MCKESSON CORP
Form 10-Q
October 26, 2010

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2010

o **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)

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

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 þ No o

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

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

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

Indicate the number of shares outstanding of each of the issuer s classes of common stock, as of the latest practicable date.

Class	**Outstanding as of September 30, 2010**

Common stock, $0.01 par value	**253,063,045 shares**

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PART I. FINANCIAL INFORMATION
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(In millions, except per share amounts)
(Unaudited)

	Quarter Ended September 30,		Six Months Ended September 30,	
	2010	2009	2010	2009
Revenues	$ 27,534	$ 27,130	$ 54,984	$ 53,787
Cost of Sales	26,168	25,795	52,226	51,149
Gross Profit	1,366	1,335	2,758	2,638
Operating Expenses	925	888	1,843	1,732
Litigation Charge (Credit)	24	(20)	24	(20)
Total Operating Expenses	949	868	1,867	1,712
Operating Income	417	467	891	926
Other Income, Net	3	4	12	14
Interest Expense	(44)	(47)	(87)	(95)
Income from Continuing Operations Before Income Taxes	376	424	816	845
Income Tax Expense	(121)	(123)	(263)	(256)
Income from Continuing Operations	255	301	553	589
Discontinued Operation gain on sale, net of tax	72		72	
Net Income	$ 327	$ 301	$ 625	$ 589
Earnings Per Common Share				
Diluted				
Continuing operations	$ 0.97	$ 1.11	$ 2.07	$ 2.17
Discontinued operation gain on sale	0.28		0.27	
Total	$ 1.25	$ 1.11	$ 2.34	$ 2.17
Basic				
Continuing operations	$ 0.99	$ 1.13	$ 2.11	$ 2.19
Discontinued operation gain on sale	0.28		0.28	
Total	$ 1.27	$ 1.13	$ 2.39	$ 2.19
Dividends Declared Per Common Share	$ 0.18	$ 0.12	$ 0.36	$ 0.24
Weighted Average Common Shares				
Diluted	262	271	267	272

Basic	258	267	262	268

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McKESSON CORPORATION
CONDENSED CONSOLIDATED BALANCE SHEETS
(In millions, except per share amounts)
(Unaudited)

	September 30, 2010	March 31, 2010
ASSETS		
Current Assets		
Cash and cash equivalents	$ 3,050	$ 3,731
Receivables, net	8,175	8,075
Inventories, net	8,763	9,441
Prepaid expenses and other	256	257
Total	20,244	21,504
Property, Plant and Equipment, Net	860	851
Capitalized Software Held for Sale, Net	155	234
Goodwill	3,529	3,568
Intangible Assets, Net	520	551
Other Assets	1,484	1,481
Total Assets	$ 26,792	$ 28,189
LIABILITIES AND STOCKHOLDERS EQUITY		
Current Liabilities		
Drafts and accounts payable	$ 12,834	$ 13,255
Deferred revenue	1,066	1,218
Deferred tax liabilities	1,074	977
Other accrued liabilities	1,411	1,562
Total	16,385	17,012
Long-Term Debt	2,279	2,293
Other Noncurrent Liabilities	1,313	1,352
Other Commitments and Contingent Liabilities (Note 12)		
Stockholders Equity		
Preferred stock, $0.01 par value, 100 shares authorized, no shares issued or outstanding		
Common stock, $0.01 par value		
Shares authorized: September 30, 2010 and March 31, 2010 800		
Shares issued: September 30, 2010 364 and March 31, 2010 359	4	4
Additional Paid-in Capital	5,062	4,756

Retained Earnings	7,767	7,236
Accumulated Other Comprehensive Income (Loss)	(2)	6
Other	(11)	(12)
Treasury Shares, at Cost, September 30, 2010 111 and March 31, 2010 88	(6,005)	(4,458)
Total Stockholders Equity	6,815	7,532
Total Liabilities and Stockholders Equity	$ 26,792	$ 28,189

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McKESSON CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(In millions)
(Unaudited)

	Six Months Ended September 30,	
	2010	**2009**
Operating Activities		
Net income	$ 625	$ 589
Discontinued operation gain on sale, net of tax	(72)	
Adjustments to reconcile to net cash provided by operating activities:		
Depreciation and amortization	238	224
Asset impairment charge capitalized software held for sale	72	
Share-based compensation expense	66	53
Other non-cash items	81	100
Changes in operating assets and liabilities:		
Receivables	(145)	51
Inventories	662	24
Drafts and accounts payable	(417)	811
Deferred revenue	(178)	(194)
Other	(134)	(125)
Net cash provided by operating activities	798	1,533
Investing Activities		
Property acquisitions	(107)	(93)
Capitalized software expenditures	(75)	(96)
Proceeds from sale of business	109	
Other	(22)	(3)
Net cash used in investing activities	(95)	(192)
Financing Activities		
Common stock share repurchases, including shares surrendered for tax withholding	(1,547)	(322)
Common stock issuances	194	108
Dividends paid	(80)	(66)
Other	57	13
Net cash used in financing activities	(1,376)	(267)
Effect of exchange rate changes on cash and cash equivalents	(8)	32
Net increase (decrease) in cash and cash equivalents	(681)	1,106
Cash and cash equivalents at beginning of period	3,731	2,109
Cash and cash equivalents at end of period	$ 3,050	$ 3,215

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McKESSON CORPORATION
FINANCIAL NOTES
(UNAUDITED)

1. Significant Accounting Policies

Basis of Presentation: The condensed consolidated financial statements of McKesson Corporation (McKesson, the Company, or we and other similar pronouns) include the financial statements of all wholly-owned subsidiaries and majority-owned or controlled companies. Intercompany transactions and balances have been eliminated. The condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) for interim financial reporting and the rules and regulations of the U.S. Securities and Exchange Commission (SEC) and, therefore, do not include all information and footnote disclosures normally included in the annual consolidated financial statements.

To prepare the financial statements in conformity with GAAP, management must make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of these financial statements and income and expenses during the reporting period. Actual amounts may differ from these estimated amounts. In our opinion, these unaudited condensed consolidated financial statements include all adjustments necessary for a fair presentation of the Company s financial position as of September 30, 2010, the results of operations for the quarters and six months ended September 30, 2010 and 2009 and cash flows for the six months ended September 30, 2010 and 2009.

The results of operations for the quarter and six months ended September 30, 2010 are not necessarily indicative of the results that may be expected for the entire year. These interim financial statements should be read in conjunction with the annual audited financial statements, accounting policies and financial notes included in our Annual Report on Form 10-K for the fiscal year ended March 31, 2010 previously filed with the SEC on May 4, 2010 (2010 Annual Report). Certain prior period amounts have been reclassified to conform to the current period presentation.

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.

Recently Adopted Accounting Pronouncements

Accounting for Transfers of Financial Assets: On April 1, 2010, we adopted amended accounting guidance for transfers of financial assets, including securitization transactions, in which entities have continued exposure to risks related to transferred financial assets. This amendment changed the requirements for derecognizing financial assets and expanded the disclosure requirements for such transactions. As a result of the amended accounting guidance, from April 1, 2010 forward, accounts receivable transactions under our accounts receivable securitization facility are accounted for as secured borrowings rather than asset sales. Refer to Financial Note 8, Financing Activities, for additional information.

Consolidations: On April 1, 2010, we adopted amended accounting guidance for consolidation of Variable Interest Entities (VIEs). The new guidance eliminates the quantitative approach previously required for determining the primary beneficiary of a VIE and requires ongoing qualitative reassessments of whether an enterprise is the primary beneficiary, including ongoing assessments of control over such entities. The adoption of this amended guidance did not have a material effect on our condensed consolidated financial statements.

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McKESSON CORPORATION
FINANCIAL NOTES (CONTINUED)
(UNAUDITED)

Newly Issued Accounting Pronouncements

In October 2009, the Financial Accounting Standards Board (FASB) issued amended accounting guidance for multiple-deliverable revenue arrangements. The amended guidance affects the determination of when individual deliverables included in a multiple-element arrangement may be treated as separate units of accounting. In addition, the amended guidance modifies the manner in which the transaction consideration is allocated across separately identified deliverables, eliminates the use of the residual value method of allocating arrangement consideration and requires expanded disclosure. The amended guidance will become effective for us for multiple-element arrangements entered into or materially modified on or after April 1, 2011. Earlier application is permitted with required transition disclosures based on the period of adoption. We are currently evaluating the application date and the effect of the amended guidance on our condensed consolidated financial statements.

In October 2009, the FASB issued amended accounting guidance for certain revenue arrangements that include software elements. The guidance amends pre-existing software revenue recognition guidance by removing from its scope tangible products that contain both software and non-software components that function together to deliver the product s functionality. The amended guidance will become effective for us for revenue arrangements entered into or materially modified on or after April 1, 2011. Earlier application is permitted with required transition disclosures based on the period of adoption. We are currently evaluating the application date and the effect of the amended guidance on our condensed consolidated financial statements. Both the revenue recognition guidance for multiple-element arrangements and this software guidance must be adopted in the same period and must use the same transition disclosures.

In April 2010, the FASB issued amended accounting guidance for vendors who apply the milestone method of revenue recognition to research and development arrangements. The amended guidance applies to arrangements with payments that are contingent upon achieving substantively uncertain future events or circumstances. The amended guidance is effective on a prospective basis for us for milestones achieved on or after April 1, 2011. Earlier application is permitted. We are currently evaluating the application date and the effect of the amended guidance on our condensed consolidated financial statements.

In July 2010, the FASB issued amended accounting guidance which expands disclosures regarding the credit quality of an entity s receivables portfolio and its related allowance for credit losses. The amended guidance is effective for us commencing in the third quarter of 2011. We are currently evaluating the effect of the amended guidance on our condensed consolidated financial statements.

2. Asset Impairment Charge Capitalized Software Held for Sale

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 Horizon Enterprise Revenue Management ™ (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 at September 30, 2010 within our Technology Solutions segment s cost of sales to reduce the carrying value of the software product to its net realizable value.

McKESSON CORPORATION
FINANCIAL NOTES (CONTINUED)
(UNAUDITED)

3. Discontinued Operation

In July 2010, our Technology Solutions segment sold its wholly-owned subsidiary, McKesson Asia Pacific Pty Limited (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 condensed statement of operations in the second quarter of 2011. Should we incur a capital gain within our continuing operations during the remainder of 2011, some portion or all of the $15 million valuation allowance reversal could be reclassified to continuing operations. The historical financial operating results and net assets of MAP were not material to our condensed consolidated financial statements for all periods presented.

4. Share-Based Compensation

We provide share-based compensation for our employees, officers and non-employee directors, including stock options, an employee stock purchase plan, restricted stock (RS), restricted stock units (RSUs) and performance-based restricted stock units (PeRSUs) (collectively, share-based awards).

Compensation expense for stock options is recognized on a straight-line basis over the requisite service period and is based on the grant-date fair value for the portion of the awards that is ultimately expected to vest.

RS and RSUs, which entitle the holder to receive, at the end of a vesting term, a specified number of shares of the Company s common stock are accounted for at fair value at the date of grant. The fair value of RS and RSUs under our stock plans is determined by the product of the number of shares that are expected to vest and the grant date market price of the Company s common stock. These awards generally vest in four years. We recognize expense for RS and RSUs with a single vest date on a straight-line basis over the requisite service period. We have elected to expense the grant date fair value of RS and RSUs with only graded vesting and service conditions on a straight-line basis over the requisite service period. RS contains certain restrictions on transferability and may not be transferred until such restrictions lapse.

PeRSUs are RSUs for which the number of RSUs awarded may be conditional upon the attainment of one or more performance objectives over a specified period. PeRSUs are accounted for as variable awards generally for one year until the performance goals are reached and the grant date is established. The fair value of PeRSUs is determined by the product of the number of shares eligible to be awarded and expected to vest, and the market price of the Company s common stock, commencing at the inception of the requisite service period. During the performance period, the PeRSUs are re-valued using the market price and the performance modifier at the end of a reporting period. At the end of the performance period, if the goals are attained, the awards are granted and classified as RSUs and accounted for on that basis. For PeRSUs granted prior to 2009 with multiple vest dates, we recognize the fair value expense of these awards on a graded vesting basis over the requisite service period of four years. PeRSUs granted during 2009 and after and the related RSUs (when they are granted) have a single vest date for which we recognize expense on a straight-line basis over the four year service period.

Compensation expense for the share-based awards is recognized for the portion of the awards that is ultimately expected to vest. We develop an estimate of the number of share-based awards, which will ultimately vest primarily based on historical experience. The estimated forfeiture rate established upon grant is re-assessed throughout the requisite service period. As required, the forfeiture estimates are adjusted to reflect actual forfeitures when an award vests. The actual forfeitures in future reporting periods could be higher or lower than current estimates.

Compensation expense recognized is classified in the condensed consolidated statements of operations or capitalized on the condensed consolidated balance sheets in the same manner as cash compensation paid to our employees. There was no material share-based compensation expense capitalized as part of the cost of an asset for the quarters and six months ended September 30, 2010 and 2009.

McKESSON CORPORATION
FINANCIAL NOTES (CONTINUED)
(UNAUDITED)

The components of share-based compensation expense and the related tax benefit for the quarters and six months ended September 30, 2010 and 2009 are shown in the following table:

	Quarter Ended September 30,		Six Months Ended September 30,	
(In millions)	**2010**	**2009**	**2010**	**2009**
RSUs and RS (1)	$ 20	$ 11	$ 43	$ 26
PeRSUs (2)	6	11	8	13
Stock options	6	5	11	9
Employee stock purchase plan	1	2	4	5
Share-based compensation expense	33	29	66	53
Tax benefit for share-based compensation expense (3)	(12)	(11)	(23)	(19)
Share-based compensation expense, net of tax	$ 21	$ 18	$ 43	$ 34

(1) This expense was primarily the result of PeRSUs awarded in prior years, which converted to RSUs due to the attainment of goals during the applicable years performance period.

(2) Represents estimated compensation expense for PeRSUs that are conditional upon attaining performance objectives during the current year s performance period.

(3) Income tax expense is computed using the tax rates of applicable tax jurisdictions. Additionally, a portion of pre-tax compensation expense is not tax-deductible.

Share-based compensation expense is affected by our stock price, the number and type of annual share-based awards as well as assumptions regarding a number of complex and subjective variables and the related tax impact. These variables include, but are not limited to, the volatility of our stock price, employee stock option exercise behavior and the attainment of performance goals. As a result, the actual future share-based compensation expense may differ from historical amounts.

5. Income Taxes

As of September 30, 2010, we had $631 million of unrecognized tax benefits, of which $407 million would reduce income tax expense and the effective tax rate if recognized. During the next twelve months, it is reasonably possible that audit resolutions and the expiration of statutes of limitations could potentially reduce our unrecognized tax benefits by up to $2 million. However, this amount may change because we continue to have ongoing negotiations with various taxing authorities throughout the year.

We have received assessments of $140 million, including tax and interest, from the Canada Revenue Agency and certain provinces related to a transfer pricing issue for 2003 through 2007. We have appealed the assessment for 2003 to the Canadian Tax Court and have filed or intend to file a notice of objection for 2004 through 2007. Payments of most of the assessments have been made to stop the accrual of interest. We believe that we have adequately provided for any potential adverse results.

In nearly all jurisdictions, the tax years prior to 2003 are no longer subject to examination. We believe that we have made adequate provision for all remaining income tax uncertainties.

We continue to report interest and penalties on tax deficiencies as income tax expense. At September 30, 2010, before any tax benefits, our accrued interest on unrecognized tax benefits amounted to $124 million. We recognized an income tax expense of $1 million and $9 million, before any tax effect, related to interest in our condensed consolidated statements of operations during the second quarter and first six months ended September 30, 2010. We have no material amounts accrued for penalties.

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McKESSON CORPORATION
FINANCIAL NOTES (CONTINUED)
(UNAUDITED)

6. Earnings Per Common Share

Basic earnings per common share are computed by dividing net income by the weighted average number of common shares outstanding during the reporting period. Diluted earnings per common share are computed similar to basic earnings per common share except that it reflects the potential dilution that could occur if dilutive securities or other obligations to issue common stock were exercised or converted into common stock.

The computations for basic and diluted earnings per common share are as follows:

	Quarter Ended September 30,		Six Months Ended September 30,	
(In millions, except per share amounts)	**2010**	**2009**	**2010**	**2009**
Income from continuing operations	$ 255	$ 301	$ 553	$ 589
Discontinued operation gain on sale, net of tax	72		72	
Net income	$ 327	$ 301	$ 625	$ 589
Weighted average common shares outstanding:				
Basic	258	267	262	268
Effect of dilutive securities:				
Options to purchase common stock	2	3	3	2
Restricted stock/Restricted stock units	2	1	2	2
Diluted	262	271	267	272
Earnings Per Common Share: (1)				
Diluted				
Continuing operations	$ 0.97	$ 1.11	$ 2.07	$ 2.17
Discontinued operation gain on sale	0.28		0.27	
Total	$ 1.25	$ 1.11	$ 2.34	$ 2.17
Basic				
Continuing operations	$ 0.99	$ 1.13	$ 2.11	$ 2.19
Discontinued operation gain on sale	0.28		0.28	
Total	$ 1.27	$ 1.13	$ 2.39	$ 2.19

(1) Certain computations may reflect rounding adjustments.

Approximately 2 million and 5 million stock options and PeRSUs were excluded from the computations of diluted net earnings per common share for the quarters ended September 30, 2010 and 2009, as they were anti-dilutive. For the six months ended September 30, 2010 and 2009, the number of stock options, RSUs and PeRSUs excluded was approximately 6 million and 10 million.

McKESSON CORPORATION
FINANCIAL NOTES (CONTINUED)
(UNAUDITED)

7. Goodwill and Intangible Assets, Net

Changes in the carrying amount of goodwill were as follows:

(In millions)	Distribution Solutions	Technology Solutions	Total
Balance, March 31, 2010	$ 1,871	$ 1,697	$ 3,568
Foreign currency translation adjustments and other	(24)	(15)	(39)
Balance, September 30, 2010	$ 1,847	$ 1,682	$ 3,529

Information regarding intangible assets is as follows:

(In millions)	September 30, 2010	March 31, 2010
Customer lists	$ 858	$ 832
Technology	190	190
Trademarks and other	74	74
Gross intangibles	1,122	1,096
Accumulated amortization	(602)	(545)
Intangible assets, net	$ 520	$ 551

Amortization expense of intangible assets was $28 million and $56 million for the quarter and six months ended September 30, 2010 and $29 million and $59 million for the quarter and six months ended September 30, 2009. The weighted average remaining amortization periods for customer lists, technology and trademarks and other intangible assets at September 30, 2010 were: 6 years, 2 years and 6 years. Estimated annual amortization expense of these assets is as follows: $114 million, $111 million, $95 million, $81 million and $64 million for 2011 through 2015 and $111 million thereafter. All intangible assets were subject to amortization as of September 30, 2010 and March 31, 2010.

8. Financing Activities

Accounts Receivable Securitization Facility

In May 2010, we renewed our accounts receivable securitization facility (the Facility) for an additional one year period under terms substantially similar to those previously in place, and in doing so, we increased our committed balance from $1.1 billion to $1.35 billion. 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 2011.

Through the Facility, McKesson Corporation, the parent company, transfers certain U.S. pharmaceutical trade accounts receivable on a non-recourse basis to a wholly-owned and consolidated subsidiary which then sells these receivables to a special purpose entity (SPE), which is a wholly-owned, bankruptcy-remote subsidiary of McKesson Corporation that is consolidated in our financial statements. This SPE then sells undivided interests in the pool of accounts receivable to third-party purchaser groups (the Purchaser Groups), which include financial institutions and commercial paper conduits.

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FINANCIAL NOTES (CONTINUED)
(UNAUDITED)

Interests in the pool of accounts receivable that are sold to the Purchaser Groups and accounts receivable retained by the Company are carried at face value which, due to the short-term nature of our accounts receivable and terms of the Facility, approximates fair value. McKesson receives cash in the amount of the face value for the undivided interests sold. No gain or loss is recorded upon the utilization of the facility as fee charges from the Purchaser Groups are based upon a floating yield rate and the period the undivided interests remain outstanding.

The Facility contains requirements relating to the performance of the accounts receivable and covenants relating to the SPE and the Company. If we do not comply with these covenants, our ability to use the Facility may be suspended and repayment of any outstanding balances under the Facility may be required. At September 30, 2010 and March 31, 2010, we were in compliance with all covenants. Should we default under the Facility, the Purchaser Groups are entitled to receive only collections on the accounts receivable owned by the SPE.

Prior to 2011, transactions in the Facility were accounted for as sales because we met the requirements of the existing accounting guidance, including relinquishing control of the accounts receivable. Accordingly, accounts receivable sold would have been excluded from accounts receivable, net in the accompanying March 31, 2010 condensed consolidated balance sheet had any balances been outstanding in the Facility at that date. On April 1, 2010, the Company adopted the new accounting standard for transfers of financial assets. Transactions under the Facility no longer meet the requirements for sale as defined in the new accounting standard primarily because the Company s retained interest in the pool of accounts receivable is subordinated to the Purchaser Groups to the extent there is any outstanding balance in the Facility. Consequently, the related accounts receivable would continue to be recognized on the Company s condensed consolidated balance sheets and proceeds from the Purchaser Groups would be shown as secured borrowings. Commencing in 2011, fees charged from the Purchaser Groups are recorded in interest expense within the condensed consolidated statements of operations. Prior to 2011, these fees were recorded in Corporate administrative expenses. These fees were not material to our condensed consolidated financial statements. Additionally, any proceeds from these accounts receivable transactions would be reflected in the financing section within the condensed statements of cash flows.

We continue servicing the accounts receivable sold. No servicing asset is recorded at the time of utilization of the facility because we do not receive any servicing fees from third parties or other income related to servicing the receivable. We do not record any servicing liability at the time of the utilization of the facility as the accounts receivable collection period is relatively short and the costs of servicing the accounts receivable over the servicing period are insignificant. Servicing costs are recognized as incurred over the servicing period.

At September 30, 2010, there were no securitized accounts receivable balances or secured borrowings outstanding under the Facility. As of March 31, 2010, there were no accounts receivable sold under the Facility. Additionally, there were no sales of interests to the Purchaser Groups in the quarter and six months ended September 30, 2010 or 2009.

Revolving Credit Facility

We have a syndicated $1.3 billion five-year senior unsecured revolving credit facility, which expires in June 2012. Borrowings under this credit facility bear interest based upon either a Prime rate or the London Interbank Offering Rate. There were no borrowings under this facility for the first six months of 2011 and 2010. As of September 30, 2010 and March 31, 2010, there was no debt balance under this facility; however, there was $41 million in letters of credit issued under this facility which reduces the amount available for borrowing.

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McKESSON CORPORATION
FINANCIAL NOTES (CONTINUED)
(UNAUDITED)

9. Pension and Other Postretirement Benefit Plans

Net periodic expense for the Company s defined pension and other postretirement benefit plans was $8 million and $18 million for the second quarter and first six months of 2011 compared to $4 million and $12 million for the comparable prior year periods. Cash contributions to these plans for the first six months of 2011 were $11 million.

As previously reported in our 2010 Annual Report, the McKesson Corporation Profit Sharing Investment Plan (PSIP) was a member of the settlement class in the Consolidated Securities Litigation Action. On October 9, 2009, the PSIP received approximately $119 million of the Consolidated Securities Litigation Action proceeds. Approximately $42 million of the proceeds were attributable to the allocated shares of McKesson common stock owned by the PSIP participants during the Consolidated Securities Litigation Action class-holding period and were allocated to the respective participants on that basis in the third quarter of 2010. Approximately $77 million of the proceeds were attributable to the unallocated shares (the Unallocated Proceeds) of McKesson common stock owned by the PSIP in an employee stock ownership plan (ESOP) suspense account. In accordance with the plan terms, the PSIP distributed all of the Unallocated Proceeds to current PSIP participants after the close of the plan year in April 2010. The receipt of the Unallocated Proceeds by the PSIP was reimbursement for the loss in value of the Company s common stock held by the PSIP in its ESOP suspense account during the Consolidated Securities Litigation Action class holding period and was not a contribution made by the Company to the PSIP or ESOP. Accordingly, there were no accounting consequences to the Company s financial statements relating to the receipt of the Unallocated Proceeds by the PSIP.

As a result of the PSIP s receipt of the $119 million settlement, in 2010 the Company contributed $1 million to the PSIP. Accordingly, PSIP expense for 2010 was nominal. In 2011 the Company resumed its contributions to the PSIP.

PSIP expense for the quarters and six months ended September 30, 2010 and 2009 was as follows:

	Quarter Ended September 30,		Six Months Ended September 30,	
(In millions)	**2010**	**2009**	**2010**	**2009**
Distribution Solutions	$ 5	$	$ 12	$
Technology Solutions	8		17	1
Corporate	1		2	
PSIP expense	$ 14	$	$ 31	$ 1
Cost of sales [(1)]	$ 3	$	$ 7	$
Operating expenses	11		24	1
PSIP expense	$ 14	$	$ 31	$ 1

(1) Amounts recorded to cost of sales pertain solely to our Technology Solutions segment.

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McKESSON CORPORATION
FINANCIAL NOTES (CONTINUED)
(UNAUDITED)

10. Financial Instruments

At September 30, 2010 and March 31, 2010, the carrying amounts of cash and cash equivalents, restricted cash, marketable securities, receivables, drafts and accounts payable and other current liabilities approximated their estimated fair values because of the short maturity of these financial instruments. All highly liquid debt instruments purchased with original maturity of three months or less at the date of acquisition are included in cash and cash equivalents. Included in cash and cash equivalents at September 30, 2010 and March 31, 2010 were money market fund investments of $1.5 billion and $2.3 billion, which are reported at fair value. The fair value of these investments was determined by using quoted prices for identical investments in active markets which are considered to be Level 1 inputs under the fair value measurements and disclosure guidance. The carrying value of all other cash equivalents approximates fair value due to their relatively short-term nature.

The carrying amounts and estimated fair values of our long-term debt and other financing were $2.3 billion and $2.6 billion at September 30, 2010, and $2.3 billion and $2.5 billion at March 31, 2010. 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, which are considered to be Level 2 inputs under the fair value measurements and disclosure guidance, and may not be representative of actual values that could have been realized or that will be realized in the future.

11. Financial Guarantees and Warranties

Financial Guarantees

We have agreements with certain of our Canadian customers financial institutions under which we have guaranteed the repurchase of our customers inventory or our customers debt in the event that our customers are unable to meet their obligations to those financial institutions. For our inventory repurchase agreements, among other conditions, inventories must be in resalable condition and any repurchases would be at a discount. Inventory repurchase agreements mostly range from one to two years. Our customer debt guarantees are primarily provided to facilitate financing for certain customers and are generally secured by certain assets of the customer. We also have an agreement with one software customer that, under limited circumstances, may require us to secure standby financing. Because the amount of the standby financing is not explicitly stated, the overall amount of this guarantee cannot reasonably be estimated. At September 30, 2010, the maximum amounts of inventory repurchase guarantees and other customer guarantees were $137 million and $33 million, none of which had been accrued.

In addition, at September 30, 2010, our banks and insurance companies have issued $112 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.

Our software license agreements generally include certain provisions for indemnifying customers against liabilities if our software products infringe a third party s intellectual property rights. To date, we have not incurred any material costs as a result of such indemnification agreements and have not accrued any liabilities related to such obligations.

In conjunction with certain transactions, primarily divestitures, we may provide routine indemnification agreements (such as retention of previously existing environmental, tax and employee liabilities) whose terms vary in duration and often are not explicitly defined. Where appropriate, obligations for such indemnifications are recorded as liabilities. Because the amounts of these indemnification obligations often are not explicitly stated, the overall maximum amount of these commitments cannot be reasonably estimated. Other than obligations recorded as liabilities at the time of divestiture, we have historically not made significant payments as a result of these indemnification provisions.

McKESSON CORPORATION
FINANCIAL NOTES (CONTINUED)
(UNAUDITED)

Warranties

In the normal course of business, we provide certain warranties and indemnification protection for our products and services. For example, we provide warranties that the pharmaceutical and medical-surgical products we distribute are in compliance with the U.S. Federal Food, Drug, and Cosmetic Act and other applicable laws and regulations. We have received the same warranties from our suppliers, which customarily are the manufacturers of the products. In addition, we have indemnity obligations to our customers for these products, which have also been provided to us from our suppliers, either through express agreement or by operation of law.

We also provide warranties regarding the performance of software and automation products we sell. Our liability under these warranties is to bring the product into compliance with previously agreed upon specifications. For software products, this may result in additional project costs, which are reflected in our estimates used for the percentage-of-completion method of accounting for software installation services within these contracts and our estimates of recoverability of capitalized software held for sale. In addition, most of our customers who purchase our software and automation products also purchase annual maintenance agreements. Revenues from these maintenance agreements are recognized on a straight-line basis over the contract period and the cost of servicing product warranties is charged to expense when claims become estimable. Accrued warranty costs were not material to the condensed consolidated balance sheets.

12. Other Commitments and Contingent Liabilities

In addition to commitments and obligations in the ordinary course of business, 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. In accordance with accounting guidance on contingencies, we record a provision for a liability when management believes that it is both probable that a liability has been incurred and the amount of the loss can be reasonably estimated. We believe we have adequate provisions for any such matters. Management reviews these provisions at least quarterly and adjusts these provisions to reflect the impact of negotiations, settlements, rulings, advice of legal counsel and other information and events pertaining to a particular case. Because litigation outcomes are inherently unpredictable, these decisions often involve a series of complex assessments by management about future events that can rely heavily on estimates and assumptions and it is possible that the ultimate cost of these matters could impact our earnings, either negatively or positively, in the quarter of their resolution.

Based on our experience, we believe that any damage amounts claimed in the specific matters referenced in our 2010 Annual Report, in our Form 10-Q for the quarter ended June 30, 2010 and those matters discussed below are not meaningful indicators of our potential liability. We believe that we have valid defenses to these legal proceedings and are defending the matters vigorously. Nevertheless, the outcome of any litigation is inherently uncertain. We are currently unable to estimate the remaining possible losses in these unresolved legal proceedings. Should any one or a combination of more than one of these proceedings against us be successful, or should we determine to settle any or a combination of these matters, we may be required to pay substantial sums, become subject to the entry of an injunction, or be forced to change the manner in which we operate our business, which could have a material adverse impact on our financial position or results of operations.

As more fully described in our previous public reports filed with the SEC, we are involved in numerous legal proceedings. For a discussion of these proceedings, please refer to the Financial Notes entitled Other Commitments and Contingent Liabilities included in our 2010 Annual Report on Form 10-K and in our Form 10-Q for the quarter ended June 30, 2010. Significant developments in previously reported proceedings and in other litigation and claims since the referenced filings are set out below.

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McKESSON CORPORATION
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A. Average Wholesale Price Litigation Matters

As previously reported regarding the coordinated public payor Average Wholesale Price (AWP) actions, collectively *In re McKesson Governmental Entities Average Wholesale Price Litigation*, filed against the Company in the United States District Court for Massachusetts and relating to alleged misstatements and manipulations of a benchmark for drug reimbursement known as AWP, *Board of County Commissioners of Douglas County, Kansas et al. v. McKesson Corporation,* Civil Action No. 1:08-CV-11349-PBS (*Douglas County, Kansas Action*); *San Francisco Health Plan v. McKesson Corporation*, Civil Action No. 1:08-CV-10843-PBS (*San Francisco Action*); and *State of Connecticut v. McKesson Corporation*, Civil Action No. 1:08-CV-10900-PBS (*Connecticut Action*), the hearing on class certification in the *Douglas County, Kansas* and *San Francisco Actions* was held on August 31, 2010, but the court has not yet issued its ruling. On August 5, 2010, the court set a trial date of January 24, 2011 for the claims asserted by the State of Oklahoma on behalf of its Medicaid program in the *Douglas County, Kansas* case, or, in the alternative, the claims asserted by the State of Montana on behalf of its Medicaid program in the *Douglas County, Kansas* case if the Oklahoma Medicaid claims are resolved before the final pretrial conference scheduled for January 19, 2011.

On October 15, 2010, the Company executed an agreement to settle the *Connecticut Action* for $26 million. The settlement, which is not subject to court approval, includes an express denial of liability and a release by the State of Connecticut of the Company as to all matters alleged or which could have been alleged in the action. As a result, during the second quarter of 2011, we recorded an additional $24 million pre-tax charge for this settlement.

On September 13, 2010, an action was filed in the Kansas state court of Wyandotte County by the State of Kansas against the Company and First DataBank, Inc. based on essentially the same factual allegations as alleged in *In re McKesson Governmental Entities Average Wholesale Price Litigation*, asserting claims under the Kansas Restraint of Trade Act, the Kansas Consumer Protection Act, and the Kansas False Claims Act, and for civil conspiracy, fraud, unjust enrichment, and breach of contract, and seeking damages and treble damages, civil penalties, as well as injunctive relief, interest, disgorgement of profits, attorneys fees and costs of suit, all in unspecified amounts, *State of Kansas ex rel. Steve Six v. McKesson Corporation, et al.*, Case No. 10CV1491. The Company has not yet responded to the complaint in this matter.

On October 8, 2010, an action was filed in the Mississippi state court of Hinds County by the State of Mississippi against the Company based on essentially the same factual allegations as alleged in *In re McKesson Governmental Entities Average Wholesale Price Litigation*, asserting claims under the Racketeer Influenced and Corrupt Organizations Act (RICO), the Mississippi Medicaid Fraud Control Act, state unfair and deceptive trade practices statutes, and for civil conspiracy, tortious interference with contract, unjust enrichment, and fraud, and seeking damages and treble damages, civil penalties, restitution, as well as injunctive relief, interest, attorneys fees and costs of suit, all in unspecified amounts, *State of Mississippi v. McKesson Corporation, et al.*, Cause No. 251-10-862CIV. The Company has not yet responded to the complaint in this matter.

On October 20, 2010, an action was filed against the Company in the United States District Court, Northern District of California, by the State of Utah based on essentially the same factual allegations as alleged in *In re McKesson Governmental Entities Average Wholesale Price Litigation,* asserting claims under RICO and for civil conspiracy, tortious interference with contract, and unjust enrichment, and seeking damages and treble damages, restitution, as well as injunctive relief, interest, attorneys fees and costs of suit, all in unspecified amounts, *State of Utah v. McKesson Corporation, et al.,* Case No. CV 10-4743-SC. The Company s response to the complaint is due on November 11, 2010.

On October 18, 2010, the Company was informed that a *qui tam* action was previously filed by four law firms in Wisconsin state court of Dane County, purportedly on behalf of the State of Wisconsin against the Company based on essentially the same factual allegations as alleged in *In re McKesson Governmental Entities Average Wholesale Price Litigation,* asserting claims under the Wisconsin False Claims for Medical Assistance statute, and seeking damages, treble damages, civil penalties, as well as attorneys fees and costs of suit, all in unspecified amounts, *State of*

Wisconsin ex rel. Hagens Berman Sobol Shapiro LLP, et al. v. McKesson Corporation, Case No. 10CV3411. The court has not yet ruled on a motion to dismiss filed by the Wisconsin Department of Justice on August 26, 2010.

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**McKESSON CORPORATION
FINANCIAL NOTES (CONTINUED)
(UNAUDITED)**

B. Other Matters

On September 15, 2010, an action was filed in the United States District Court for the Western District of Wisconsin against the Company by Independent Pharmacy Cooperative, a Wisconsin based cooperative purchasing organization for independent pharmacies, alleging that the Company has breached, and continues to breach, a February 21, 2003 supply agreement between the parties, *Independent Pharmacy Cooperative, v. McKesson Corporation,* Case No. 10-CV-00527 (BC). In addition to alleging breach of contract, plaintiff alleges breach of the implied covenant of good faith and fair dealing in connection with the supply agreement and intentional interference with contractual relations between plaintiff and its members. In its complaint, plaintiff claims that the Company has caused certain pharmacies to terminate their memberships in plaintiff s cooperative and has entered into separate agreements intended to cause members to terminate in the future. Plaintiff seeks declaratory and injunctive relief, monetary damages in an unspecified amount, punitive damages, attorneys fees and costs of suit. The Company has not yet responded to the complaint in the matter.

In August of 2010, the Company was notified by the United States Attorneys Office that a *qui tam* action had been filed on an unidentified date by two Relators, a former pharmacy customer of the Company and the customer s advisor, in which the Relators allege that in or about January of 2006 the Company and a competitor drug wholesaler engaged in conduct that violated the federal Anti-Kickback Statute, causing subsequent claims by the customer Relator to be submitted in violation of the federal False Claims Act, *Saleaumua et al. v. McKesson Corporation et al.,* Case No. 4:08-CV-0848 (ODS). The complaint alleges that the defendants conduct prior to the Company s losing the account to the competitor in January of 2006 caused the customer Relator to file subsequent claims in violation of the False Claims Act. The complaint seeks monetary damages in an unspecified amount, as well as attorneys fees and costs. The complaint has not been served on the Company. The United States Attorney s Office is investigating the Relators claims and has informed the Company that it has made no decision to intervene or join in the pending action.

13. Stockholders Equity

Each share of the Company s outstanding common stock is permitted one vote on proposals presented to stockholders and is entitled to share equally in any dividends declared by the Company s Board of Directors (the Board).

Share Repurchase Plans

In April 2008, the Company s Board of Directors (the Board) approved a plan to repurchase $1.0 billion of the Company s common stock, of which $531 million remained available as of March 31, 2010.

In April 2010, the Board authorized a plan to repurchase up to an additional $1 billion of the Company s common stock. In May 2010, we entered into a capped accelerated share repurchase (ASR) program with a third party financial institution to repurchase $1 billion of the Company s common stock. As a result of the ASR program, we repurchased 12.7 million shares for $1 billion during the first quarter of 2011, which was funded with cash on hand. The ASR program was completed on July 26, 2010 and we received 1.9 million additional shares on July 29, 2010. The total number of shares repurchased under the ASR program was 14.6 million shares at an average price per share of $68.66.

In addition, we repurchased 8.6 million shares for $531 million during the second quarter of 2011 through regular open market transactions at an average price per share of $61.34.

As a result of these purchases, the April 2008 and April 2010 plans have been completed and no amounts remain authorized for repurchase as of September 30, 2010.

In October 2010, the Board authorized a plan to repurchase up to an additional $1 billion of the Company s common stock.

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McKESSON CORPORATION
FINANCIAL NOTES (CONTINUED)
(UNAUDITED)

Stock repurchases may be made from time-to-time in open market transactions, privately negotiated transactions, through accelerated share repurchase 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.

Dividend Policy

In May 2010, the quarterly dividend was raised from $0.12 to $0.18 per common share. 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.

Comprehensive Income

Comprehensive income is as follows:

	Quarter Ended September 30,		Six Months Ended September 30,	
(In millions)	**2010**	**2009**	**2010**	**2009**
Net income	$ 327	$ 301	$ 625	$ 589
Translation adjustments and other	49	87	(8)	182
Comprehensive income	$ 376	$ 388	$ 617	$ 771

Foreign currency translation adjustments and other are primarily the result of the impact of currency exchange rates on our foreign subsidiaries.

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McKESSON CORPORATION
FINANCIAL NOTES (CONCLUDED)
(UNAUDITED)

14. Segment Information

We report our operations in two operating segments: McKesson Distribution Solutions and McKesson Technology Solutions. The factors for determining the reportable segments included the manner in which management evaluates the performance of the Company combined with the nature of the individual business activities. We evaluate the performance of our operating segments based on operating profit before interest expense, income taxes and results from discontinued operations. Financial information relating to our reportable operating segments and reconciliations to the condensed consolidated totals is as follows:

	Quarter Ended September 30,		Six Months Ended September 30,	
(In millions)	**2010**	**2009**	**2010**	**2009**
Revenues				
Distribution Solutions [1]				
Direct distribution & services	$ 18,984	$ 17,850	$ 37,686	$ 34,888
Sales to customers warehouses	4,659	5,501	9,402	11,552
Total U.S. pharmaceutical distribution & services	23,643	23,351	47,088	46,440
Canada pharmaceutical distribution & services	2,351	2,255	4,911	4,395
Medical-Surgical distribution & services	770	734	1,456	1,419
Total Distribution Solutions	26,764	26,340	53,455	52,254
Technology Solutions				
Services	604	613	1,199	1,202
Software & software systems	138	142	273	272
Hardware	28	35	57	59
Total Technology Solutions	770	790	1,529	1,533
Total	$ 27,534	$ 27,130	$ 54,984	$ 53,787
Operating profit				
Distribution Solutions [2]	$ 491	$ 415	$ 996	$ 845
Technology Solutions [3]	14	116	78	219
Total	505	531	1,074	1,064
Corporate	(85)	(80)	(171)	(144)
Securities Litigation Credit		20		20
Interest Expense	(44)	(47)	(87)	(95)
Income from Continuing Operations Before Income Taxes	$ 376	$ 424	$ 816	$ 845

(1) Revenues derived from services represent less than 1% of this segment s total revenues for the quarters and six months ended September 30, 2010 and 2009.

(2) Operating profit for 2011 includes the AWP litigation charge of $24 million, which was recorded in operating expenses. Operating profit for the first six months of 2011 includes $51 million representing our share of a settlement of an antitrust class action lawsuit brought against a drug manufacturer, which was recorded as a reduction to cost of sales.

(3) Operating profit for 2011 includes a $72 million asset impairment charge for capitalized software held for sale, which was recorded in

cost of sales.

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McKESSON CORPORATION
FINANCIAL REVIEW
(UNAUDITED)

Item 2. 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 condensed consolidated financial statements and accompanying financial notes in Item 1 of Part I of this Quarterly Report on Form 10-Q and in Item 8 of Part II of our 2010 Annual Report on Form 10-K.

Certain statements in this report constitute forward-looking statements. See Factors Affecting Forward-Looking Statements included in this Quarterly Report on Form 10-Q.

Financial Overview

	Quarter Ended September 30,			Six Months Ended September 30,		
(In millions)	2010	2009	Change	2010	2009	Change
Revenues	$ 27,534	$ 27,130	1%	$ 54,984	$ 53,787	2%
Litigation Charge (Credit)	24	(20)	NM	24	(20)	NM
Income from Continuing Operations Before Income Taxes	$ 376	$ 424	(11)	$ 816	$ 845	(3)
Income Tax Expense	(121)	(123)	(2)	(263)	(256)	3
Income from Continuing Operations	255	301	(15)	553	589	(6)
Discontinued Operation gain on sale, net of tax	72		NM	72		NM
Net Income	$ 327	$ 301	9	$ 625	$ 589	6
Diluted Earnings Per Common Share						
Continuing Operations	$ 0.97	$ 1.11	(13)%	$ 2.07	$ 2.17	(5)%
Discontinued Operation gain on sale	0.28		NM	0.27		NM
Total	$ 1.25	$ 1.11	13	$ 2.34	$ 2.17	8
Weighted Average Diluted Common Shares	262	271	(3)%	267	272	(2)%

NM not meaningful

Revenues for the second quarter of 2011 increased 1% to $27.5 billion and for the first six months of 2011 increased 2% to $55.0 billion primarily due to market growth.

McKESSON CORPORATION
FINANCIAL REVIEW (CONTINUED)
(UNAUDITED)

Income from continuing operations for the second quarter of 2011 decreased 15% to $255 million and for the first six months of 2011 decreased 6% to $553 million. The decrease primarily reflects:

- a $72 million asset impairment charge for capitalized software held for sale,
- a $24 million charge for our Average Wholesale Price (AWP) litigation. Additionally, this time last year, we had a credit of $20 million relating to our securities litigation, and
- partially offsetting these decreases was improved operating profit in our Distributions Solutions segment, including our first quarter of 2011 receipt of $51 million of cash proceeds for an antitrust settlement.

Net income for the second quarter of 2011 increased 9% to $327 million and for the first six months of 2011 increased 6% to $625 million. Net income for 2011 includes a $72 million after-tax gain on the sale of our Technology Solutions segment wholly-owned subsidiary, McKesson Asia Pacific Pty Limited (MAP), which was sold in July 2010. Historical financial results for this subsidiary were not material.

Diluted earnings per common share from continuing operations for the second quarter of 2011 decreased 13% to $0.97 and for the first six months of 2011 decreased 5% to $2.07. Diluted earnings per common share for the second quarter of 2011 increased 13% to $1.25 and for 2011 increased 8% to $2.34. Diluted earnings per common share includes $0.28 for the second quarter of 2011 and $0.27 for the first six months of 2011 for the gain on sale of MAP. Additionally, diluted earnings per share for 2011 benefited from our repurchase of common stock.

Results of Operations

Revenues:

	Quarter Ended September 30,			Six Months Ended September 30,		
(In millions)	**2010**	**2009**	**Change**	**2010**	**2009**	**Change**
Distribution Solutions						
Direct distribution & services	$ 18,984	$ 17,850	6%	$ 37,686	$ 34,888	8%
Sales to customers warehouses	4,659	5,501	(15)	9,402	11,552	(19)
Total U.S. pharmaceutical distribution & services	23,643	23,351	1	47,088	46,440	1
Canada pharmaceutical distribution & services	2,351	2,255	4	4,911	4,395	12
Medical-Surgical distribution & services	770	734	5	1,456	1,419	3
Total Distribution Solutions	26,764	26,340	2	53,455	52,254	2
Technology Solutions						
Services	604	613	(1)	1,199	1,202	
Software & software systems	138	142	(3)	273	272	
Hardware	28	35	(20)	57	59	(3)
Total Technology Solutions	770	790	(3)	1,529	1,533	
Total Revenues	$ 27,534	$ 27,130	1	$ 54,984	$ 53,787	2

Total revenues increased 1% and 2% for the second quarter and first six months of 2011 compared to the same periods a year ago primarily due to market growth in our Distribution Solutions segment, which accounted for approximately 97% of our consolidated revenues.

McKESSON CORPORATION
FINANCIAL REVIEW (CONTINUED)
(UNAUDITED)

Direct distribution and services revenues increased primarily due to market growth, which includes price increases and increased volume from new and existing customers, and a shift of revenues from sales to customers warehouses to direct store delivery. Sales to customers warehouses decreased primarily due to reduced revenues associated with two customers and a shift of revenues to direct store delivery. In addition, our U.S. pharmaceutical distribution revenues were impacted by price deflation associated with brand to generic drug conversions.

Canadian pharmaceutical distribution and services revenues increased for the second quarter and first six months of 2011 primarily due to a change in the foreign currency exchange rate of 5% and 10%. On a constant currency basis, revenues decreased 1% in the second quarter of 2011 primarily due to a government-imposed price reduction for generic pharmaceuticals in two provinces and a brand to generic conversion for one drug. The decrease was partially offset by market growth, which includes increased volume from existing and new customers and a small acquisition in the second quarter of 2011. On a constant currency basis, revenues grew 2% in the first six months of 2011 primarily reflecting the reasons previously noted and due to the impact of one more day of sales compared to the same period a year ago.

Medical-Surgical distribution and services revenues increased 5% and 3% for the second quarter and first six months of 2011 compared to the same periods a year ago primarily due to market growth rates and two small acquisitions in mid-2010 and for the first six months of 2011, were partially offset by a decrease in demand associated with the H1N1 flu virus.

Technology Solutions revenues decreased in 2011 compared to the same periods a year ago primarily due to the sale of MAP in July 2010. In addition, in the second quarter of 2010 McKesson s Horizon Enterprise Revenue Management™ (HzERM) solution became generally available and as a result we recognized previously deferred revenue. These decreases were partially offset by higher maintenance revenue reflecting the segment s expanded customer base and higher installations.

Gross Profit:

	Quarter Ended September 30,			Six Months Ended September 30,		
(Dollars in millions)	**2010**	**2009**	**Change**	**2010**	**2009**	**Change**
Gross Profit						
Distribution Solutions [(1)]	$ 1,090	$ 960	14%	$ 2,157	$ 1,914	13%
Technology Solutions [(2)]	276	375	(26)	601	724	(17)
Total	$ 1,366	$ 1,335	2	$ 2,758	$ 2,638	5
Gross Profit Margin						
Distribution Solutions	4.07%	3.64%	43 bp	4.04%	3.66%	38 bp
Technology Solutions	35.84	47.47	(1,163)	39.31	47.23	(792)
Total	4.96	4.92	4	5.02	4.90	12

(1) Gross profit for the first six months of 2011 includes a credit of $51 million representing our

share of a settlement of an antitrust class action lawsuit brought against a drug manufacturer.

(2) Gross profit for 2011 includes a $72 million asset impairment charge for capitalized software held for sale.

bp basis points

Gross profit increased 2% and 5% for the second quarter and first six months of 2011 compared to the same periods a year ago. As a percentage of revenues, gross profit increased 4 basis points (bp) in the second quarter and 12 bp in the first six months of 2011 compared to the same periods a year ago. Increases in our gross profit and gross profit margin were attributable to our Distribution Solutions segment, partially offset by a decrease in our Technology Solutions segment.

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Distribution Solutions segment s gross profit margin increased in 2011 primarily reflecting more sales of higher margin generic drugs and an increase in buy side margin, partially offset by a modest decrease in sell margin. The buy side margin primarily reflects volume and timing of compensation from branded pharmaceutical manufacturers. The first six months of 2011 were also favorably affected by the receipt of a $51 million antitrust settlement.

Technology Solutions segment s gross profit margin decreased in 2011 primarily reflecting a $72 million asset impairment charge and continued investment in our clinical and enterprise revenue management solutions products, which includes costs related to McKesson s HzERM™ solution, partially offset by increased maintenance revenue which has higher margins. In addition, gross profit margin in 2010 was favorably impacted when HzERM™ became generally available late in the second quarter and, at that time we recognized previously deferred revenue for which some associated expenses were recognized as incurred in prior periods.

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. 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 at September 30, 2010 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 and Other Income, Net:

	Quarter Ended September 30,			Six Months Ended September 30,		
(Dollars in millions)	**2010**	**2009**	**Change**	**2010**	**2009**	**Change**
Operating Expenses						
Distribution Solutions (1)	$ 598	$ 546	10%	$ 1,166	$ 1,077	8%
Technology Solutions	263	260	1	525	507	4
Corporate	88	82	7	176	148	19
Securities litigation credit		(20)	NM		(20)	NM
Total	$ 949	$ 868	9	$ 1,867	$ 1,712	9
Operating Expenses as a Percentage of Revenues						
Distribution Solutions	2.23%	2.07%	16 bp	2.18%	2.06%	12 bp
Technology Solutions	34.16	32.91	125	34.34	33.07	127
Total	3.45	3.20	25	3.40	3.18	22
Other Income, Net						
Distribution Solutions	$ (1)	$ 1	NM	$ 5	$ 8	(38)%
Technology Solutions	1	1		2	2	
Corporate	3	2	50%	5	4	25
Total	$ 3	$ 4	(25)	$ 12	$ 14	(14)

(1) Operating expenses for

2011 include the AWP litigation charge of $24 million.

Operating expenses increased 9% for the second quarter and the first six months of 2011 compared to the same periods a year ago. As a percentage of revenues, operating expenses increased 25 bp and 22 bp for the same periods a year ago. These increases were primarily due to a $24 million charge for our AWP litigation and higher costs associated with employee compensation and benefits, including the McKesson Corporation Profit Sharing Investment Plan (PSIP) expenses. For the first six months of 2011, operating expenses also increased due to foreign currency fluctuations. In addition, operating expenses for 2010 benefited from a $20 million credit relating to our securities litigation.

McKESSON CORPORATION
FINANCIAL REVIEW (CONTINUED)
(UNAUDITED)

As previously reported in our 2010 Annual Report, the PSIP was a member of the settlement class in the Consolidated Securities Litigation Action. On October 9, 2009, the PSIP received approximately $119 million of the Consolidated Securities Litigation Action proceeds. Approximately $42 million of the proceeds were attributable to the allocated shares of McKesson common stock owned by the PSIP participants during the Consolidated Securities Litigation Action class-holding period and were allocated to the respective participants on that basis in the third quarter of 2010. Approximately $77 million of the proceeds were attributable to the unallocated shares (the Unallocated Proceeds) of McKesson common stock owned by the PSIP in an employee stock ownership plan (ESOP) suspense account. In accordance with the plan terms, the PSIP distributed all of the Unallocated Proceeds to current PSIP participants after the close of the plan year in April 2010. The receipt of the Unallocated Proceeds by the PSIP was reimbursement for the loss in value of the Company s common stock held by the PSIP in its ESOP suspense account during the Consolidated Securities Litigation Action class holding period and was not a contribution made by the Company to the PSIP or ESOP. Accordingly, there were no accounting consequences to the Company s financial statements relating to the receipt of the Unallocated Proceeds by the PSIP.

As a result of the PSIP s receipt of the $119 million settlement, in 2010 the Company contributed $1 million to the PSIP. Accordingly, PSIP expense for 2010 was nominal. In 2011 the Company resumed its contributions to the PSIP, and the expense for 2011 is expected to be approximately $60 million.

PSIP expense by segment for the quarters and six months ended September 30, 2010 and 2009 was as follows:

	Quarter Ended September 30,		Six Months Ended September 30,	
(In millions)	**2010**	**2009**	**2010**	**2009**
Distribution Solutions	$ 5	$	$ 12	$
Technology Solutions	8		17	1
Corporate	1		2	
PSIP Expense	$ 14	$	$ 31	$ 1
Cost of sales (1)	$ 3	$	$ 7	$
Operating expenses	11		24	1
PSIP expense	$ 14	$	$ 31	$ 1

(1) Amounts recorded to cost of sales pertain solely to our Technology Solutions segment.

Distribution Solutions segment s operating expenses and operating expenses as a percentage of revenues increased for the second quarter and the first six months of 2011 compared to the same periods a year ago primarily reflecting the AWP litigation charge, higher employee compensation and benefit costs and foreign currency fluctuations.

As discussed in Financial Note 12, Other Commitments and Contingent Liabilities, to the accompanying condensed consolidated financial statements, in the second quarter of 2011 we reached an agreement to settle all claims in the *Connecticut Action* relating to First DataBank Inc. s published drug reimbursement benchmarks known as AWP. The settlement, which is not subject to court approval, includes an express denial of liability and a release by the State of Connecticut of the Company as to all matters alleged or which could have been alleged in the action. As a result, during the second quarter of 2011, we recorded an additional $24 million pre-tax charge for this settlement.

Technology Solutions segment s operating expenses and operating expenses as a percentage of revenues increased for the second quarter and the first six months of 2011 compared to the same periods a year ago primarily reflecting our continued investment in research and development activities. These increases were partially offset by cost controls, reduced expenses from MAP, which was sold in July 2010, and a release of accounts receivable reserves in the first quarter of 2011.

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McKESSON CORPORATION
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Corporate expenses increased for the second quarter of 2011 primarily due to an asset impairment charge for certain tangible property, partially offset by lower employee compensation and benefits costs and lower fees associated with our accounts receivable facility. Corporate expenses for the first six months of 2011 increased primarily due to the asset impairment charge, higher compensation and benefits costs and other business initiatives, partially offset by lower fees associated with our accounts receivable facility. As a result of our adoption of a new accounting standard for transfers of financial assets on April 1, 2010, fees associated with our accounts receivable securitization facility are now recorded in interest expense. Prior to 2011 these fees were recorded in Corporate administrative expenses. See Financial Note 8, Financing Activities, for further information.

Other income, net for 2011 approximated the prior year.

Segment Operating Profit and Corporate Expenses, Net:

	Quarter Ended September 30,			Six Months Ended September 30,		
(Dollars in millions)	**2010**	**2009**	**Change**	**2010**	**2009**	**Change**
Segment Operating Profit (1)						
Distribution Solutions (2)	$ 491	$ 415	18%	$ 996	$ 845	18%
Technology Solutions (3)	14	116	(88)	78	219	(64)
Subtotal	505	531	(5)	1,074	1,064	1
Corporate Expenses, Net	(85)	(80)	6	(171)	(144)	19
Securities Litigation Credit		20	NM		20	NM
Interest Expense	(44)	(47)	(6)	(87)	(95)	(8)
Income from Continuing Operations Before Income Taxes	$ 376	$ 424	(11)	$ 816	$ 845	(3)
Segment Operating Profit Margin						
Distribution Solutions	1.83%	1.58%	25 bp	1.86%	1.62%	24 bp
Technology Solutions	1.82	14.68	(1,286)	5.10	14.29	(919)

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

(2) Operating profit for 2011 includes the AWP litigation charge of $24 million. Operating profit for the first six months of 2011 includes $51 million representing our share of a settlement of an antitrust class action lawsuit brought against a drug manufacturer.

(3) Operating profit for 2011 includes a $72 million asset impairment charge for capitalized software held for sale.

Operating profit margin for our Distribution Solutions segment increased in 2011 primarily due to a higher gross profit margin, which includes the $51 million antitrust settlement for the first six months of 2011. The increase in gross profit margin was partially offset by higher operating expenses as a percentage of revenues.

Operating profit margin for our Technology Solutions segment decreased in 2011 primarily reflecting a decrease in gross profit margin, which includes the $72 million asset impairment charge and an increase in operating expenses as a percentage of revenues.

Corporate expenses, net of other income increased for the second quarter and the first six months of 2011 primarily due to additional operating expenses.

Litigation credit: In the second quarter of 2010, we recorded a net credit of $20 million relating to settlements from the securities litigation.

Interest Expense: Interest expense decreased primarily due to the repayment of $215 million of our long-term debt in March 2010. This decrease was partially offset by fees from our accounts receivable securitization facility which are recorded in interest expense commencing in 2011.

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McKESSON CORPORATION
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Income Taxes: The Company s reported income tax rates for the second quarters of 2011 and 2010 were 32.2% and 29.0% and for the first six months of 2011 and 2010 were 32.2% and 30.3%. Fluctuations in our reported income tax rates are primarily due to changes within state and foreign tax rates resulting from our business mix, including varying proportions of income attributable to foreign countries that have lower income tax rates. In addition, the changes in the tax rates also include a decrease in various discrete income tax benefits.

Discontinued Operation: In July 2010, our Technology Solutions segment sold its wholly-owned subsidiary, McKesson Asia Pacific Pty Limited (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 condensed statement of operations in the second quarter of 2011. Should we incur a capital gain within our continuing operations during the remainder of 2011, some portion or all of the $15 million valuation allowance reversal could be reclassified to continuing operations. The historical financial operating results and net assets of MAP were not material to our condensed consolidated financial statements for all periods presented.

Net Income: Net income was $327 million and $301 million for the second quarters of 2011 and 2010, or $1.25 and $1.11 per diluted common share. Net income was $625 million and $589 million for the first six months of 2011 and 2010, or $2.34 and $2.17 per diluted common share. Net income and diluted earnings per common share for 2011 include a gain of $72 million or $0.28 and $0.27 per diluted share for the second quarter and first six months, respectively, relating to our sale of MAP.

Weighted Average Diluted Common Shares Outstanding (WASO): Diluted earnings per common share were calculated based on a weighted average number of shares outstanding of 262 million and 271 million for the second quarters of 2011 and 2010 and 267 million and 272 million for the six months ended September 30, 2010 and 2009. Our WASO decreased primarily reflecting a decrease in the number of common shares outstanding as a result of stock repurchases, partially offset by the exercise of share-based awards and an increase in common stock equivalents, primarily reflecting our higher stock price.

New Accounting Developments

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 accompanying condensed consolidated financial statements appearing in this Quarterly Report on Form 10-Q.

McKESSON CORPORATION
FINANCIAL REVIEW (CONTINUED)
(UNAUDITED)

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 securitization facility and short-term borrowings under the revolving credit facility and commercial paper, will be sufficient to fund our long-term and short-term capital expenditures, working capital and other cash requirements. In addition, from time-to-time, we may access the long-term debt capital markets to discharge our other liabilities.

Operating activities provided cash of $798 million and $1,533 million during the first six months of 2011 and 2010. Operating activities for 2010 primarily benefitted from improved management of inventories. Cash flows from operations can be significantly impacted by factors such as the timing of receipts from customers, inventory receipts and payments to vendors. Operating activities for 2011 include a non-cash charge of $72 million for an asset impairment of software held for sale.

Investing activities utilized cash of $95 million and $192 million during the first six months of 2011 and 2010 primarily reflecting cash paid for property acquisitions and capitalized software, partially offset by $109 million of net cash received from the sale of MAP.

Financing activities utilized cash of $1,376 million and $267 million during the first six months of 2011 and 2010. Financing activities for 2011 and 2010 include $1,547 million and $322 million in cash paid for stock repurchases.

In April 2008, the Company s Board of Directors (the Board) approved a plan to repurchase $1 billion of the Company s common stock, of which $531 million remained available as of March 31, 2010.

In April 2010, the Board authorized a plan to repurchase up to an additional $1 billion of the Company s common stock. In May 2010, we entered into a capped accelerated share repurchase (ASR) program with a third party financial institution to repurchase $1 billion of the Company s common stock. As a result of the ASR program, we repurchased 12.7 million shares for $1 billion during the first quarter of 2011, which was funded with cash on hand. The ASR program was completed on July 26, 2010 and we received 1.9 million additional shares on July 29, 2010. The total number of shares repurchased under the ASR program was 14.6 million shares at an average price per share of $68.66.

In addition, we repurchased 8.6 million shares for $531 million during the second quarter of 2011 through regular open market transactions at an average price per share of $61.34.

As a result of these purchases, the April 2008 and April 2010 plans have been completed and no amounts remain authorized for repurchase as of September 30, 2010.

In October 2010, the Board authorized a plan to repurchase up to an additional $1 billion of the Company s common stock.

Dividend Policy

In May 2010, the quarterly dividend was raised from $0.12 to $0.18 per common share. 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.

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.

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Selected Measures of Liquidity and Capital Resources

(Dollars in millions)	**September 30, 2010**	**March 31, 2010**
Cash and cash equivalents	$ 3,050	$ 3,731
Working capital	3,859	4,492
Debt, net of cash and cash equivalents	(770)	(1,434)
Debt to capital ratio (1)	25.1%	23.4%
Net debt to net capital employed (2)	(12.7)	(23.5)
Return on stockholders equity (3)	18.5	18.7

(1) Ratio is computed as total debt divided by total debt and stockholders equity.

(2) Ratio is computed as total debt, net of cash and cash equivalents (net debt), divided by 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.

Working capital primarily includes cash and cash equivalents, receivables and inventories, net of drafts and accounts payable, 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 customer requirements. Consolidated working capital decreased primarily due to a decrease in cash and cash equivalents and inventories.

Our ratio of net debt to net capital employed decreased in 2011 primarily due to lower cash and cash equivalents balances and an increase in treasury shares as a result of our share repurchases. Cash equivalents are invested in overnight repurchase agreements collateralized by US Treasury and/or securities that are guaranteed or sponsored by the US government, a US government money market fund, a AAA rated prime money market fund denominated in US dollars, a AAA rated prime money market fund denominated in British pound sterling, and Canadian government securities.

A majority of the remaining cash and cash equivalents is deposited with several financial institutions. Bank deposits in the United States may exceed the amount insured by the Federal Deposit Insurance Corporation. We mitigate the risk of our short-term investment portfolio by investing in government securities, monitoring risk profiles and investment strategies of money market funds and depositing funds with reputable financial institutions.

Credit Resources

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

Accounts Receivable Securitization Facility

In May 2010, we renewed our accounts receivable securitization facility (the Facility) for an additional one year period under terms substantially similar to those previously in place, and in doing so we increased our committed balance from $1.1 billion to $1.35 billion. 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 2011.

Through the Facility, McKesson Corporation, the parent company, transfers certain U.S. pharmaceutical trade accounts receivable on a non-recourse basis to a wholly-owned and consolidated subsidiary which then sells these receivables to a special purpose entity (SPE), which is a wholly-owned, bankruptcy-remote subsidiary of McKesson Corporation that is consolidated in our financial statements. This SPE then sells undivided interests in the pool of accounts receivable to third-party purchaser groups (the Purchaser Groups), which includes financial institutions and commercial paper conduits.

McKESSON CORPORATION
FINANCIAL REVIEW (CONTINUED)
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Prior to 2011, transactions in the Facility were accounted for as sales because we met the requirements of the existing accounting guidance and accounts receivable sold would have been excluded from accounts receivable, net in the accompanying condensed consolidated balance sheet. On April 1, 2010, the Company adopted the new accounting standard for transfers of financial assets. Transactions under the Facility no longer meet the requirements for sales treatment and consequently, the related accounts receivable would continue to be recognized on the Company s condensed consolidated balance sheet. Proceeds received from the Purchaser Groups would be shown as secured borrowings.

At September 30, 2010, there were no securitized accounts receivable balances or secured borrowings outstanding under the Facility. As of March 31, 2010, there were no accounts receivable sold under the Facility. Additionally, there were no sales of interests to the Purchaser Groups in the quarter and six months ended September 30, 2010 or 2009.

Additional information regarding our accounts receivable securitization facility is included in Financial Note 8, Financing Activities, to the accompanying condensed consolidated financial statements appearing in this Quarterly Report on Form 10-Q.

Revolving Credit Facility

We have a syndicated $1.3 billion five-year senior unsecured revolving credit facility, which expires in June 2012. Borrowings under this credit facility bear interest based upon either a Prime rate or the London Interbank Offering Rate. There were no borrowings under this facility for the first six months of 2011 and 2010. As of September 30, 2010 and March 31, 2010, there was no debt balance under this facility; however, there was $41 million in letters of credit issued under this facility which reduces the amount available for borrowing.

Debt Covenants

Our various borrowing facilities, including our accounts receivable securitization facility and our long-term debt are subject to certain covenants. Our principal debt covenant is our debt to capital ratio under our unsecured revolving credit facility, and under our accounts receivable securitization facility, which cannot exceed 56.5%. If we exceed this ratio, repayment of debt outstanding under the revolving credit facility could be accelerated and the availability under the Facility could be reduced. As of September 30, 2010, this ratio was 25.1% and we were in compliance with our other 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.

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FACTORS AFFECTING FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q, including Management s Discussion and Analysis of Financial Condition and Results of Operations in Item 2 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, plans, or estimates, or the negative of t 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 following factors. The reader should not consider this list to be a complete statement of all potential risks and uncertainties:

§ material adverse resolution of pending legal proceedings;

§ changes in the U.S. healthcare industry and regulatory environment;

§ failure to adequately prepare for and accurately assess the scope, duration or financial impact of public health issues on our operations, whether occurring in the United States or abroad;

§ changes in the Canadian healthcare industry and regulatory environment;

§ competition;

§ the frequency or rate of branded drug price inflation and generic drug price deflation;

§ substantial defaults in payments or a material reduction in purchases by, or loss of, a large customer or group purchasing organization;

§ implementation delay, malfunction or failure of internal information systems;

§ the adequacy of insurance to cover property loss or liability claims;

§ the Company s failure to attract and retain customers for its software products and solutions due to integration and implementation challenges, or due to an inability to keep pace with technological advances;

§ loss of third party licenses for technology incorporated into the Company s products and solutions;

§ the Company s proprietary products and services may not be adequately protected and its products and solutions may infringe on the rights of others;

§ system errors or failure of our technology products and solutions to conform to specifications;

§ disaster or other event causing interruption of customer access to the data residing in our service centers;

§ increased costs or product delays required to comply with existing and changing regulations applicable to our businesses and products;

§ failure to comply with and changes in government regulations relating to sensitive personal information and to format and data content standards;

§ the delay or extension of our sales or implementation cycles for external software products;

§ changes in circumstances that could impair our goodwill or intangible assets;

§ foreign currency fluctuations or disruptions to our foreign operations;

§ new or revised tax legislation or challenges to our tax positions;

§ the Company s ability to successfully identify, consummate and integrate strategic acquisitions;

§ changes in accounting principles generally accepted in the United States of America; and

§ general economic conditions, including changes in the financial markets that may affect the availability and cost of credit to the company, its customers or suppliers.

These and other risks and uncertainties are described herein and in other information contained in our publicly available Securities and Exchange Commission 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.

McKESSON CORPORATION

Item 3. Quantitative and Qualitative Disclosures about Market Risk

We believe there has been no material change in our exposure to risks associated with fluctuations in interest and foreign currency exchange rates as disclosed in our 2010 Annual Report on Form 10-K.

Item 4. Controls and Procedures

Our Chief Executive Officer and our Chief Financial Officer, with the participation of other members of the Company s management, have evaluated the effectiveness of the Company s disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (Exchange Act) as of the end of the period covered by this quarterly report, and our Chief Executive Officer and our Chief Financial Officer have concluded that our disclosure controls and procedures are effective based on their evaluation of these controls and procedures as required by paragraph (b) of Exchange Act Rules 13a-15 or 15d-15.

There were no changes in our internal control over financial reporting (as such term is defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) identified in connection with the evaluation required by paragraph (d) of Exchange Act Rules 13a-15 and 15d-15 that occurred during the most recent fiscal quarter that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

The information set forth in Financial Note 12, Other Commitments and Contingent Liabilities, to the accompanying condensed consolidated financial statements appearing in this Quarterly Report on Form 10-Q is incorporated herein by reference.

Item 1A. Risk Factors

There have been no material changes during the period covered by this Quarterly Report on Form 10-Q to the risk factors disclosed in Part I, Item 1A, of our 2010 Annual Report on Form 10-K.

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

The following table provides information on the Company s share repurchases during the second quarter of 2011.

	Share Repurchases[1]			
(In millions, except price per share)	**Total Number of Shares Purchased[3] [4]**	**Average Price Paid Per Share**	**Total Number of Shares Purchased As Part of Publicly Announced Program**	**Approximate Dollar Value of Shares that May Yet Be Purchased Under the Programs**
July 1, 2010 July 31, 2010	2[2]	$	2	$ 531
August 1, 2010 August 31, 2010	8	61.40	8	24
September 1, 2010 September 30, 2010	nil	60.18	nil	
Total	10	61.34	10	

(1)

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

(2) As a result of our Accelerated Share Repurchase (ASR) program, we repurchased 12.7 million shares for $1 billion during the first quarter of 2011. The ASR program was completed on July 26, 2010 and we received 1.9 million additional shares on July 29, 2010. The total number of shares repurchased under the ASR program was 14.6 million shares at an average price per share of $68.66.

(3)

All of the shares purchased were part of the publicly announced share repurchase program.

(4) The number of shares purchased reflects rounding adjustments.

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Item 3. Defaults Upon Senior Securities

None

Item 4. Reserved

Item 5. Other Information

None

Item 6. Exhibits

Exhibit Number	Description
31.1	Certification of the Chief Executive Officer Pursuant to Rule 13a-14(a) and 15d-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of the Chief Financial Officer Pursuant to Rule 13a-14(a) and 15d-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32	Certification Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101	The following materials from the McKesson Corporation Quarterly Report on Form 10-Q for the quarter ended September 30, 2010, formatted in Extensible Business Reporting Language (XBRL): (i) the Condensed Consolidated Statements of Operations, (ii) Condensed Consolidated Balance Sheets, (iii) Condensed Consolidated Statements of Cash Flows, and (iv) related notes.

Furnished herewith.

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McKESSON CORPORATION

SIGNATURES

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

McKesson Corporation

Dated: October 26, 2010

/s/ Jeffrey C. Campbell

Jeffrey C. Campbell
Executive Vice President and Chief Financial Officer

/s/ Nigel A. Rees

Nigel A. Rees
Vice President and Controller