$9) and \$3	(18	) (21	) 5
Other Comprehensive Income (Loss), net of tax	(70	) (82	) 81
Comprehensive Income	\$1,268	\$1,321	