

EMC CORP
Form 10-Q
November 09, 2015
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2015

OR

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

For the transition period from _____ to _____

Commission File Number 1-9853

EMC CORPORATION

(Exact name of registrant as specified in its charter)

Massachusetts

(State or other jurisdiction of
incorporation or organization)

04-2680009

(I.R.S. Employer
Identification Number)

176 South Street

Hopkinton, Massachusetts

(Address of principal executive offices)

(508) 435-1000

(Registrant's telephone number, including area code)

01748

(Zip 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 No

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

Indicate by check mark 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

Accelerated filer

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

Smaller reporting company

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

The number of shares of common stock, par value \$.01 per share, of the registrant outstanding as of September 30, 2015 was 1,938,837,339.

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FACTORS THAT MAY AFFECT FUTURE RESULTS

This Quarterly Report on Form 10-Q contains forward-looking statements, within the meaning of the Federal securities laws, about our business and prospects. The forward-looking statements do not include the potential impact of any mergers, acquisitions, divestitures, securities offerings or business combinations that may be announced or closed after the date hereof. Any statements contained herein that are not statements of historical fact may be deemed to be forward-looking statements. Without limiting the foregoing, the words "believes," "plans," "intends," "expects," "goals" and similar expressions are intended to identify forward-looking statements, although not all forward-looking statements contain these words. Our future results may differ materially from our past results and from those projected in the forward-looking statements due to various uncertainties and risks, including those described in Item 1A of Part II (Risk Factors). The forward-looking statements speak only as of the date of this Quarterly Report and undue reliance should not be placed on these statements. We disclaim any obligation to update any forward-looking statements contained herein after the date of this Quarterly Report.

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FINANCIAL INFORMATIONItem 1. FINANCIAL STATEMENTS
EMC CORPORATION
CONSOLIDATED BALANCE SHEETS
(in millions, except per share amounts)
(unaudited)

	September 30, 2015	December 31, 2014
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 5,324	\$ 6,343
Short-term investments	2,318	1,978
Accounts and notes receivable, less allowance for doubtful accounts of \$87 and \$72	3,134	4,413
Inventories	1,224	1,276
Deferred income taxes	1,088	1,070
Other current assets	649	653
Total current assets	13,737	15,733
Long-term investments	6,642	6,334
Property, plant and equipment, net	3,791	3,766
Intangible assets, net	2,239	2,125
Goodwill	17,083	16,134
Other assets, net	1,853	1,767
Total assets	\$ 45,345	\$ 45,859
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 1,115	\$ 1,696
Accrued expenses	2,831	3,141
Income taxes payable	208	852
Short-term debt (See Note 4)	1,970	—
Deferred revenue	6,187	6,021
Total current liabilities	12,311	11,710
Income taxes payable	380	306
Deferred revenue	4,436	4,144
Deferred income taxes	317	274
Long-term debt (See Note 4)	5,474	5,469
Other liabilities	472	431
Total liabilities	23,390	22,334
Commitments and contingencies (See Note 13)		
Shareholders' equity:		
Preferred stock, par value \$0.01; authorized 25 shares; none outstanding	—	—
Common stock, par value \$0.01; authorized 6,000 shares; issued and outstanding 1,939 and 1,985 shares	19	20
Additional paid-in capital	—	—
Retained earnings	20,958	22,242
Accumulated other comprehensive loss, net	(533)	(366)
Total EMC Corporation's shareholders' equity	20,444	21,896

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Non-controlling interests	1,511	1,629
Total shareholders' equity	21,955	23,525
Total liabilities and shareholders' equity	\$ 45,345	\$ 45,859

The accompanying notes are an integral part of the consolidated financial statements.

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CONSOLIDATED INCOME STATEMENTS(in millions, except per share amounts)
(unaudited)

	For the Three Months Ended		For the Nine Months Ended	
	September 30, 2015	September 30, 2014	September 30, 2015	September 30, 2014
Revenues:				
Product sales	\$3,269	\$ 3,400	\$9,399	\$ 9,728
Services	2,810	2,632	8,290	7,663
	6,079	6,032	17,689	17,391
Costs and expenses:				
Cost of product sales	1,379	1,400	4,141	4,068
Cost of services	995	889	2,917	2,579
Research and development	802	767	2,372	2,239
Selling, general and administrative	2,145	1,990	6,285	5,852
Restructuring and acquisition-related charges	68	39	226	187
Operating income	690	947	1,748	2,466
Non-operating income (expense):				
Investment income	25	29	76	100
Interest expense	(41	) (40	) (121	) (108
Other income (expense), net	22	(103	) 56	(245
Total non-operating income (expense)	6	(114	) 11	(253
Income before provision for income taxes	696	833	1,759	2,213
Income tax provision	168	206	420	532
Net income	528	627	1,339	1,681
Less: Net income attributable to the non-controlling interest in VMware, Inc.	(48	) (40	) (120	) (113
Net income attributable to EMC Corporation	\$480	\$ 587	\$1,219	\$ 1,568
Net income per weighted average share, basic attributable to EMC Corporation common shareholders	\$0.25	\$ 0.29	\$0.63	\$ 0.77
Net income per weighted average share, diluted attributable to EMC Corporation common shareholders	\$0.25	\$ 0.28	\$0.62	\$ 0.76
Weighted average shares, basic	1,934	2,032	1,945	2,033
Weighted average shares, diluted	1,948	2,057	1,963	2,065
Cash dividends declared per common share	\$0.12	\$ 0.12	\$0.34	\$ 0.33

The accompanying notes are an integral part of the consolidated financial statements.

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EMC CORPORATION
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(in millions)
(unaudited)

	For the Three Months Ended		For the Nine Months Ended	
	September 30, 2015	September 30, 2014	September 30, 2015	September 30, 2014
Net income	\$528	\$ 627	\$1,339	\$ 1,681
Other comprehensive income (loss), net of taxes (benefits):				
Foreign currency translation adjustments	(52	) (61	) (137	) (57
Changes in market value of investments:				
Changes in unrealized gains (losses), net of taxes (benefits) of \$(20), \$16, \$(7) and \$65	(31	) 24	(10	) 107
Reclassification adjustment for net losses (gains) realized in net income, net of benefits (taxes) of \$(3), \$(5), \$(16) and \$(11)	(5	) (8	) (26	) (19
Net change in market value of investments	(36	) 16	(36	) 88
Changes in market value of derivatives:				
Changes in unrealized gains (losses), net of taxes (benefits) of \$1, \$3, \$2 and \$3	2	10	11	11
Reclassification adjustment for net losses (gains) included in net income, net of benefits (taxes) of \$2, \$0, \$4 and \$0	3	1	(8	) (2
Net change in the market value of derivatives	5	11	3	9
Change in actuarial net gain (loss) from pension and other postretirement plans:				
Recognition of actuarial net gain (loss) from pension and other postretirement plans, net of taxes (benefits)	—	2	—	2
Reclassification adjustments for net gains from pension and other postretirement plans, net of taxes (benefits)	—	(1	) —	(1
Net change in actuarial gain (loss) from pension and other postretirement plans	—	1	—	1
Other comprehensive income (loss)	(83	) (33	) (170	) 41
Comprehensive income	445	594	1,169	1,722
Less: Net income attributable to the non-controlling interest in VMware, Inc.	(48	) (40	) (120	) (113
Less: Other comprehensive (income) loss attributable to the non-controlling interest in VMware, Inc.	6	1	3	—
Comprehensive income attributable to EMC Corporation	\$403	\$ 555	\$1,052	\$ 1,609

The accompanying notes are an integral part of the consolidated financial statements.

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EMC CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS
(in millions)
(unaudited)

	For the Nine Months Ended	
	September 30, 2015	September 30, 2014
Cash flows from operating activities:		
Cash received from customers	\$19,375	\$19,005
Cash paid to suppliers and employees	(14,894	) (13,868
Dividends and interest received	98	119
Interest paid	(68	) (67
Income taxes paid	(995	) (897
Net cash provided by operating activities	3,516	4,292
Cash flows from investing activities:		
Additions to property, plant and equipment	(671	) (693
Capitalized software development costs	(411	) (382
Purchases of short- and long-term available-for-sale securities	(5,553	) (7,989
Sales of short- and long-term available-for-sale securities	3,389	6,396
Maturities of short- and long-term available-for-sale securities	1,465	2,135
Business acquisitions, net of cash acquired	(1,304	) (1,771
Purchases of strategic and other related investments	(177	) (101
Sales of strategic and other related investments	135	38
Joint venture funding	—	(163
Decrease (increase) in restricted cash	77	(76
Net cash used in investing activities	(3,050	) (2,606
Cash flows from financing activities:		
Proceeds from the issuance of EMC's common stock	293	445
Proceeds from the issuance of VMware's common stock	123	158
EMC repurchase of EMC's common stock	(2,063	) (1,374
VMware repurchase of VMware's common stock	(1,050	) (450
Excess tax benefits from stock-based compensation	62	85
Payment of long-term obligations	—	(1,665
Net proceeds from the issuance of short-term obligations	1,968	—
Dividend payment	(683	) (644
Contributions from non-controlling interests	4	7
Net cash used in financing activities	(1,346	) (3,438
Effect of exchange rate changes on cash and cash equivalents	(139	) (84
Net decrease in cash and cash equivalents	(1,019	) (1,836
Cash and cash equivalents at beginning of period	6,343	7,891
Cash and cash equivalents at end of period	\$5,324	\$6,055
Reconciliation of net income to net cash provided by operating activities:		
Net income	\$1,339	\$1,681
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	1,423	1,370
Non-cash restructuring and other special charges	14	14
Stock-based compensation expense	785	770
Provision for doubtful accounts	50	11

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Deferred income taxes, net	(39) (246)
Excess tax benefits from stock-based compensation	(62) (85)
Gain on previously held interests in strategic investments and joint venture	—	(45)
Impairment of strategic investment	—	33	
Other, net	22	20	
Changes in assets and liabilities, net of acquisitions:			
Accounts and notes receivable	1,201	756	
Inventories	(99	) (252)
Other assets	(92	) 169	
Accounts payable	(537	) (304)
Accrued expenses	(434	) (234)
Income taxes payable	(535	) (122)
Deferred revenue	450	730	
Other liabilities	30	26	
Net cash provided by operating activities	\$3,516	\$4,292	

The accompanying notes are an integral part of the consolidated financial statements.

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EMC CORPORATION
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
(in millions)
(unaudited)

For the nine months ended September 30, 2015:

	Common Stock		Additional Paid-in Capital	Retained Earnings	Accumulated		Non-controlling Interests	Shareholders' Equity			
	Shares	Par Value			Other Comprehensive Loss						
Balance, January 1, 2015	1,985	\$20	\$—	\$22,242	\$ (366	)	\$ 1,629	\$ 23,525		
Stock issued through stock option and stock purchase plans	18	—	293	—	—	—	—	293			
Tax benefit from stock options exercised	—	—	33	—	—	—	—	33			
Restricted stock grants, cancellations and withholdings, net	12	—	(137	)	—	—	—	(137)	
Repurchase of common stock	(76)	(1)	(209)	(1,823)	—	(2,033)
Stock options issued in business acquisitions	—	—	1	—	—	—	—	1			
Stock-based compensation	—	—	845	—	—	—	—	845			
Cash dividends declared	—	—	—	(680	)	—	—	(680)	
Impact from equity transactions of non-controlling interests	—	—	(826)	—	—	(235)	(1,061)	
Change in market value of investments	—	—	—	—	(34)	(2)	(36)	
Change in market value of derivatives	—	—	—	—	4		(1	)	3	
Translation adjustment	—	—	—	—	(137	)	—	(137)	
Net income	—	—	—	1,219	—	—	120	1,339			
Balance, September 30, 2015	1,939	\$19	\$—	\$20,958	\$ (533	)	\$ 1,511	\$ 21,955		

For the nine months ended September 30, 2014:

	Common Stock		Additional Paid-in Capital	Retained Earnings	Accumulated		Non-controlling Interests	Shareholders' Equity	
	Shares	Par Value			Other Comprehensive Loss				
Balance, January 1, 2014	2,020	\$20	\$1,406	\$21,114	\$ (239	)	\$ 1,485	\$ 23,786
Stock issued through stock option and stock purchase plans	29	—	445	—	—	—	—	445	
Tax benefit from stock options exercised	—	—	80	—	—	—	—	80	
Restricted stock grants, cancellations and	9	—	(101)	—	—	—	(101)

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withholdings, net										
Repurchase of common stock	(52)	—	(1,374)	—	—	(1,374)	
Stock options issued in business acquisitions	—	—	33	—	—	—	—	33		
Stock-based compensation	—	—	787	—	—	—	—	787		
Cash dividends declared	—	—	—	(685	)	—	—	(685)	
Impact from equity transactions of non-controlling interests	—	—	(426	)	—	—	24	(402)	
Actuarial gain on pension plan	—	—	—	—	—	1	—	1		
Change in market value of investments	—	—	—	—	—	88	—	88		
Change in market value of derivatives	—	—	—	—	—	9	—	9		
Translation adjustment	—	—	—	—	—	(57)	—	(57)
Convertible debt conversions and warrant settlement	29	—	—	—	—	—	—	—		
Net income	—	—	—	—	1,568	—	113	—	1,681	
Balance, September 30, 2014	2,035	\$20	\$850	—	\$21,997	—	\$(198)	\$ 1,622	\$ 24,291

The accompanying notes are an integral part of the consolidated financial statements.

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EMC CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Basis of Presentation

Company

EMC Corporation (“EMC”) and its subsidiaries develop, deliver and support the information technology (“IT”) industry’s broadest range of information infrastructure and virtual infrastructure technologies, solutions and services. EMC manages the Company as part of a federation of businesses: EMC Information Infrastructure, VMware Virtual Infrastructure, Pivotal and Virtustream.

EMC’s Information Infrastructure business provides a foundation for organizations to store, manage, protect, analyze and secure ever-increasing quantities of information, while at the same time improving business agility, lowering cost, and enhancing competitive advantage. EMC’s Information Infrastructure business comprises three segments – Information Storage, Enterprise Content Division and RSA Information Security. The results of Virtustream are currently reported within our Information Storage segment.

EMC’s VMware Virtual Infrastructure business, which is represented by EMC’s majority equity stake in VMware, Inc. (“VMware”), is the leader in virtualization infrastructure solutions utilized by organizations to help them transform the way they build, deliver and consume IT resources. VMware’s virtualization infrastructure solutions, which include a suite of products and services designed to deliver a software-defined data center, run on industry-standard desktop computers and servers and support a wide range of operating system and application environments, as well as networking and storage infrastructures.

EMC’s Pivotal business (“Pivotal”) unites strategic technology, people and programs from EMC and VMware and has built a new platform comprised of next-generation data, agile development practices and a cloud independent platform-as-a-service (“PaaS”). These capabilities are made available through Pivotal’s three primary offerings: Pivotal Cloud Foundry, the Pivotal Big Data Suite and Pivotal Labs.

Proposed Transaction with Dell

On October 12, 2015, EMC entered into an Agreement and Plan of Merger (the “Merger Agreement”) among EMC, Denali Holding Inc., a Delaware corporation (“Parent”), Dell Inc., a Delaware corporation, and Universal Acquisition Co., a Delaware corporation and direct wholly owned subsidiary of Parent (“Merger Sub”), pursuant to which, among other things and subject to the conditions set forth therein, Merger Sub will merge with and into EMC (the “Merger”), with EMC continuing as the surviving corporation and a wholly owned subsidiary of Parent.

At the effective time of the Merger (“Effective Time”), each share of EMC common stock issued and outstanding will be canceled and converted into the right to receive (i) \$24.05 in cash and (ii) a number of shares of common stock of Parent designated as Class V Common Stock, par value \$0.01 per share (the “Class V Common Stock”), equal to the quotient obtained by dividing (A) 222,966,450 by (B) the aggregate number of shares of EMC common stock issued and outstanding immediately prior to the Effective Time. The aggregate number of shares of Class V Common Stock issued as Merger Consideration in the transaction is intended to represent 65% of EMC’s economic interest in the approximately 81% of the outstanding shares of VMware currently owned by the EMC, reflecting approximately 53% of the total economic interest in the outstanding shares of VMware. Upon completion of the transaction, Parent will retain the remaining 28% of the total economic interest in the outstanding shares of VMware. Based on the estimated number of shares of EMC common stock at the closing of the transaction, EMC shareholders are expected to receive approximately 0.111 shares of Class V Common Stock for each share of EMC common stock.

Under the terms of the Merger Agreement, EMC may solicit alternative acquisition proposals from third parties until 11:59 p.m. on December 11, 2015. The Merger Agreement contains specified termination rights for both Parent and EMC, including that, in general, either party may terminate if the Merger is not consummated on or before December 16, 2016. If EMC terminates the Merger Agreement, we are required to pay Parent a termination fee of \$2.5 billion (or, if EMC terminates for a superior proposal prior to December 12, 2015, the termination fee payable by EMC to Parent will be \$2 billion). If Parent terminates the Merger Agreement, they are required to pay a termination fee of \$4 billion under specified circumstances, and in certain instances, an alternative termination fee of \$6 billion.

The transaction is expected to close in mid-2016. The completion of the Merger is subject to certain conditions including EMC shareholder approval, the expiration or termination of the applicable waiting period under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, the receipt of certain other regulatory approvals in various jurisdictions and the effectiveness of the registration statement on Form S-4 to be filed by Parent in connection with the registration of shares of Class V Common Stock issuable in connection with the Merger.

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EMC CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

The Merger Agreement contains representations and warranties customary for transactions of this nature. EMC has agreed to various customary covenants and agreements, including, among others, agreements to conduct its business in the ordinary course during the period between the execution of the Merger Agreement and the effective time of the Merger. In addition, without the consent of Parent, EMC may not take, authorize, agree or commit to do certain actions outside of the ordinary course of business, including acquiring businesses or incurring capital expenditures above specified thresholds, issuing additional debt facilities and repurchasing outstanding EMC common stock. Under the terms of the Merger Agreement, EMC is required to provide Parent with access to EMC's cash to help fund the Merger consideration. At this time, EMC has not finalized its plan to access such cash and has not determined if there would be a need to repatriate cash to meet the requirements of the Merger. To date, we have asserted our overseas cash as indefinitely reinvested; however if these overseas funds are required to be repatriated to the U.S. in accordance with the Merger Agreement, we may be required to accrue and pay U.S. taxes to repatriate these funds. Other than transaction expenses associated with the proposed Merger, the terms of the Merger Agreement did not impact EMC's consolidated financial statements as of and for the three and nine months ended September 30, 2015.

General

The accompanying interim consolidated financial statements are unaudited and have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP") for interim financial information. These consolidated financial statements include the accounts of EMC, its wholly owned subsidiaries, as well as VMware and Pivotal, companies majority-owned by EMC. All intercompany transactions have been eliminated. Certain information and footnote disclosures normally included in our annual consolidated financial statements have been condensed or omitted. Accordingly, these interim consolidated financial statements should be read in conjunction with the audited consolidated financial statements for the year ended December 31, 2014 which are contained in our Annual Report on Form 10-K filed with the Securities and Exchange Commission on February 27, 2015.

The results of operations for the interim periods are not necessarily indicative of the results of operations to be expected for any future period or the entire fiscal year. The interim consolidated financial statements, in the opinion of management, reflect all adjustments necessary to fairly state the results as of and for the three- and nine-month periods ended September 30, 2015 and 2014.

Net Income Per Share

Basic net income per weighted average share has been computed using the weighted average number of shares of common stock outstanding during the period. Diluted net income per weighted average share is computed using the weighted average number of common and dilutive common equivalent shares outstanding during the period. Common equivalent shares consist of stock options, restricted stock and restricted stock units, and in the three and nine months ended September 30, 2014, the shares issuable under our \$1.725 billion 1.75% convertible senior notes due 2013 (the "2013 Notes") and the associated warrants. Additionally, for purposes of calculating diluted net income per weighted average share, net income is adjusted for the difference between VMware's reported diluted and basic net income per weighted average share, if any, multiplied by the number of shares of VMware held by EMC.

Investments in Joint Ventures

We make investments in joint ventures. For each joint venture investment, we consider the facts and circumstances in order to determine whether it qualifies for cost, equity or fair value method accounting or whether it should be consolidated.

In 2009, Cisco and EMC formed VCE Company LLC ("VCE"), with investments from VMware and Intel. In December 2014, EMC acquired the controlling interest in VCE and, since the date of acquisition, has consolidated VCE's financial position and results of operations as part of EMC's consolidated financial statements.

Prior to the acquisition of the controlling interest in VCE, we considered VCE a variable interest entity and accounted for the investment under the equity method with our portion of the gains and losses recognized in other expense, net in the consolidated income statements for the majority of 2014. Our consolidated share of VCE's losses, based upon our portion of the overall funding, was approximately 65% and 64% for the three and nine months ended September 30, 2014, respectively. During the three and nine months ended September 30, 2014, we recorded \$101 million and \$261 million, respectively, in net losses from VCE and \$207 million and \$550 million, respectively, in revenue from sales of product and services to VCE.

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EMC CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

Reclassifications

Certain prior year amounts have been reclassified to conform with the current year's presentation. In April 2015, the Financial Accounting Standards Board ("FASB") issued updated guidance to clarify the required presentation of debt issuance costs. The amended guidance requires that debt issuance costs be presented in the balance sheet as a direct reduction from the carrying amount of the related debt liability rather than as an asset. We adopted the guidance during the second quarter of 2015, and accordingly, reclassified the debt issuance costs on our consolidated balance sheets. There was no impact to our consolidated income statements or statements of cash flows.

Recent Accounting Pronouncements

In September 2015, the FASB issued updated guidance related to simplifying the accounting for measurement period adjustments related to business combinations. The amended guidance eliminates the requirement to retrospectively account for adjustments made during the measurement period. The standard is effective beginning January 1, 2016, with early adoption permitted. We do not expect it to have a material impact on our consolidated financial position, results of operations or cash flows.

In April 2015, the FASB issued guidance to customers about whether a cloud computing arrangement includes software and how to account for that software license. The new guidance does not change the accounting for a customer's accounting for service contracts. The standard is effective beginning January 1, 2017, with early adoption permitted, and may be applied prospectively or retrospectively. We do not expect it to have a material impact on our consolidated financial position, results of operations or cash flows.

In May 2014, the FASB issued a standard on revenue recognition providing a single, comprehensive revenue recognition model for all contracts with customers. The revenue standard is based on the principle that revenue should be recognized to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The standard, as amended, is effective beginning January 1, 2018, with early adoption permitted but not earlier than the original effective date of January 1, 2017. The principles may be applied retrospectively to each prior period presented or retrospectively with the cumulative effect recognized as of the date of initial application. We are currently evaluating the adoption method options and the impact of the new guidance on our consolidated financial statements.

2. Non-controlling Interests

The non-controlling interests' share of equity in VMware is reflected as a component of the non-controlling interests in the accompanying consolidated balance sheets and was \$1,406 million and \$1,524 million as of September 30, 2015 and December 31, 2014, respectively. At September 30, 2015, EMC held approximately 97% of the combined voting power of VMware's outstanding common stock and approximately 81% of the economic interest in VMware.

The effect of changes in our ownership interest in VMware on our equity was as follows (table in millions):

	For the Nine Months Ended	
	September 30, 2015	September 30, 2014
Net income attributable to EMC Corporation	\$1,219	\$1,568
Transfers (to) from the non-controlling interests in VMware, Inc.:		
Increase in EMC Corporation's additional paid-in-capital for VMware's equity issuances	60	84
Decrease in EMC Corporation's additional paid-in-capital for VMware's other equity activity	(886)	(510)
Net transfers (to) from non-controlling interest	(826)	(426)

Change from net income attributable to EMC Corporation and transfers from the non-controlling interest in VMware, Inc.	\$393	\$1,142
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The non-controlling interests' share of equity in Pivotal is reflected as a component of the non-controlling interests in the accompanying consolidated balance sheets as \$105 million at both September 30, 2015 and December 31, 2014. At September 30, 2015, EMC consolidated held approximately 84% of the economic interest in Pivotal. General Electric Company's ("GE") interest in Pivotal is in the form of a preferred equity instrument. Consequently, there is no net income attributable to non-controlling interest related to Pivotal on the consolidated income statements. Additionally, due to the terms of the preferred instrument, GE's non-controlling interest on the consolidated balance sheets is generally not impacted by Pivotal's equity related activity. The preferred equity instrument is convertible into common shares at GE's election at any time.

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EMC CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

3. Business Combinations, Intangibles and Goodwill

Acquisition of Virtustream

On July 9, 2015, EMC acquired all of the outstanding capital stock of Virtustream Group Holdings, Inc. (“Virtustream”), a cloud software and services company that delivers mission-critical enterprise applications in the cloud. This acquisition represents a key element of EMC’s strategy to help customers move applications to cloud-based IT environments. The consideration paid for Virtustream was \$1,219 million, net of cash acquired.

The following table summarizes the allocation of the consideration to the fair value of the assets acquired and net liabilities assumed, net of cash acquired (table in millions):

Current assets	\$18	
Property, plant and equipment, net	14	
Intangible assets:		
Purchased technology (weighted-average useful life of 8.6 years)	302	
Customer relationships and customer lists (weighted-average useful life of 12.3 years)	50	
Trademarks and tradenames (weighted-average useful life of 7.6 years)	27	
Total intangible assets, net, excluding goodwill	379	
Goodwill	891	
Other assets, net	12	
Total assets acquired	1,314	
Current liabilities	(27)
Deferred income taxes	(61)
Other liabilities	(7)
Total net liabilities assumed	(95)
Fair value of assets acquired and net liabilities assumed	\$1,219	

The total weighted-average amortization period for the intangible assets is 9.0 years. The intangible assets are being amortized over the pattern in which the economic benefits of the intangible assets are being utilized, which in general reflects the cash flows generated from such assets. Goodwill is calculated as the excess of the consideration over the fair value of the net assets, including intangible assets, recognized and is primarily related to expected synergies from the transaction, including complementary products that will enhance our overall product portfolio, which we believe will result in incremental revenue and profitability. The goodwill associated with this acquisition is currently reported within our Information Storage segment. None of the goodwill is deductible for tax purposes. The results of this acquisition have been included in the consolidated financial statements from the date of purchase. Pro forma results of operations have not been presented as the results of the acquired company were not material to our consolidated results of operations for the nine months ended September 30, 2015 or 2014.

Other Acquisitions

During the nine months ended September 30, 2015, EMC acquired five businesses, excluding Virtustream, which were not material either individually or in the aggregate to our September 30, 2015 results. Complementing the Information Storage segment, we acquired all of the outstanding capital stock of Renasar Technologies, Inc., a provider of extensible physical middleware, CloudLink, a provider of cloud data security software and Graphite Systems, a developer of server-side flash storage. Complementing our Pivotal segment, we acquired all of the

outstanding capital stock of Quickstep Technologies, LLC, a query execution technology developer. VMware acquired all of the outstanding capital stock of Immidio B.V.

The aggregate consideration for these five acquisitions was \$89 million which represents cash consideration, net of cash acquired in the third quarter of 2015. The consideration was allocated to the fair value of the assets acquired and liabilities assumed based on estimated fair values as of the respective acquisition dates. The aggregate allocation to goodwill, intangibles, and net liabilities was approximately \$64 million, \$33 million and \$8 million, respectively.

The intangible assets acquired were primarily comprised of purchased developed technology which have a weighted-average amortization period of 3.6 years. Most of our intangible assets are being amortized based upon the pattern in which the economic

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

benefits of the intangible assets are being utilized; the remainder are amortized on a straight-line basis. Goodwill is calculated as the excess of the consideration over the fair value of the net assets, including intangible assets, and is primarily related to expected synergies from the transaction. The goodwill is not deductible for U.S. federal income tax purposes. The results of these acquisitions have been included in the consolidated financial statements from the date of purchase. Pro forma results of operations have not been presented as the results of the acquired companies were not material to our consolidated results of operations for the three and nine months ended September 30, 2015 or 2014.

Intangible Assets

Intangible assets, excluding goodwill, as of September 30, 2015 and December 31, 2014 consist of (tables in millions):

	September 30, 2015		
	Gross Carrying Amount	Accumulated Amortization	Net Book Value
Purchased technology	\$3,266	\$(1,845)	) \$1,421
Patents	225	(128)	) 97
Software licenses	111	(94)	) 17
Trademarks and tradenames	253	(151)	) 102
Customer relationships and customer lists	1,523	(1,060)	) 463
Leasehold interest	152	(19)	) 133
Other	46	(40)	) 6
Total intangible assets, excluding goodwill	\$5,576	\$(3,337)	) \$2,239
	December 31, 2014		
	Gross Carrying Amount	Accumulated Amortization	Net Book Value
Purchased technology	\$2,935	\$(1,668)	) \$1,267
Patents	225	(117)	) 108
Software licenses	108	(93)	) 15
Trademarks and tradenames	226	(136)	) 90
Customer relationships and customer lists	1,473	(974)	) 499
Leasehold interest	152	(16)	) 136
Other	44	(34)	) 10
Total intangible assets, excluding goodwill	\$5,163	\$(3,038)	) \$2,125

Goodwill

Changes in the carrying amount of goodwill, net, on a consolidated basis and by segment, for the nine months ended September 30, 2015 consist of (table in millions):

	Nine Months Ended September 30, 2015					
	Information Storage	Enterprise Content Division	RSA Information Security	Pivotal	VMware Virtual Infrastructure	Total
Balance, beginning of the period	\$8,266	\$1,486	\$2,203	\$171	\$4,008	\$16,134
Goodwill resulting from acquisitions	935	—	—	3	17	955
	2	(8)	) —	—	—	(6)

Finalization of purchase price
allocations and other, net

Balance, end of the period	\$9,203	\$1,478	\$2,203	\$174	\$4,025	\$17,083
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4. Debt

Short-Term Debt

On February 27, 2015, we entered into a credit agreement with the lenders named therein, Citibank, N.A., as Administrative Agent, Bank of America, N.A. and JPMorgan Chase Bank, N.A., as Syndication Agents, and Citigroup Global Markets Inc., Merrill Lynch, Pierce, Fenner & Smith Incorporated and J.P. Morgan Securities LLC, as Joint Lead Arrangers and Joint Bookrunners (the

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EMC CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

“Credit Agreement”). The Credit Agreement provides for a \$2.5 billion unsecured revolving credit facility to be used for general corporate purposes that is scheduled to mature on February 27, 2020. At our option, subject to certain conditions, any loan under the Credit Agreement will bear interest at a rate equal to, either (i) the LIBOR Rate or (ii) the Base Rate (defined as the highest of (a) the Federal Funds rate plus 0.50%, (b) Citibank, N.A.’s “prime rate” as announced from time to time, or (c) one-month LIBOR plus 1.00%), plus, in each case the Applicable Margin, as defined in the Credit Agreement. The Credit Agreement contains customary representations and warranties, covenants and events of default. We may also, upon the agreement of the existing lenders and/or additional lenders not currently parties to the agreement, increase the commitments under the credit facility by up to an additional \$1.0 billion. In addition, we may request to extend the maturity date of the credit facility, subject to certain conditions, for additional one-year periods. As of September 30, 2015, we were in compliance with customary required covenants and we had not borrowed any funds under the credit facility. At November 6, 2015, we had \$600 million borrowed under the credit facility.

On March 23, 2015, we established a short-term debt financing program whereby we may issue short-term unsecured commercial paper notes (“Commercial Paper”). Amounts available under the program may be borrowed, repaid and re-borrowed from time to time, with the aggregate face or principal amount of the notes outstanding at any time not to exceed \$2.5 billion. The Commercial Paper will have maturities of up to 397 days from the date of issue. The net proceeds from the issuance of the Commercial Paper are expected to be used for general corporate purposes. As of September 30, 2015, we were in compliance with customary required covenants. At September 30, 2015, we had \$1,970 million of Commercial Paper outstanding, with a weighted-average interest rate of 0.24% and maturities ranging from 34 days to 80 days at the time of issuance. Commercial Paper outstanding is presented in short-term debt in the consolidated balance sheets, and the issuances and proceeds of the Commercial Paper are presented on a net basis in the consolidated statement of cash flows due to their short term nature. At November 6, 2015, we had \$1,565 million of Commercial Paper outstanding.

Long-Term Debt

In June 2013, we issued \$5.5 billion aggregate principal amount of senior notes (collectively, the “Notes”) which pay a fixed rate of interest semi-annually in arrears. The proceeds from the Notes have been used to satisfy the cash payment obligation of the converted 2013 Notes as well as for general corporate purposes including stock repurchases, business acquisitions, dividend payments, working capital needs and other business opportunities. The Notes of each series are senior, unsecured obligations of EMC and are not convertible or exchangeable. Unless previously purchased and canceled, we will repay the Notes of each series at 100% of the principal amount, together with accrued and unpaid interest thereon, at maturity. However, EMC has the right to redeem any or all of the Notes at specified redemption prices. As of September 30, 2015, we were in compliance with all debt covenants, which are customary in nature.

Our long-term debt as of September 30, 2015 was as follows (dollars in millions):

Senior Notes	Issued at Discount to Par	Carrying Value
\$2.5 billion 1.875% Notes due 2018	99.943	% \$2,499
\$2.0 billion 2.650% Notes due 2020	99.760	% 1,996
\$1.0 billion 3.375% Notes due 2023	99.925	% 1,000
		\$5,495
Debt issuance costs		(21)
Net long-term debt		\$5,474

The unamortized discount on the Notes consists of \$5 million, which will be fully amortized by June 1, 2023. The effective interest rate on the Notes was 2.55% for both the three and nine months ended September 30, 2015.

Convertible Debt

In November 2006, we issued the 2013 Notes. These 2013 Notes matured and a majority of the noteholders exercised their right to convert the outstanding 2013 Notes as of December 31, 2013. Pursuant to the settlement terms, the majority of the converted 2013 Notes were settled on January 7, 2014. At that time, we paid the noteholders \$1.7 billion in cash for the outstanding principal and 35 million shares for the \$858 million in excess of the conversion value over the principal amount, as prescribed by the terms of the 2013 Notes.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

With respect to the conversion value in excess of the principal amount of the 2013 Notes converted, we elected to settle the excess with shares of our common stock based on a daily conversion value, determined in accordance with the indenture, calculated on a proportionate basis for each day of the relevant 20-day observation period. The actual conversion rate for the 2013 Notes was 62.6978 shares of our common stock per one thousand dollars of principal amount of 2013 Notes, which represents a 26.5% conversion premium from the date the 2013 Notes were issued and is equivalent to a conversion price of approximately \$15.95 per share of our common stock.

In connection with the issuance of the 2013 Notes, we entered into separate convertible note hedge transactions with respect to our common stock (the "Purchased Options"). The Purchased Options allowed us to receive shares of our common stock and/or cash related to the excess conversion value that we would pay to the holders of the 2013 Notes upon conversion. We exercised 108 million of the purchased options in conjunction with the planned settlements of the 2013 Notes and received 35 million shares of net settlement on January 7, 2014, representing the excess conversion value of the options.

We also entered into separate transactions in which we sold warrants to acquire, subject to customary anti-dilution adjustments, approximately 215 million shares of our common stock at an exercise price of approximately \$19.55 per share of our common stock. We received aggregate proceeds of \$391 million from the sale of the associated warrants. Upon exercise, the value of the warrants was required to be settled in shares. Approximately half of the associated warrants were exercised in 2012 and the remaining 109 million associated warrants were exercised between February 18, 2014 and March 17, 2014 and were settled with 29 million shares of our common stock.

The Purchased Options and associated warrants had the effect of increasing the conversion price of the 2013 Notes to approximately \$19.31 per share of our common stock, representing an approximate 53% conversion premium based on the closing price of \$12.61 per share of our common stock on November 13, 2006, which was the issuance date of the 2013 Notes.

Interest Rate Swap Contracts

In 2010, EMC entered into interest rate swap contracts with an aggregate notional amount of approximately \$900 million. These swaps were designated as cash flow hedges of the semi-annual interest payments of the forecasted issuance of debt in 2011. In 2012, the interest rate swap contracts were settled and accumulated losses of \$176 million were deferred as they were expected to be realized over the life of the new debt issued under the related interest rate swap contracts. The accumulated realized losses related to the settled swaps included in accumulated other comprehensive income are being realized over the remaining life of the ten year Notes. During the three and nine months ended September 30, 2015, \$6 million and \$17 million, respectively, in losses were reclassified from other comprehensive income and recognized as interest expense in the consolidated income statements.

5. Fair Value of Financial Assets and Liabilities

Our fixed income and equity investments are classified as available for sale and recorded at their fair market values. We determine fair value using the following hierarchy:

Level 1 – Quoted prices in active markets for identical assets or liabilities.

Level 2 – Inputs other than Level 1 that are observable, either directly or indirectly, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3 – Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

Most of our fixed income securities are classified as Level 2, with the exception of some of our U.S. government and agency obligations and our investments in publicly traded equity securities, which are classified as Level 1, and all of our auction rate securities, which are classified as Level 3. In addition, our strategic investments held at cost are

classified as Level 3. At September 30, 2015, the vast majority of our Level 2 securities were priced by pricing vendors. These pricing vendors utilize the most recent observable market information in pricing these securities or, if specific prices are not available for these securities, use other observable inputs like market transactions involving identical or comparable securities. In the event observable inputs are not available, we assess other factors to determine the security's market value, including broker quotes or model valuations. Each month, we perform independent price verifications of all of our fixed income holdings. In the event a price fails a pre-established tolerance check, it is researched so that we can assess the cause of the variance to determine what we believe is the appropriate fair market value.

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EMC CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

In general, investments with remaining effective maturities of 12 months or less from the balance sheet date are classified as short-term investments. Investments with remaining effective maturities of more than 12 months from the balance sheet date are classified as long-term investments. Our publicly traded equity securities are classified as long-term investments and our strategic investments held at cost are classified as other assets. As a result of the lack of liquidity for auction rate securities, we have classified these as long-term investments as of September 30, 2015 and December 31, 2014. At September 30, 2015 and December 31, 2014, all of our short- and long-term investments, excluding auction rate securities, were recognized at fair value, which was determined based upon observable inputs from our pricing vendors for identical or similar assets. At September 30, 2015 and December 31, 2014, auction rate securities were valued using a discounted cash flow model.

The following tables summarize the composition of our short- and long-term investments at September 30, 2015 and December 31, 2014 (tables in millions):

	September 30, 2015			
	Amortized Cost	Unrealized Gains	Unrealized (Losses)	Aggregate Fair Value
U.S. government and agency obligations	\$2,376	\$5	\$(1)	) \$2,380
U.S. corporate debt securities	2,549	4	(5)	) 2,548
High yield corporate debt securities	370	2	(22)	) 350
Asset-backed securities	30	—	—	) 30
Municipal obligations	850	2	—	) 852
Auction rate securities	27	—	(2)	) 25
Foreign debt securities	2,559	3	(8)	) 2,554
Total fixed income securities	8,761	16	(38)	) 8,739
Publicly traded equity securities	178	52	(9)	) 221
Total	\$8,939	\$68	\$(47)	) \$8,960
	December 31, 2014			
	Amortized Cost	Unrealized Gains	Unrealized (Losses)	Aggregate Fair Value
U.S. government and agency obligations	\$1,951	\$2	\$(2)	) \$1,951
U.S. corporate debt securities	1,998	1	(4)	) 1,995
High yield corporate debt securities	570	9	(16)	) 563
Asset-backed securities	53	—	—	) 53
Municipal obligations	948	2	—	) 950
Auction rate securities	29	—	(2)	) 27
Foreign debt securities	2,566	2	(4)	) 2,564
Total fixed income securities	8,115	16	(28)	) 8,103
Publicly traded equity securities	117	103	(11)	) 209
Total	\$8,232	\$119	\$(39)	) \$8,312

We held approximately \$2,554 million in foreign debt securities at September 30, 2015. These securities have an average credit rating of A+, and approximately 4% of these securities are deemed sovereign debt with an average credit rating of AA+. None of the securities deemed sovereign debt are from Argentina, Greece, Italy, Ireland, Portugal, Spain, Cyprus or Puerto Rico.

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EMC CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

The following tables represent our fair value hierarchy for our financial assets and liabilities measured at fair value as of September 30, 2015 and December 31, 2014 (tables in millions):

	September 30, 2015			Total
	Level 1	Level 2	Level 3	
Cash	\$1,643	\$—	\$—	\$1,643
Cash equivalents	3,264	417	—	3,681
U.S. government and agency obligations	1,404	976	—	2,380
U.S. corporate debt securities	—	2,548	—	2,548
High yield corporate debt securities	—	350	—	350
Asset-backed securities	—	30	—	30
Municipal obligations	—	852	—	852
Auction rate securities	—	—	25	25
Foreign debt securities	—	2,554	—	2,554
Publicly traded equity securities	221	—	—	221
Total cash and investments	\$6,532	\$7,727	\$25	\$14,284
Other items:				
Strategic investments held at cost	\$—	\$—	\$382	\$382
Investment in joint venture	—	—	38	38
Long-term debt carried at discounted cost	—	(5,514)	—	(5,514)
Foreign exchange derivative assets	—	49	—	49
Foreign exchange derivative liabilities	—	(47)	—	(47)
Commodity derivative liabilities	—	(4)	—	(4)
	December 31, 2014			
	Level 1	Level 2	Level 3	Total
Cash	\$2,022	\$—	\$—	\$2,022
Cash equivalents	3,710	611	—	4,321
U.S. government and agency obligations	1,141	810	—	1,951
U.S. corporate debt securities	—	1,995	—	1,995
High yield corporate debt securities	—	563	—	563
Asset-backed securities	—	53	—	53
Municipal obligations	—	950	—	950
Auction rate securities	—	—	27	27
Foreign debt securities	—	2,564	—	2,564
Publicly traded equity securities	209	—	—	209
Total cash and investments	\$7,082	\$7,546	\$27	\$14,655
Other items:				
Strategic investments held at cost	\$—	\$—	\$333	\$333
Investment in joint venture	—	—	37	37
Long-term debt carried at discounted cost	—	(5,544)	—	(5,544)
Foreign exchange derivative assets	—	44	—	44
Foreign exchange derivative liabilities	—	(71)	—	(71)
Commodity derivative assets	—	12	—	12

Our auction rate securities are predominantly rated investment grade and are primarily collateralized by student loans. The underlying loans of all but one of our auction rate securities, with a market value of \$6 million, have partial

guarantees by the U.S. government as part of the Federal Family Education Loan Program (“FFELP”) through the U.S. Department of Education. FFELP guarantees at least 95% of the loans which collateralize the auction rate securities. We believe the quality of the collateral underlying most of our auction rate securities will enable us to recover our principal balance.

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EMC CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

To determine the estimated fair value of our investment in auction rate securities, we use a discounted cash flow model using a five year time horizon. As of September 30, 2015, the coupon rates used ranged from 0% to 2% and the discount rate was 1%, which rate represents the rate at which similar FFELP backed securities with a five year time horizon outside of the auction rate securities market were trading at September 30, 2015. The assumptions used in preparing the discounted cash flow model include an incremental discount rate for the lack of liquidity in the market (“liquidity discount margin”) for an estimated period of time. The discount rate we selected was based on AA-rated banks as the majority of our portfolio is invested in student loans where EMC acts as a financier to these lenders. The liquidity discount margin represents an estimate of the additional return an investor would require for the lack of liquidity of these securities over an estimated five year holding period. The rate used for the discount margin was 1% at both September 30, 2015 and December 31, 2014 due to the narrowing of credit spreads on AA-rated banks during 2014 and into 2015.

Significant changes in the unobservable inputs discussed above could result in a significantly lower or higher fair value measurement. Generally, an increase in the discount rate, liquidity discount margin or coupon rate results in a decrease in our fair value measurement and a decrease in the discount rate, liquidity discount margin or coupon rate results in an increase in our fair value measurement.

During the three and nine months ended September 30, 2015 and 2014, there were no material changes to the fair value of our auction rate securities.

EMC has a 49% ownership percentage of LenovoEMC Limited, a joint venture with Lenovo that was formed in 2012. We account for our LenovoEMC joint venture using the fair value method of accounting. To determine the estimated fair value at inception of our investment, we used a discounted cash flow model using a three year time horizon, and utilized a discount rate of 6%, which represented the incremental borrowing rate for a market participant. The assumptions used in preparing the discounted cash flow model include an analysis of estimated Lenovo NAS revenue against a prescribed target as well as consideration of the purchase price put and call features included in the joint venture agreement. The put and call features create a floor and a cap on the fair value of the investment. As such, there is a limit to the impact on the fair value that would result from significant changes in the unobservable inputs. We had no changes to the assumptions utilized in the fair value calculation in the third quarter of 2015 and there were no material changes to the fair value of this joint venture during the three and nine months ended September 30, 2015 and 2014.

The carrying value of the strategic investments held at cost were accounted for under the cost method. As part of our quarterly impairment review, we perform a fair value calculation of our strategic investments held at cost using the most currently available information. To determine the estimated fair value of private strategic investments held at cost, we use a combination of several valuation techniques including discounted cash flow models, acquisition and trading comparables. In addition, we evaluate the impact of pre- and post-money valuations of recent financing events and the impact of those on our fully diluted ownership percentages, and we consider any available information regarding the issuer’s historical and forecasted performance as well as market comparables and conditions. The fair value of these investments is considered in our review for impairment if any events and changes in circumstances occur that might have a significant adverse effect on their value.

Investment Losses

Unrealized losses on investments at September 30, 2015 by investment category and length of time the investment has been in a continuous unrealized loss position are as follows (table in millions):

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	Less Than 12 Months		12 Months or Greater		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
U.S. government and agency obligations	\$321	\$(1)	\$—	\$—	\$321	\$(1)
U.S. corporate debt securities	1,103	(5)	—	—	1,103	(5)
High yield corporate debt securities	239	(17)	30	(5)	269	(22)
Auction rate securities	—	—	25	(2)	25	(2)
Foreign debt securities	1,220	(8)	—	—	1,220	(8)
Publicly traded equity securities	2	(1)	19	(8)	21	(9)
Total	\$2,885	\$(32)	\$74	\$(15)	\$2,959	\$(47)

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EMC CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

For all of our securities for which the amortized cost basis was greater than the fair value at September 30, 2015, we have concluded that currently we neither plan to sell the security nor is it more likely than not that we would be required to sell the security before its anticipated recovery. In making the determination as to whether the unrealized loss is other-than-temporary, we considered the length of time and extent the investment has been in an unrealized loss position, the financial condition and near-term prospects of the issuers, the issuers' credit rating and the time to maturity.

Contractual Maturities

The contractual maturities of fixed income securities held at September 30, 2015 are as follows (table in millions):

	September 30, 2015	
	Amortized Cost Basis	Aggregate Fair Value
Due within one year	\$2,302	\$2,303
Due after 1 year through 5 years	5,618	5,617
Due after 5 years through 10 years	523	503
Due after 10 years	318	316
Total	\$8,761	\$8,739

Short-term investments on the consolidated balance sheet include \$15 million in variable rate notes which have contractual maturities in 2015, and are not classified within investments due within one year above.

6. Inventories

Inventories consist of (table in millions):

	September 30, 2015	December 31, 2014
Work-in-process	\$580	\$627
Finished goods	644	649
	\$1,224	\$1,276

7. Accounts and Notes Receivable and Allowance for Credit Losses

Accounts and notes receivable are recorded at cost. The portion of our notes receivable due in one year or less are included in accounts and notes receivable and the long-term portion is included in other assets, net on the consolidated balance sheets. Lease receivables arise from sales-type leases of products. We typically sell, without recourse, the contractual right to the lease payment stream and assets under lease to third parties. For certain customers, we retain the lease.

The contractual amounts due under the leases we retained as of September 30, 2015 were as follows (table in millions):

Year	Contractual Amounts Due Under Leases
Due within one year	\$65
Due within two years	45
Due within three years	31
Thereafter	1
Total	142
Less: Amounts representing interest	5
Present value	137
Current portion (included in accounts and notes receivable)	62
Long-term portion (included in other assets, net)	\$75

Subsequent to September 30, 2015, we sold \$23 million of these notes to third parties without recourse.

We maintain an allowance for credit losses on our accounts and notes receivable. The allowance is based on the credit worthiness of our customers, including an assessment of the customer's financial position, operating performance and their ability to meet their contractual obligation. We assess the credit scores for our customers each quarter. In addition, we consider our historical

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EMC CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

experience, the age of the receivable and current market and economic conditions. Uncollectible amounts are charged against the allowance account.

In the event we determine that a lease may not be paid, we include in our allowance an amount for the outstanding balance related to the lease receivable. As of September 30, 2015, amounts from lease receivables past due for more than 90 days were not significant.

During the three and nine months ended September 30, 2015 and 2014, there were no material changes to our allowance for credit losses related to lease receivables.

Gross lease receivables totaled \$142 million and \$233 million as of September 30, 2015 and December 31, 2014, respectively, before the allowance. The components of these balances were individually evaluated for impairment and included in our allowance determination as necessary.

8. Property, Plant and Equipment

Property, plant and equipment consist of (table in millions):

	September 30, 2015	December 31, 2014
Furniture and fixtures	\$ 280	\$255
Equipment and software	7,305	6,684
Buildings and improvements	2,357	2,308
Land		

**McKESSON CORPORATION
FINANCIAL NOTES (Continued)**

Separate class actions based on essentially the same factual allegations were subsequently filed against the Company and FDB in the United States District Court for the District of Massachusetts by the City of Panama City, Florida on August 18, 2008 (Florida Action), the State of Oklahoma on October 15, 2008 (Oklahoma Action), the County of Anoka, Minnesota on November 3, 2008 (Minnesota Action), Baltimore, Maryland on November 7, 2008 (Maryland Action), Columbia, South Carolina on December 12, 2008 (South Carolina Action) and Goldsboro, North Carolina on December 15, 2008 (North Carolina Action) in each case on behalf of the filing entity and a class of state and local governmental entities within the same state, alleging violations of civil RICO, federal and state antitrust laws and various state consumer protection and deceptive and unfair trade practices statutes and seeking damages and treble damages, civil penalties, as

well as injunctive relief, interest, attorneys' fees and costs of suit, all in unspecified amounts.

On December 24, 2008, an amended and consolidated class action complaint was filed in the Douglas County, Kansas Action. The amended complaint added the named plaintiffs from the Florida, Oklahoma, Minnesota, Maryland, South Carolina and North Carolina Actions and abandoned the previously alleged antitrust claims. On January 9, 2009, the Florida, Oklahoma, Minnesota, Maryland, South Carolina and North Carolina Actions were voluntarily dismissed without prejudice. On March 3, 2009, a second amended and consolidated class action complaint was filed in the Douglas County, Kansas Action, adding the state of Montana as a plaintiff, adding Montana state law claims and adding a claim for tortious interference.

On February 10, 2009, plaintiffs in the Douglas County, Kansas Action filed a notice of dismissal without prejudice of defendant FDB. On April 2, 2009, the Company filed answers to each of the pending complaints in the San Francisco Action, the Connecticut Action and the County of Douglas, Kansas Action, denying the core factual allegations and asserting numerous affirmative defenses. On April 9, 2009, the Company filed a demand for a jury in each of these actions.

On May 20, 2009, an action was filed in the United States District Court for the District of Massachusetts by Oakland County, Michigan and the City of Sterling Heights, Michigan against the Company as the sole defendant, alleging violations of RICO, the Michigan Antitrust Reform Act, the Michigan Consumer Protection Act, the California Cartwright Act and common law fraud and seeking damages, treble damages, interest and attorneys' fees, all in unspecified amounts, *Oakland County, Michigan et al. v. McKesson Corporation*, (Civil Action

No. 1:09-CV-10843-PBS) (Michigan Action). On August 4, 2009, the court granted the Company s motion to stay the Michigan Action.

On February 19, 2010, discovery closed in the consolidated public payer actions. On April 12, 2010, plaintiffs in the Douglas County, Kansas Action withdrew their motion to certify an opt-in state Medicaid class. A hearing on the remaining classes in the Douglas County, Kansas and San Francisco Actions was held on August 31, 2010.

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 Action, or, in the alternative, the claims asserted by the State of Montana on behalf of its Medicaid program in the Douglas County, Kansas Action if the Oklahoma Medicaid claims were resolved before the final pretrial conference, which the court scheduled for January 19, 2011. On December 2, 2010, the Company executed a Memorandum of Understanding documenting an agreement in principle with the States of Oklahoma and Montana to settle and release those States share of their Medicaid claims in the Douglas County, Kansas Action subject to consent from the federal government not to seek any portion of the settlement recovery. In light of the Memorandum of Understanding, on December 7, 2010, the Court vacated the previously reported trial date of January 24, 2011. On January 11, 2011, the court entered a settlement order of dismissal with respect to the Medicaid claims of Oklahoma and Montana, subject to reopening of those actions if the settlement was not consummated by April 11, 2011. On March 23, 2011, the court granted an unopposed motion filed by the States of Oklahoma and Montana to extend the date on which their Medicaid claims would be dismissed.

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**McKESSON CORPORATION
FINANCIAL NOTES (Continued)**

On March 4, 2011, the court entered an order granting in part, and denying in part, plaintiffs' motions for class certification in the Douglas County, Kansas Action and denying plaintiff's motion for class certification in the San Francisco Action. Specifically, the court denied the San Francisco Health Plan's motion to certify a class of governmental entities within the State of California including the state of California itself. In the Douglas County, Kansas Action, the court certified a nationwide class comprised of all non-federal and non-state governmental entities for liability and equitable relief for the period from August 1, 2001, to June 2, 2005, and for damages for the period August 1, 2001, to December 31, 2003.

On March 14, 2011, plaintiffs filed a motion for reconsideration to extend the liability-only class period from June 2, 2005, to September 26, 2009. On March 30, 2011, the court granted, in part, plaintiffs' motion for reconsideration by extending the liability-only class period from June 2, 2005, to October 6, 2006.

On March 18, 2011, the Company filed a petition with the Court of Appeals for the First Circuit seeking permission to appeal the district court's March 4, 2011 class certification order on the grounds that it improperly certified a damages class based on an aggregate damages model that improperly included workers' compensation programs. On March 31, 2011, plaintiffs filed an answer in opposition to the Company's petition as well as a cross-petition for review of the district court's decision to exclude all state entities from the certified class. The First Circuit has not yet ruled on the parties' petitions. No trial date is set in the San Francisco or Douglas County, Kansas Actions.

B. State Medicaid AWP Cases

Beginning in September 2010, a series of suits were filed by individual states in jurisdictions other than the United States District Court for the District of Massachusetts based on essentially the same factual allegations as alleged in *In re McKesson Governmental Entities Average Wholesale Price Litigation*. A description of these actions is as follows:

The Kansas Action

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 FDB 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). On November 22, 2010, the Company filed a motion to dismiss the Kansas Action. On February 24, 2011, the court denied the Company's motion to dismiss. The case is set for trial in August 2012.

The Mississippi Action

On October 8, 2010, an action was filed in the Mississippi state court of Hinds County by the State of Mississippi against the Company asserting claims under RICO, the Mississippi Medicaid Fraud Control Act, the Mississippi Consumer Protection Act, 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.*, (Case No. 251-10-862CIV). On November 9, 2010, the Company filed a

Notice of Removal to the United States District Court, Southern District of Mississippi. On January 27, 2011, the case was remanded back to Mississippi state court after the state dismissed its RICO claim. On February 15, 2011, the Company filed a motion to transfer the Mississippi Action from the Circuit Court of Hinds County to the Chancery Court of Hinds County, or in the alternative, to dismiss the State's claim under the Mississippi Consumer Protection Act for lack of subject matter jurisdiction. The trial court has not yet ruled on the Company's motion.

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**McKESSON CORPORATION
FINANCIAL NOTES (Continued)**

The Alaska Action

On October 12, 2010, an action was filed in Alaska state court by the State of Alaska against the Company and FDB asserting claims under state unfair and deceptive trade practices statutes, and for fraud and civil conspiracy, and seeking damages, treble damages, punitive damages, civil penalties, disgorgement of profits, as well as declaratory relief, interest, attorneys' fees and costs of suit, all in unspecified amounts, *State of Alaska v. McKesson Corporation, et al.*, (Case No. 3AN-10-11348-CI). The Company filed a motion to dismiss the complaint on January 10, 2011. A hearing on the Company's motion to dismiss has not yet been scheduled.

The Wisconsin Qui Tam Action

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). On August 26, 2010, the Wisconsin Department of Justice filed a motion to dismiss this qui tam action, and on December 14, 2010, the court granted the State's motion. No appeal has been filed.

The Utah Action

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 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). On December 22, 2010, the Company filed a motion to dismiss the Utah Action, which has not yet been ruled upon.

The Arizona Administrative Proceeding

On November 5, 2010, the Company received a Notice of Proposed Civil Monetary Penalty from the Office of Inspector General (OIG) for the Arizona Health Care Cost Containment System (AHCCCS) purporting to initiate an administrative claim process against the Company, and seeking civil penalties in the amount of \$101 million and an assessment in the amount of \$112 million for false claims allegedly presented to the Arizona Medicaid program, (Case No. 2010-1218).

On February 28, 2011, the Company filed a complaint in Arizona Superior Court, County of Maricopa, against AHCCCS and its Director, alleging that the administrative proceeding commenced by OIG violates the Arizona Administrative Procedure Act and the Due Process Clauses of the Arizona Constitution and the United States Constitution, and seeking to enjoin OIG's administrative proceeding, a declaratory judgment that AHCCCS lacks jurisdiction and legal authority to impose penalties or assessments against the Company, as well as costs of suit, *McKesson Corporation v. AHCCCS*, (Case No. CV-2011-004446). Also on February 28, 2011, the Company filed an application for an interlocutory order staying, or alternatively dismissing, OIG's administrative proceeding. On April 28, 2011, the trial court ruled that

AHCCCS has no jurisdiction to impose penalties or assessments against the Company and enjoined AHCCCS from prosecuting or reinitiating any penalty proceeding against the Company.

The Hawaii Action

On November 10, 2010, an action was filed in Hawaii state court by the State of Hawaii against the Company and FDB asserting claims under the Hawaii False Claims Act, state unfair and deceptive trade practices statutes, fraud, and civil conspiracy, and seeking damages, treble damages, punitive damages, civil penalties, disgorgement of profits, as well as interest, attorneys fees and costs of suit, all in unspecified amounts, *State of Hawaii v. McKesson Corporation, et al.*, (Civil No. 10-1-2411-11-GWBC). The Company filed a motion to dismiss the complaint on January 14, 2011, which was denied by the trial court on April 12, 2011.

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**McKESSON CORPORATION
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The Louisiana Action

On December 20, 2010, an action was filed in Louisiana state court by the State of Louisiana against the Company asserting claims under state unfair and deceptive trade practices statutes, the Louisiana Medical Assistance Programs Integrity Law, state antitrust statutes, and for fraud, negligent misrepresentation, civil conspiracy, and unjust enrichment, seeking damages, statutory fines, civil penalties, disgorgement of profits, as well as interest, attorneys' fees and costs of suit, all in unspecified amounts, *State of Louisiana v. McKesson Corporation*, (Case No. C597634 Sec. 23). The Company filed a motion to dismiss the complaint on March 7, 2011. A hearing on the Company's motion to dismiss is scheduled for May 9, 2011.

*C. The New Jersey United States
Attorney's Office AWP Investigation*

In June of 2007, the Company was informed that a qui tam action by an unknown relator was previously filed in the United States District Court in the District of New Jersey, purportedly on behalf of the United States, twelve states (California, Delaware, Florida, Hawaii, Illinois, Louisiana, Massachusetts, Nevada, New Mexico, Tennessee, Texas and Virginia) and the District of Columbia against the Company and seven other defendants. The Company has not been provided with the original complaint, which was filed in 2005, and does not know the identity of the original parties to the action. The Company was advised that the United States and the various states are considering whether to intervene in the suit, but none has done so to date. The suit thus remains under seal and has not been served on the Company.

In January 2009, the Company was provided with a courtesy copy of a third

amended complaint filed in the qui tam action. This complaint has also not been served on the Company. The third amended complaint alleges multiple claims against the Company under the federal False Claims Act and the various states' and District of Columbia's false claims statutes. These and additional claims are also alleged against other parties. The claims arise out of alleged manipulation of AWP by defendants which plaintiffs claim caused them to pay more than they should have in reimbursement for prescription drugs covered by various government programs that base reimbursement payments on AWP. The complaint is brought on behalf of the United States, the twelve states named above, ten additional states (Georgia, Indiana, Michigan, Montana, New Hampshire, New Jersey, New York, Oklahoma, Rhode Island and Wisconsin) and the District of Columbia and seeks damages including treble damages and civil penalties (which the relator claims would be several billion dollars) as provided under the various false claims act statutes, as well as attorneys' fees and costs.

As has also been previously reported regarding the New Jersey qui tam action, the United States and various states have been considering whether to intervene in the suit, but none has done so to date. The Company has at all times cooperated with these investigations, and has engaged in settlement discussions with the purpose of resolving all Medicaid related AWP claims by the states and federal government. The pace and progress of settlement discussions accelerated during and after the third quarter of 2011. Except as previously reported with respect to the States of Connecticut, Oklahoma and Montana, the Company has not reached agreement relating to those claims.

As previously reported, during the third quarter of 2009, the Company recorded a pre-tax charge of

\$143 million to establish a reserve for estimated probable losses related to pending and expected AWP claims by public payer entities. As of March 31, 2009 and 2010, the reserve relating to AWP public entity claims was \$143 million. The Company recorded an additional pre-tax charge of \$24 million for the settlement with the State of Connecticut during the second quarter of 2011. In November 2010, a cash payment of \$26 million was made for this settlement. Following the Company's most recent review of the reserve for estimated probable losses from current and possible future public entity AWP claims, which review included consideration of the pace and progress of the above described settlement discussions during and after the third quarter relating to state and federal Medicaid claims, the Company recorded a pre-tax charge of \$189 million within its Distribution Solutions segment's operating expenses during the third quarter of 2011. As of March 31, 2011, the reserve relating to AWP public entity claims was \$330 million and was included in other current liabilities in the consolidated balance sheet. However, in view of the number of outstanding cases and expected future claims, and the uncertainties of the timing and outcome of this type of litigation, it is possible that the ultimate costs of these matters may exceed or be less than the reserve.

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**McKESSON CORPORATION
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II. Other Litigation and Claims

On April 7, 2010, an action was filed in the Superior Court of the State of California for the County of Los Angeles against, among others, the Company, its indirect subsidiary, NDCHealth Corporation (NDC) and Relay Health, a trade name under which NDC conducts business, *Rodriguez et al. v. Etreby Computer Company et al.*, (Civ. No. BC435303) (Rodriguez). The plaintiffs in Rodriguez purport to represent a class of California residents whose individual confidential medical information was allegedly illegally released and used by defendants. Plaintiffs also purport to bring their claims as a private Attorney General action. The claims asserted in the complaint against the Company defendants include negligence, statutory violations and violation of California Business and Professions Code, Sections 17200 *et seq.*, covering unfair, unlawful and fraudulent business acts and practices. The statutory violations alleged by plaintiffs purport to arise out of California Civil Code, Sections 56 through 56.37, also known as the Confidentiality of Medical Information Act (CMIA). The complaint seeks compensatory and statutory damages under the CMIA, equitable and injunctive relief, as well as interest and attorneys fees and costs, all in unspecified amounts. On May 10, 2010, defendants removed the action to United States District Court for the Central District of California, *Rodriguez et al. v. Etreby Computer Company et al.*, (Civil Action No. CV 10-3522-VBF). On June 10, 2010, the Company and NDC moved to dismiss the complaint on grounds that it fails to allege the required element of knowledge by defendants, fails to allege actual harm to any plaintiff and improperly names certain

defendants, including the Company and RelayHealth. On July 23, 2010, the court granted defendants' motion to dismiss on grounds that plaintiffs had failed to sufficiently plead any of their causes of action and gave plaintiffs until August 9, 2010 to file an amended pleading. On December 9, 2010, the parties executed a settlement agreement which, in consideration of payment by the Company of a non-material sum, resolves the claims of all class members who do not affirmatively opt out of the class. On January 12, 2011, the trial court issued an order granting preliminary approval of the settlement, directing notice to the class and setting a hearing for final approval of the settlement. The final approval hearing is presently set to occur on June 27, 2011.

On October 3, 2008, the United States filed a complaint in intervention in a pending qui tam action in the United States District Court for the Northern District of Mississippi, naming as defendants, among others, the Company and its former indirect subsidiary, McKesson Medical-Surgical MediNet Inc. (MediNet), now merged into and doing business as McKesson Medical-Surgical MediMart Inc., *United States ex rel. Jamison v. McKesson Corporation, et al.*, (Civil Action No. 2:08-CV-00214-SA). The United States (USA) alleges violations of the federal False Claims Act, 31 U.S.C. Sections 3729-33, in connection with billing and supply services rendered by MediNet to the long-term care facility operator co-defendants. The action seeks monetary damages in an unstated amount. On July 7, 2009, defendants filed motions to dismiss the action filed by the relator, arguing that the relator was not the original source of the claims which he attempts to pursue in his qui tam action. On March 25, 2010, the trial court granted defendants' motions to dismiss the relator and his complaint, which ruling has been appealed by the relator to the United States Court of

Appeals for the Fifth Circuit. On June 2, 2010, the USA filed a motion for partial summary judgment, seeking a finding that the Company's co-defendant, a Medicare Part B supplier, failed to comply with certain of the 21 Supplier Standards (Standards) established by federal regulations covering such Medicare suppliers, and that the relevant claims for which MediNet provided contract billing and/or supply services were rendered false by reason of such non-compliance. On July 2, 2010 the Company and MediNet filed their opposition to the USA's motion and themselves moved for summary judgment as to certain counts based on numerous arguments, including that the USA cannot, as a matter of law, establish that the co-defendant Medicare Part B supplier failed to meet the Standards. On March 28, 2011, the trial court issued its order denying the motion of the USA and granting the partial summary judgment motions of the Company and its co-defendants on grounds that, as a matter of law, the Standards had not been violated. All causes of action based on the alleged failure to comply with the Standards were dismissed. Discovery regarding the balance of the USA's allegations continues. Trial is presently set to commence on February 6, 2012.

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**McKESSON CORPORATION
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On July 14, 2006, an action was filed in the United States District Court for the Eastern District of New York against McKesson, two McKesson employees, several other drug wholesalers and numerous drug manufacturers, *RxUSA v. Alcon Laboratories et al.*, (Case No. 06-CV-3447-DRH). Plaintiff alleges that the Company, along with various other defendants, unlawfully engaged in monopolization and attempted monopolization of the sale and distribution of pharmaceutical products in violation of the federal antitrust laws, as well as in violation of New York State's Donnelly Act. There are also alleged violations of the Sarbanes-Oxley Act of 2002, the Donnelly Act and Sections 1962 (c) and (d) of the federal civil RICO statute. Plaintiff alleges generally that defendants have individually, and in concert with one another, taken actions to create and maintain a monopoly and to exclude secondary wholesalers, such as the plaintiff, from the wholesale pharmaceutical industry. The complaint seeks monetary damages of approximately \$1.6 billion and also seeks treble damages, attorneys' fees and injunctive relief. All defendants filed motions to dismiss all claims. The motions were briefed and submitted to the trial court on March 13, 2007. On September 24, 2009, the trial court issued its order granting with prejudice defendants' motions to dismiss and on September 28, 2009, the trial court entered judgment dismissing all of plaintiff's claims. On October 23, 2009, plaintiff filed a Notice of Appeal in the United States Court of Appeals for the Second Circuit seeking reversal of the trial court's orders of dismissal and judgment. On August 30, 2010 the Court of Appeals affirmed the rulings of the trial court, including the dismissal of

plaintiff's entire case with prejudice. The period for seeking an appeal to the United States Supreme Court having expired, this matter has been concluded.

The Company is a defendant in approximately 305 cases alleging that the plaintiffs were injured by Vioxx, an anti-inflammatory drug manufactured by Merck & Company (Merck). The cases typically assert causes of action for strict liability, negligence, breach of warranty and false advertising for improper design, testing, manufacturing and warnings relating to the manufacture and distribution of Vioxx. None of the cases involving the Company is scheduled for trial. The Company has tendered each of these cases to Merck and has reached an agreement with Merck to defend and indemnify the Company.

Our subsidiary, Northstar Rx LLC, is one of multiple defendants in approximately 350 cases alleging that plaintiffs were injured after ingesting Reglan and/or its generic equivalent, metoclopramide. The cases usually include claims for strict liability, failure to warn, negligence, and breach of warranty. Most of these cases are pending in state courts in Pennsylvania, California and New Jersey, with other cases pending in Alabama, Louisiana, Missouri, Mississippi, Oklahoma, Oregon and Tennessee. The first case involving Northstar Rx is set for trial in September 2011 in Pennsylvania. Northstar Rx's insurers are providing coverage for these cases. The Company is also named in approximately 550 cases as a distributor of these products.

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. On October 28, 2010 the Company filed a motion to dismiss plaintiff's intentional interference with contractual relations cause of action on grounds, among others, that Wisconsin's economic loss doctrine, which requires parties seeking economic loss to pursue contract, not tort, claims, required dismissal of plaintiff's interference claim as a matter of law. On March 23, 2011 the court granted the Company's motion and dismissed the plaintiff's interference cause of action based on the economic loss doctrine. On March 24, 2011 this action was dismissed with prejudice by stipulation of the parties and without any payment by the Company.

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**McKESSON CORPORATION
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On January 4, 2011, the Company was served with a qui tam complaint that was originally filed in November 2005 in the United States District Court for the Eastern District of Pennsylvania by a relator, a former employee of a Johnson & Johnson affiliate, against the Company, Johnson & Johnson and its affiliate companies, and Omnicare, Inc., alleging that the Company engaged in conduct that violated the federal Anti-Kickback Statute, causing subsequent claims for certain drugs manufactured by Johnson & Johnson to be submitted in violation of the federal False Claims Act and the false claims act statutes of various states, *United States ex rel. Scott Bartz v. Ortho McNeil Pharmaceuticals, Inc., et al.*, (Case No. 2:05-cv-06010). The United States declined to intervene in the suit, which alleges that the Company received illegal kickbacks from Johnson & Johnson that were disguised as discounts and rebates. On February 23, 2011, the case was transferred to the District of Massachusetts. The Company has not yet responded to the complaint.

In August of 2010, the Company was notified by the United States Attorneys Office in Kansas City 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, *United States ex rel. 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. On April 22, 2011, the Company was informed by the United States Attorney's Office that the Department of Justice had determined not to intervene against McKesson and that the qui tam action would be dismissed.

III. Government Investigations and Subpoenas

From time-to-time, the Company receives subpoenas or requests for information from various government agencies. The Company generally responds to such subpoenas and requests in a cooperative, thorough and timely manner. These responses sometimes require considerable time and effort and can result in considerable costs being incurred by the Company. Such subpoenas and requests also can lead to the assertion of claims or the commencement of civil or criminal legal proceedings against the Company and other members of the health care industry, as well as to settlements. In addition to the government investigations associated with the matters reported on in *Other Litigation and Claims* above, examples of such requests and subpoenas include the following: (1) the Company has responded to a request from the Federal Trade Commission for certain documents as part of a non-public investigation to determine whether the Company may have engaged in anti-competitive practices with other wholesale pharmaceutical distributors in order to limit competition for provider customers seeking distribution services; (2) the Company has received and responded to a Civil Investigative Demand from the Attorney General's Office of the State of Tennessee related

to an investigation into possible violations of the Tennessee Medicaid False Claims Act in connection with repackaged pharmaceuticals; (3) the Company has responded to a subpoena from the office of the Attorney General of the State of New York requesting documents and other information concerning its participation in the secondary or alternative source market for pharmaceutical products; (4) the Company has responded to subpoenas and requests for information from a number of Offices of state Attorney Generals or other state agencies, relating to the pricing for branded and generic drugs; and (5) the Company has completed its response to a subpoena, issued by the United States Attorney's Office in Houston, which seeks documents relating to billing and collection services performed by a Company subsidiary for certain healthcare operations associated with the University of Texas from 2004 through the dates of the subpoenas, which investigation the Company has been informed has been closed.

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**McKESSON CORPORATION
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As previously reported, on January 26, 2007, the Company acquired Per-Se Technologies, Inc. (Per-Se), which became a wholly-owned subsidiary. Prior to its acquisition, Per-Se had publicly disclosed that in December 2004, the SEC issued a formal order of investigation relating to accounting matters at NDC, a then public company, which was acquired by Per-Se in January 2006, prior to the Company's acquisition of Per-Se. In March 2005, NDC restated its financial statements for the fiscal years ended May 28, 2004, May 30, 2003 and May 31, 2002, and for the fiscal quarters ended August 22, 2004, and August 29, 2005, to correct errors relating to certain accounting matters. NDC produced documents to the SEC and fully cooperated with the SEC in its investigation. The SEC has taken testimony from a number of current and former NDC employees. There has been no activity in this matter for some time and the SEC has taken no action against NDC or its successor to date.

Prior to its recent acquisition by the Company, US Oncology was informed that the United States Federal Trade Commission (FTC) and the Attorney General for the State of Texas had opened investigations to determine whether a transaction in which certain Austin, Texas based oncology physicians became employees of an existing Texas US Oncology affiliated oncology practice group violated relevant state or federal antitrust laws. US Oncology has responded to requests for information from the government agencies and the Company has continued to cooperate with the FTC and the Texas Attorney General regarding these investigations.

IV. Environmental Matters

Primarily as a result of the operation of the Company's former chemical businesses, which were fully divested by 1987, the Company is involved in various matters pursuant to environmental laws and regulations. The Company has received claims and demands from governmental agencies relating to investigative and remedial actions purportedly required to address environmental conditions alleged to exist at eight sites where it, or entities acquired by it, formerly conducted operations and the Company, by administrative order or otherwise, has agreed to take certain actions at those sites, including soil and groundwater remediation. In addition, the Company is one of multiple recipients of a New Jersey Department of Environmental Protection Agency directive and a separate United States Environmental Protection Agency directive relating to potential natural resources damages (NRD) associated with one of these eight sites. Although the Company's potential allocation under either directive cannot be determined at this time, it has agreed to participate with a potentially responsible party (PRP) group in the funding of an NRD assessment, the costs of which are reflected in the aggregate estimates set forth below.

Based on a determination by the Company's environmental staff, in consultation with outside environmental specialists and counsel, the current estimate of the Company's probable loss associated with the remediation costs for these eight sites is \$7.5 million, net of approximately \$1.9 million that third parties have agreed to pay in settlement or is expected, based either on agreements or nonrefundable contributions which are ongoing, to be contributed by third parties. The \$7.5 million is expected to be paid out between April 2011 and March 2031. The Company's estimated probable loss for these environmental matters has been entirely accrued for in the accompanying

consolidated balance sheets.

In addition, the Company has been designated as a PRP under the Superfund law for environmental assessment and cleanup costs as the result of its alleged disposal of hazardous substances at 19 sites. With respect to these sites, numerous other PRPs have similarly been designated and while the current state of the law potentially imposes joint and several liability upon PRPs, as a practical matter, costs of these sites are typically shared with other PRPs. The Company's estimated probable loss at those 19 sites is approximately \$0.9 million, which has been entirely accrued for in the accompanying consolidated balance sheets. The aggregate settlements and costs paid by the Company in Superfund matters to date have not been significant.

V. Other Matters

The Company is involved in various other litigation and governmental proceedings, not described above, that arise in the normal course of business. While it is not possible to determine with certainty the ultimate outcome or the duration of any such litigation or governmental proceedings, the Company believes, based on current knowledge and the advice of counsel, that such litigation and proceedings will not have a material impact on the Company's financial position or results of operations.

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**McKESSON CORPORATION
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18. 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). In May 2010, the quarterly dividend was raised from \$0.12 to \$0.18 per common share. Dividends were \$0.72 per share in 2011 and \$0.48 per share in 2010 and 2009. In April 2011, the Board approved an increase in the quarterly dividend from \$0.18 to \$0.20 per share, applicable to ensuing quarterly dividend declarations. 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.

Share Repurchase Plans

In April 2010, the Board authorized the repurchase of up to an additional \$1.0 billion of the Company's common stock and in October 2010, authorized the repurchase of up to an additional \$1.0 billion of the Company's common stock. The Board previously authorized the repurchase of up to \$1.0 billion in April 2008. As of March 31, 2011, \$500 million remained available for future repurchases under the October 2010 authorization. In April 2011, the Board authorized the repurchase of up to an additional \$1.0 billion of the Company's common stock. Stock repurchases may be made from time-to-time in open market transactions, privately negotiated transactions, through accelerated share repurchase (ASR) programs, or by any combination of such methods. The timing of any repurchases and the actual

number of shares repurchased will depend on a variety of factors, including our stock price, corporate and regulatory requirements, restrictions under our debt obligations and other market and economic conditions.

In May 2010, we entered into an ASR program with a third party financial institution to repurchase \$1.0 billion of the Company's common stock. As a result of the ASR program, we repurchased 12.7 million shares for \$1.0 billion during the first quarter of 2011, which was funded with cash on hand. The May 2010 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 this program was 14.6 million shares at an average price per share of \$68.66.

In March 2011, we entered into another ASR program with a third party financial institution to repurchase \$275 million of the Company's common stock. The program was funded with cash on hand. As of March 31, 2011, we had received 3.1 million shares representing the minimum number of shares due under the program. The ASR program was completed on May 2, 2011 and we received 0.4 million additional shares on May 5, 2011. The total number of shares repurchased under this ASR program was 3.5 million shares at an average price per share of \$79.65.

Total shares repurchased over the last three years were:

<i>(in millions, except per share data)</i>	Years Ended March 31,		
	2011	2010	2009
Number of shares repurchased ⁽¹⁾	29	8	10
Average price paid per share	\$ 69.62	\$ 41.47	\$ 50.52
Total value of shares repurchased	\$ 2,032	\$ 299	\$ 484

(1) All of the shares repurchased were part of publicly announced programs. The number of shares purchased reflects rounding

adjustments.

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Table of Contents**McKESSON CORPORATION
FINANCIAL NOTES (Continued)**

In July 2008, the Board authorized the retirement of shares of the Company's common stock that may be repurchased from time-to-time pursuant to its stock repurchase program. In 2009, 4 million repurchased shares for a total of \$204 million, were formally retired by the Company. The retired shares constitute authorized but unissued shares. We elected to allocate any excess of share repurchase price over par value between additional paid-in capital and retained earnings. As such, \$165 million was recorded as a decrease to retained earnings.

Accumulated Other Comprehensive Income (Loss)

Information regarding our accumulated other comprehensive income (loss) is as follows:

<i>(In millions)</i>	March 31,	
	2011	2010
Unrealized net loss and other components of benefit plans, net of tax	\$ (157)	\$ (162)
Translation adjustments	244	168
Total	\$ 87	\$ 6

19. Related Party Balances and Transactions

Notes receivable outstanding from certain of our current and former officers and senior managers totaled \$15 million and \$16 million at March 31, 2011 and 2010. These notes related to purchases of common stock under our various employee stock purchase plans. The notes bear interest at rates ranging from 4.7% to 7.1% and were due at various dates through February 2004. Interest income on these notes is recognized only

to the extent that cash is received. These notes, which are included in other capital in the consolidated balance sheets, were issued for amounts equal to the market value of the stock on the date of the purchase and are at full recourse to the borrower. At March 31, 2011, the value of the underlying stock collateral was \$14 million. The collectability of these notes is evaluated on an ongoing basis. At March 31, 2011 and 2010, we provided a reserve of approximately \$1 million and \$4 million for the outstanding notes.

We incurred \$11 million in 2011 and 2010 and \$10 million in 2009 of annual rental expense paid to an equity-held investment.

20. Segments of Business

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.

The Distribution Solutions segment distributes ethical and proprietary drugs, medical-surgical supplies and equipment and health and beauty care products throughout North America. This segment also provides specialty pharmaceutical solutions for biotech and pharmaceutical manufacturers, sells financial, operational and clinical solutions for pharmacies (retail, hospital, alternate site) and provides consulting, outsourcing and other services. This segment includes a 49% interest in Nadro, S.A. de C.V. (Nadro), one of the leading pharmaceutical distributors in Mexico, and a 39% interest in Parata, which sells automated pharmacy and supply management systems and

services to retail and institutional
outpatient pharmacies.

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**McKESSON CORPORATION
FINANCIAL NOTES (Continued)**

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

Revenues for our Technology Solutions segment are classified in one of three categories: services, software and software systems and hardware. Services revenues primarily include fees associated with installing our software and software systems, as well as revenues associated with software maintenance and support, remote processing, disease and medical management, and other outsourcing and professional services. Software and software systems revenues primarily include revenues from licensing our software and software systems, including the segment's clinical auditing and compliance and InterQual® businesses.

Corporate includes expenses associated with Corporate functions and projects, certain employee benefits and the results of certain equity-held investments. Corporate expenses are allocated to the operating segments to the extent that these items can be directly attributable to the segment.

Table of Contents**McKESSON CORPORATION
FINANCIAL NOTES (Continued)**

Financial information relating to the reportable operating segments is presented below:

<i>(In millions)</i>	Years Ended March 31,		
	2011	2010	2009
Revenues			
Distribution Solutions ⁽¹⁾			
Direct distribution & services	\$ 77,554	\$ 72,210	\$ 66,876
Sales to customers warehouses	18,631	21,435	25,809
Total U.S. pharmaceutical distribution & services	96,185	93,645	92,685
Canada pharmaceutical distribution & services	9,784	9,072	8,225
Medical-Surgical distribution & services	2,920	2,861	2,658
Total Distribution Solutions	108,889	105,578	103,568
Technology Solutions			
Services	2,483	2,439	2,337
Software & software systems	590	571	572
Hardware	122	114	155
Total Technology Solutions	3,195	3,124	3,064
Total	\$ 112,084	\$ 108,702	\$ 106,632
Operating profit			
Distribution Solutions ⁽²⁾	\$ 1,897	\$ 1,988	\$ 1,158
Technology Solutions ⁽³⁾	301	385	334

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Total	2,198	2,373	1,492
Corporate	(341)	(342)	(284)
Litigation credit, net		20	
Interest expense	(222)	(187)	(144)
Income from continuing operations before income taxes	\$ 1,635	\$ 1,864	\$ 1,064
Amortization of acquisition-related intangibles⁽⁴⁾			
Distribution Solutions	\$ 70	\$ 54	\$ 51
Technology Solutions	62	67	77
Corporate			
Total	\$ 132	\$ 121	\$ 128
Depreciation and other amortization⁽⁵⁾			
Distribution Solutions	\$ 155	\$ 148	\$ 126
Technology Solutions	147	145	128
Corporate	62	63	59
Total	\$ 364	\$ 356	\$ 313
Expenditures for long-lived assets⁽⁶⁾			
Distribution Solutions	\$ 162	\$ 95	\$ 83
Technology Solutions	26	31	43
Corporate	45	73	69
Total	\$ 233	\$ 199	\$ 195
Segment assets, at year end			
Distribution Solutions	\$ 22,983	\$ 19,803	\$ 18,674
Technology Solutions	3,504	3,635	3,606
Total	26,487	23,438	22,280

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Corporate			
Cash and cash			
equivalents	3,612	3,731	2,109
Other	787	1,020	878
Total	\$ 30,886	\$ 28,189	\$ 25,267

- (1) Revenues derived from services represent less than 1% of this segment's total revenues for 2011, 2010 and 2009.
- (2) Operating profit for 2011 includes a \$213 million charge associated with the AWP litigation and also includes a \$51 million credit 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. Operating profit for 2009 includes a \$63 million charge to write-down two equity-held investments and a \$493 million charge associated with the AWP litigation
- (3) Operating profit in 2011 includes a \$72 million asset impairment charge for capitalized software held for sale.
- (4) Amounts include amortization of acquired intangible assets purchased in connection with acquisitions by the Company.
- (5) Other amortization includes amortization of capitalized software held for sale and capitalized software for internal use.
- (6) Long-lived assets consist of property, plant and equipment.

Table of Contents**McKESSON CORPORATION
FINANCIAL NOTES (Concluded)**

Revenues and property, plant and equipment by geographic areas were as follows:

<i>(In millions)</i>	Years Ended March 31,		
	2011	2010	2009
Revenues			
United States			
	\$ 102,089	\$ 99,387	\$ 98,194
International	9,995	9,315	8,438
Total	\$ 112,084	\$ 108,702	\$ 106,632
Property, plant and equipment, net, at year end			
United States			
	\$ 901	\$ 764	\$ 719
International	90	87	77
Total	\$ 991	\$ 851	\$ 796

International operations primarily consist of our operations in Canada, the United Kingdom, Ireland, other European countries and Israel. We also have an equity-held investment (Nadro) in Mexico. Net revenues were attributed to geographic areas based on the customers shipment locations.

**21. Quarterly Financial Information
(Unaudited)**

<i>(In millions, except per share amounts)</i>	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Year
Fiscal 2011					
Revenues	\$ 27,450	\$ 27,534	\$ 28,247	\$ 28,853	\$ 112,084
Gross profit ⁽¹⁾	1,392	1,366	1,461	1,751	5,970
Net income ⁽¹⁾⁽²⁾	298	327	155	422	1,202
Earnings per common share ⁽¹⁾⁽²⁾					
Diluted					
Continuing operations	\$ 1.10	\$ 0.97	\$ 0.60	\$ 1.62	\$ 4.29
Discontinued operation ⁽³⁾		0.28			0.28

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Total	\$	1.10	\$	1.25	\$	0.60	\$	1.62	\$	4.57
Earnings per common share ⁽¹⁾⁽²⁾										
Basic										
Continuing operations	\$	1.12	\$	0.99	\$	0.61	\$	1.65	\$	4.37
Discontinued operation ⁽³⁾				0.28						0.28
Total	\$	1.12	\$	1.27	\$	0.61	\$	1.65	\$	4.65
Fiscal 2010										
Revenues	\$	26,657	\$	27,130	\$	28,272	\$	26,643	\$	108,702
Gross profit		1,303		1,335		1,455		1,583		5,676
Net income ⁽⁴⁾		288		301		326		348		1,263
Earnings per common share ⁽⁴⁾										
Diluted	\$	1.06	\$	1.11	\$	1.19	\$	1.26	\$	4.62
Basic		1.07		1.13		1.21		1.29		4.70

(1) Financial results for the first quarter and full year of 2011 include a credit of \$51 million representing our share of a settlement of an antitrust class action lawsuit. Financial results for the second quarter and full year 2011 include a \$72 million asset impairment charge for capitalized software held for sale. Financial results of US Oncology are included in our consolidated financial statements beginning in the fourth quarter of 2011.

(2) Financial results for the second and third quarters and full year 2011 include charges of \$24 million pre-tax (\$16 million after-tax), \$189 million pre-tax (\$133 million after-tax) and \$213 million pre-tax (\$149 million after-tax) associated with the AWP litigation.

(3) Financial results for the second quarter and full year of 2011 include a \$95 million pre-tax (\$72 million after-tax) gain from the sale of MAP.

(4) Financial results for the third quarter and full year 2010 include a

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\$17 million pre-tax gain
(\$14 million after-tax) on sale of our
50% interest in MLS.

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McKESSON CORPORATION

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

Not applicable.

Item 9A. Controls and Procedures Disclosure 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 Exchange Act Rules 13a-15(e) and 15d-15(e)) as of the end of the period covered by this report, and 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.

Internal Control over Financial Reporting

Management's report on the Company's internal control over financial reporting (as such term is defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) and the related report of our independent registered public accounting firm are included on page 52 and page 53 of this Annual Report on Form 10-K, under the headings, "Management's Annual Report on Internal Control Over Financial Reporting" and "Report of Independent Registered Public Accounting Firm" and are incorporated herein by reference.

Changes in Internal Controls

There were no changes in our internal control over financial reporting identified in connection with the evaluation required by paragraph (d) of Exchange Act Rules 13a-15 or 15d-15 that occurred during the most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that have materially affected, or

are reasonably likely to materially affect,
our internal control over financial
reporting.

Item 9B. Other Information

Not applicable.

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**McKESSON CORPORATION
PART III**

Item 10. Directors, Executive Officers and Corporate Governance

Information about our Directors is incorporated by reference from the discussion under Item 1 of our Proxy Statement for the 2011 Annual Meeting of Stockholders (the Proxy Statement) under the heading Election of Directors. Information about compliance with Section 16(a) of the Exchange Act is incorporated by reference from the discussion under the heading

Section 16(a) Beneficial Ownership Reporting Compliance in our Proxy Statement. Information about our Audit Committee, including the members of the committee and our Audit Committee Financial Expert, is incorporated by reference from the discussion under the headings Audit Committee Report and Audit Committee Financial Expert in our Proxy Statement.

Information about the Code of Ethics governing our Chief Executive Officer, Chief Financial Officer, Controller and Financial Managers can be found on our Web site, www.mckesson.com, under the Investors Corporate Governance tab. The Company's Corporate Governance Guidelines and Charters for the Audit and Compensation Committees and the Committee on Directors and Corporate Governance can also be found on our Web site under the Investors Corporate Governance tab.

The Company intends to disclose required information regarding any amendment to or waiver under the Code of Ethics referred to above by posting such information on our Web site within four business days after any such amendment or waiver.

Item 11. Executive Compensation

Information with respect to this item is incorporated by reference from the discussion under the heading Executive Compensation in our Proxy Statement.

**Item 12. Security Ownership of
Certain Beneficial Owners and
Management and Related Stockholder
Matters**

Information about security ownership of certain beneficial owners and management is incorporated by reference from the discussion under the heading *Principal Stockholders* in our Proxy Statement.

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McKESSON CORPORATION

The following table sets forth information as of March 31, 2011 with respect to the plans under which the Company's common stock is authorized for issuance:

<i>Plan Category</i>	Number of securities to be issued upon exercise of outstanding options, warrants and rights	Weighted-average exercise price of outstanding options, warrants and rights⁽¹⁾	Number of equity compensation plans including outstanding reflected in the first column
<i>(In millions, except per share amounts)</i>			
Equity compensation plans approved by security holders	13.0 ⁽²⁾	\$52.46	15.8 ⁽³⁾
Equity compensation plans not approved by security holders	1.7 ⁽⁴⁾	\$34.30	

(1) The weighted-average exercise price set forth in this column is calculated excluding outstanding restricted stock unit (RSU) awards, since recipients are not required to pay an exercise price to receive the shares subject to these awards.

(2) Represents options and RSUs awarded under the following plans: (i) 1994 Stock Option and Restricted Stock Plan; (ii) 1997 Non-Employee Directors' Equity Compensation and

Deferral Plan; and (iii) the 2005 Stock Plan

- (3) Represents 2,378,455 shares that remained available for purchase under the 2000 Employee Stock Purchase Plan and 13,431,887 shares available for grant under the 2005 Stock Plan.
- (4) Represents options and RSUs awarded under the following plans: (i) 1999 Stock Option and Restricted Stock Plan; and (ii) the 1998 Canadian Stock Incentive Plan. No further awards will be made under any of these plans.

The following are descriptions of equity plans that have been approved by the Company's stockholders. The plans are administered by the Compensation Committee of the Board of Directors, except for the portion of the 2005 Stock Plan related to Non-Employee Directors, which is administered by the Committee on Directors and Corporate Governance.

2005 Stock Plan: The 2005 Stock Plan was adopted by the Board of Directors on May 25, 2005 and approved by the Company's stockholders on July 27, 2005. The 2005 Stock Plan permits the granting of up to 42.5 million shares in the form of stock options, restricted stock (RS), RSUs, performance-based restricted stock units (PeRSUs) and other share-based awards. For any one share of common stock issued in connection with a RS, RSU, PeRSU or other share-based award, two shares shall be deducted from the shares available for future grants. Shares of common stock not issued or delivered as a result of the net exercise of a stock option, shares used to pay the withholding taxes related to a stock award or shares repurchased on the open market with proceeds from the exercise of options shall not be returned to the reserve of shares available for issuance under the 2005 Stock Plan.

Stock options are granted at no less than fair market value and those options granted under the 2005 Stock Plan generally have a contractual term of seven years. Prior to 2005, stock options typically had a contractual term of ten years. Options generally become exercisable in four equal annual installments beginning one year after the grant date or after four years from the date of grant. The vesting of RS or RSUs is determined by the Compensation Committee at the time of grant. RS and RSUs generally vest over four years. Vesting of PeRSUs ranges from one to three-year periods following the end of the performance period and may follow the graded or cliff method of vesting.

Non-employee directors may be granted an award on the date of each annual meeting of the stockholders for up to 5,000 RSUs, as determined by the Board. Such non-employee director award is fully vested on the date of the grant.

1997 Non-Employee Directors Equity Compensation and Deferral Plan. The 1997 Non-Employee Directors Equity Compensation and Deferral Plan was approved by the Company's stockholders on July 30, 1997; however, stockholder approval of the 2005 Stock Plan on July 27, 2005 had the effect of terminating the 1997 Non-Employee Directors Equity Compensation and Deferral Plan such that no new awards would be granted under the 1997 Non-Employee Directors Equity Compensation and Deferral Plan.

1994 Stock Option and Restricted Stock Plan. The 1994 Stock Option and Restricted Stock Plan expired by its terms on October 18, 2004, ten years after approval by the Board of Directors on October 19, 1994.

2000 Employee Stock Purchase Plan (the ESPP): The ESPP is intended to qualify as an employee stock purchase plan within the meaning of Section 423 of the Internal Revenue Code. In March 2002, the Board amended the

ESPP to allow for participation in the plan by employees of certain of the Company's international and certain other subsidiaries. As to those employees, the ESPP does not qualify under Section 423 of the Internal Revenue Code. Currently, 16 million shares have been approved by stockholders for issuance under the ESPP.

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McKESSON CORPORATION

The ESPP is implemented through a continuous series of three-month purchase periods (Purchase Periods) during which contributions can be made toward the purchase of common stock under the plan.

Each eligible employee may elect to authorize regular payroll deductions during the next succeeding Purchase Period, the amount of which may not exceed 15% of a participant s compensation. At the end of each Purchase Period, the funds withheld by each participant will be used to purchase shares of the Company s common stock. The purchase price of each share of the Company s common stock is based on 85% of the fair market value of each share on the last day of the applicable Purchase Period. In general, the maximum number of shares of common stock that may be purchased by a participant for each calendar year is determined by dividing \$25,000 by the fair market value of one share of common stock on the offering date.

The following are descriptions of equity plans that have not been submitted for approval by the Company s stockholders:

On July 27, 2005, the Company s stockholders approved the 2005 Stock Plan which had the effect of terminating the 1999 Stock Option and Restricted Stock Plan, the 1998 Canadian Stock Incentive Plan and certain 1999 one-time stock option plan awards, which plans had not been submitted for approval by the Company s stockholders, and, as noted above, the 1997 Non-Employee Directors Equity Compensation and Deferral Plan, which had previously been approved by the Company s stockholders. Prior grants under these plans include stock options, RS and RSUs. Stock options under the terminated plans generally have a ten-year life and vest over four years. RS

contains certain restrictions on transferability and may not be transferred until such restrictions lapse. Each of these plans has outstanding equity grants, which are subject to the terms and conditions of their respective plans, but no new grants will be made under these terminated plans.

Item 13. Certain Relationships and Related Transactions and Director Independence

Information with respect to certain transactions with management is incorporated by reference from the Proxy Statement under the heading

Certain Relationships and Related Transactions. Additional information regarding certain related party balances and transactions is included in the Financial Review section of this Annual Report on Form 10-K and Financial Note 19, Related Party Balances and Transactions, to the consolidated financial statements appearing in this Annual Report on Form 10-K.

Item 14. Principal Accounting Fees and Services

Information regarding principal accounting fees and services is set forth under the heading Ratification of Appointment of Deloitte & Touche LLP as the Company's Independent Registered Public Accounting Firm for Fiscal 2012 in our Proxy Statement and all such information is incorporated herein by reference.

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**McKESSON CORPORATION
PART IV**

**Item 15. Exhibits and Financial
Statement Schedule**

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(a)(1) Consolidated Financial Statements	
<u>Report of Deloitte & Touche, LLP, Independent Registered Public Accounting Firm</u>	53
<u>Consolidated Statements of Operations for the years ended March 31, 2011, 2010 and 2009</u>	54
<u>Consolidated Balance Sheets as of March 31, 2011 and 2010</u>	55
<u>Consolidated Statements of Stockholders' Equity for the years ended March 31, 2011, 2010 and 2009</u>	56
<u>Consolidated Statements of Cash Flows for the years ended March 31, 2011, 2010 and 2009</u>	57
<u>Financial Notes</u>	58
(a)(2) Financial Statement Schedule	
<u>Schedule II Valuation and Qualifying Accounts</u>	112

All other schedules not included have been omitted because of the absence of conditions under which they are required or because the required information, where material, is shown in the financial statements, financial notes or supplementary financial information.

(a)(3) Exhibits submitted with
this Annual Report on
Form 10-K as filed with the SEC
and those incorporated by
reference to other filings are
listed on the Exhibit Index

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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: May 5,
2011

/s/ Jeffrey C.
Campbell
**Jeffrey C.
Campbell**
Executive Vice
President and
Chief Financial
Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the date indicated:

*

*

John H. Hammergren

**M. Christine
Jacobs, Director**

Chairman, President and Chief Executive Officer
(Principal Executive Officer)

*

*

Jeffrey C. Campbell

**Marie L.
Knowles,
Director**

Executive Vice President and Chief Financial
Officer
(Principal Financial Officer)

*

*

Nigel A. Rees

**David M.
Lawrence, M.D.,
Director**

Vice President and Controller
(Principal Accounting Officer)

*

*

Andy D. Bryant, Director

**Edward A.
Mueller, Director**

*

*

Wayne A. Budd, Director

**Jane E. Shaw,
Director**

*

/s/ Laureen E.
Seeger

Alton F. Irby III, Director

**Laureen E.
Seeger**
*Attorney-in-Fact

Dated: May 5,
2011

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McKESSON CORPORATION
Schedule

SCHEDULE II
SUPPLEMENTARY
CONSOLIDATED FINANCIAL
STATEMENT SCHEDULE
VALUATION AND QUALIFYING
ACCOUNTS

For the Years Ended March 31, 2011,
2010 and 2009
(In millions)

Description	Additions				Balance
Year	Charged	to	Charged	From	at
Ended	at	Beginning	Costs	and	End
March 31,	of	of	Other	Allowance	of
2011	Accounts	Accounts	Accounts	Accounts	Accounts
Year	Year	Year	Year	Year	Year
Ended	Expense	Expense	Expense	Expense	Expense
March 31,	Accounts	Accounts	Accounts	Accounts	Accounts
2010	Year	Year	Year	Year	Year
Year	Year	Year	Year	Year	Year
Ended	Year	Year	Year	Year	Year
March 31,	Year	Year	Year	Year	Year
2009	Year	Year	Year	Year	Year
Allowances for doubtful accounts	\$ 131	\$ 18	\$ 5	\$(30)	\$ 124
Other allowances	24		(2)	(6)	16
	\$ 155	\$ 18	\$ 3	\$(36)	\$ 140
Allowances for doubtful accounts	\$ 152	\$ 17	\$ 7	\$(45)	\$ 131
Other allowances	12	6	10	(4)	24
	\$ 164	\$ 23	\$ 17	\$(49)	\$ 155
Allowances for doubtful	\$ 163	\$ 27	\$ 3	\$(41)	\$ 152

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accounts					
Other					
allowances	9	6	1	(4)	12
	\$ 172	\$ 33	\$ 4	\$ (45)	\$ 164

	2011	2010	2009
(1) Deductions:			
Written off	\$ 36	\$ 49	\$ 27
Operation sold			6
Credited to other			
accounts			12
Total	\$ 36	\$ 49	\$ 45

(2) Amounts shown as deductions from current and non-current receivables	\$ 140	\$ 155	\$ 164
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(3) Primarily represents reclassifications from other balance sheet accounts.

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**McKESSON CORPORATION
EXHIBIT INDEX**

The agreements included as exhibits to this report are included to provide information regarding their terms and not intended to provide any other factual or disclosure information about the Company or the other parties to the agreements. The agreements may contain representations and warranties by each of the parties to the applicable agreement that were made solely for the benefit of the other parties to the applicable agreement, and;

should not in all instances be treated as categorical statements of fact, but rather as a way of allocating the risk to one of the parties if those statements prove to be inaccurate;

may apply standards of materiality in a way that is different from what may be viewed as material to you or other investors; and

were made only as of the date of the applicable agreement or such other date or dates as may be specified in the agreement and are subject to more recent developments.

Accordingly, these representations and warranties may not describe the actual state of affairs as of the date they were made or at any other time.

Exhibits identified under

Incorporated by Reference in the table below are on file with the Commission and are incorporated by reference as exhibits hereto.

Incorporated by Reference

Exhibit Number	Description	Form	File Number	Exhibit	Filing Date
3.1	Amended and Restated Certificate of Incorporation of the Company as filed with the Delaware	10-Q	1-13252	3.1	October 31, 2007

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Secretary of
State on July
25, 2007.

3.2	Amended and Restated By-Laws of the Company, as amended through April 22, 2009.	8-K	1-13252	3.2	April 28, 2009
4.1	Indenture, dated as of March 11, 1997, by and between the Company, as Issuer, and The First National Bank of Chicago, as Trustee.	10-K	1-13252	4.4	June 19, 1997
4.2	Indenture, dated as of January 29, 2002, between the Company, as Issuer, and The Bank of New York, as Trustee.	10-K	1-13252	4.6	June 12, 2002
4.3	Indenture, dated as of March 5, 2007, by and between the Company, as Issuer, and The Bank of New York Trust Company, N.A., as Trustee.	8-K	1-13252	4.1	March 5, 2007
4.4	First Supplemental	8-K	1-13252	4.2	February 28, 2011

Indenture,
dated as of
February 28,
2011, to the
Indenture,
dated as of
March 5,
2007, among
the Company,
as Issuer, The
Bank of New
York Mellon
Trust
Company,
N.A.
(formerly
known as The
Bank of New
York Trust
Company,
N.A.), and
Wells Fargo
Bank,
National
Association,
as Trustee.

10.1*	McKesson Corporation 1994 Stock Option and Restricted Stock Plan as amended through July 31, 2001.	10-K	1-13252	10.4	June 12, 2002
-------	----------------------------------------------------------------------------------------------------	------	---------	------	---------------

Table of Contents**McKESSON CORPORATION****Incorporated by Reference**

Exhibit Number	Description	Form	File Number	Exhibit	Filing Date
10.2*	McKesson Corporation 1999 Stock Option and Restricted Stock Plan, as amended through May 26, 2004.	10-K	1-13252	10.2	May 7, 2008
10.3*	McKesson Corporation 1997 Non-Employee Directors Equity Compensation and Deferral Plan, as amended through January 29, 2003.	10-K	1-13252	10.4	June 10, 2004
10.4*	McKesson Corporation Supplemental Profit Sharing Investment Plan, as amended and restated on January 29, 2003.	10-K	1-13252	10.6	June 6, 2003
10.5*	McKesson Corporation Supplemental Profit Sharing Investment Plan II, as amended and restated on October 24,	10-Q	1-13252	10.1	October 29, 2008

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2008.

10.6*	McKesson Corporation Deferred Compensation Administration Plan, as amended and restated as of October 28, 2004.	10-K	1-13252	10.6	May 13, 2005
10.7*	McKesson Corporation Deferred Compensation Administration Plan II, as amended and restated as of October 28, 2004, and Amendment No. 1 thereto effective July 25, 2007.	10-K	1-13252	10.7	May 7, 2008
10.8*	McKesson Corporation Deferred Compensation Administration Plan III, as amended and restated October 24, 2008.	10-Q	1-13252	10.2	October 29, 2008
10.9*	McKesson Corporation Option Gain Deferral Plan, as amended and restated as of October 28, 2004.	10-K	1-13252	10.8	May 13, 2005
10.10*	McKesson Corporation Executive	10-Q	1-13252	10.3	October 29, 2008

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	Benefit Retirement Plan, as amended and restated on October 24, 2008.				
10.11*	McKesson Corporation Executive Survivor Benefits Plan, as amended and restated as of January 20, 2010.	8-K	1-13252	10.1	January 25, 2010
10.12*	McKesson Corporation Severance Policy for Executive Employees, as amended and restated December 29, 2008.	10-K	1-13252	10.12	May 5, 2009
10.13*	McKesson Corporation Change in Control Policy for Selected Executive Employees, as amended and restated on October 26, 2010.	10-Q	1-13252	10.2	February 1, 2011
10.14*	McKesson Corporation 2005 Management Incentive Plan, as amended and restated on April 21, 2010, effective July 28, 2010.	10-Q	1-13252	10.3	July 30, 2010

Table of Contents**McKESSON CORPORATION****Incorporated by Reference**

Exhibit Number	Description	Form	File Number	Exhibit	Filing Date
10.15*	Form of Statement of Terms and Conditions Applicable to Awards Pursuant to the McKesson Corporation 2005 Management Incentive Plan, effective April 20, 2010.	10-K	1-13252	10.15	May 4, 2010
10.16*	McKesson Corporation Long-Term Incentive Plan, as amended and restated effective May 26, 2010.	10-Q	1-13252	10.1	July 30, 2010
10.17*	Form of Statement and Terms and conditions Applicable to Awards Pursuant to the McKesson Corporation Long-Term Incentive Plan, made on or after May 26, 2009.	10-Q	1-13252	10.2	July 30, 2010
10.18*	McKesson Corporation 2005 Stock Plan, as amended and	10-Q	1-13252	10.4	July 30, 2010

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restated on
July 28, 2010.

10.19*	Forms of (i) Statement of Standard Terms and Conditions applicable to Options, Restricted Stock, Restricted Stock Units and Performance Shares, (ii) Stock Option Grant Notice and (iii) Restricted Stock Unit Agreement, under the McKesson Corporation 2005 Stock Plan, as amended and restated on October 26, 2010.	10-Q	1-13252	10.1	February 1, 2011
10.20	Third Amended and Restated Receivables Purchase Agreement, dated as of May 19, 2010, among the Company, as servicer, CGSF Funding Corporation, as seller, the several conduit purchasers from time to time party to	10-Q	1-13252	10.6	July 30, 2010

the
Agreement,
the several
committed
purchasers
from time to
time party to
the
Agreement,
the several
managing
agents from
time to time
party to the
Agreement,
and JPMorgan
Chase Bank,
N.A., as
collateral
agent.

Table of Contents**McKESSON CORPORATION****Incorporated by Reference**

Exhibit Number	Description	Form	File Number	Exhibit	Filing Date
10.21	Amended and Restated Credit Agreement, dated as of June 8, 2007 among the Company and McKesson Canada Corporation, collectively, the Borrowers, Bank of America, N.A., as Administrative Agent, Bank of America, N.A. (acting through its Canada branch), as Canadian Administrative Agent, JPMorgan Chase Bank and Wachovia Bank, National Association, as Co-Syndication Agents, Wachovia Bank, National Association, as L/C Issuer, The Bank of Nova Scotia and The Bank of Tokyo-Mitsubishi UFJ, LTD., Seattle branch, as Co-Documentation Agents, and The Other Lenders Party Hereto Banc of America Securities LLC, as sole lead arranger and sole book manager.	8-K	1-13252	10.1	June 14, 2007
10.22		10-Q	1-13252	10.7	July 30, 2010

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	Purchase Agreement, dated as of December 31, 2002, between McKesson Capital Corp. and General Electric Capital Corporation.				
10.23	Services Agreement, dated as of December 31, 2002, between McKesson Capital Corp. and General Electric Capital Corporation.	10-Q	1-13252	10.8	July 30, 2010
10.24	Senior Bridge Term Loan Agreement, dated as of November 23, 2010, among The Company, Bank of America N.A., as Administrative Agent, and the Lenders party thereto.	8-K	1-13252	10.1	November 29, 2010
10.25*	Amended and Restated Employment Agreement, effective as of November 1, 2008, by and between the Company and its Chairman, President and Chief Executive Officer.	10-Q	1-13252	10.10	October 29, 2008
10.26*	Amended and Restated Employment Agreement, effective as of November 1, 2008, by and between the Company and its Executive Vice	10-Q	1-13252	10.12	October 29, 2008

President and
Group President.

10.27*	Form of Director and Officer Indemnification Agreement.	10-K	1-13252	10.27	May 4, 2010
12	Computation of Ratio of Earnings to Fixed Charges.				
21	List of Subsidiaries of the Registrant.				
23	Consent of Independent Registered Public Accounting Firm, Deloitte & Touche LLP.				

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McKESSON CORPORATION

Incorporated by Reference

Exhibit Number	Description	Form File Number	Exhibit Filing Date
24	Power of Attorney.		
31.1	Certification of Chief Executive Officer Pursuant to Rule 13a-14(a) and Rule 15d-14(a) of the Securities Exchange Act of 1934, as amended, and adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.		
31.2	Certification of Chief Financial Officer Pursuant to Rule 13a-14(a) and Rule 15d-14(a) of the Securities Exchange Act of 1934 as amended, and 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.		

The following materials from the McKesson Corporation Annual Report on Form 10-K for the fiscal year ended March 31, 2011, formatted in Extensible Business Reporting Language (XBRL): (i) the Consolidated Statements of Operations, (ii) Consolidated Balance Sheets, (iii) Consolidated Statements of Stockholders Equity, (iv) Consolidated Statements of Cash Flows, and (v) related notes.

* Management contract or compensation plan or arrangement in which directors and/or executive officers are eligible to participate.

Filed herewith.

Furnished herewith.

Confidential treatment has been granted for certain portions of this exhibit and such confidential portions have been filed with the Commission.

Registrant agrees to furnish to the Commission upon request a copy of each instrument defining the rights of security holders with respect to issues of long-term debt of the registrant, the authorized principal amount of which does not exceed 10% of the total assets of the registrant.

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**McKESSON CORPORATION
DIRECTORS AND OFFICERS**

BOARD OF DIRECTORS CORPORATE OFFICERS

John H. Hammergren
Chairman, President and
Chief Executive Officer,
McKesson Corporation

John H. Hammergren
Chairman, President and
Chief Executive Officer

Andy D. Bryant
Executive Vice President
and
Chief Administrative
Officer,
Intel Corporation

Patrick J. Blake
Executive Vice President and
Group President

Wayne A. Budd
Senior Counsel,

Goodwin Procter LLP

Jeffrey C. Campbell
Executive Vice President and
Chief Financial Officer

Alton F. Irby III
Chairman and Founding
Partner,
London Bay Capital

Jorge L. Figueredo
Executive Vice President,
Human Resources

M. Christine Jacobs
Chairman of the Board,
President and
Chief Executive Officer,
Theragenics Corporation

Paul C. Julian
Executive Vice President and
Group President

Marie L. Knowles
Executive Vice President
and
Chief Financial Officer,
Retired,
Atlantic Richfield Company

Marc E. Owen
Executive Vice President,
Corporate Strategy and
Business Development

David M. Lawrence, M.D.
Chairman of the Board and

Chief Executive Officer,
Retired,
Kaiser Foundation Health
Plan, Inc. and
Kaiser Foundation Hospitals

Laureen E. Seeger
Executive Vice President,
General Counsel and Chief
Compliance Officer

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Edward A. Mueller Chairman of the Board and Chief Executive Officer, Retired, Qwest Communications International Inc.	Randall N. Spratt Executive Vice President, Chief Technology Officer and Chief Information Officer
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Jane E. Shaw, Ph.D. Chairman of the Board, Intel Corporation; Chairman of the Board and Chief Executive Officer, Retired, Aerogen, Inc.	Nicholas A. Loiacono Vice President and Treasurer
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Nigel A. Rees
Vice President and
Controller

Willie C. Bogan
Secretary

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**McKESSON CORPORATION
CORPORATE INFORMATION**

Common Stock

McKesson Corporation common stock is listed on the New York Stock Exchange (ticker symbol MCK) and is quoted in the daily stock tables carried by most newspapers.

Stockholder Information

Wells Fargo Shareowner Services, 161 Concord Exchange North, South St. Paul, MN 55075 acts as transfer agent, registrar, dividend-paying agent and dividend reinvestment plan agent for McKesson Corporation stock and maintains all registered stockholder records for the Company. For information about McKesson Corporation stock or to request replacement of lost dividend checks, stock certificates, 1099-DIVs, or to have your dividend check deposited directly into your checking or savings account, stockholders may call Wells Fargo Shareowner Services telephone response center at (866) 614-9635. For the hearing impaired call (651) 450-4144. Wells Fargo Shareowner Services also has a Web site:

<http://www.wellsfargo.com/shareownerservices>

that stockholders may use 24 hours a day to request account information.

Dividends and Dividend Reinvestment Plan

Dividends are generally paid on the first business day of January, April, July and October. McKesson Corporation's Dividend Reinvestment Plan offers stockholders the opportunity to reinvest dividends in common stock and to purchase additional shares of common stock. Stock in an individual's Dividend Reinvestment Plan is held in book entry at the Company's transfer agent, Wells Fargo Shareowner Services. For more information, or to request an enrollment form, call Wells Fargo Shareowner Services telephone response center at (866) 614-9635. From outside the United

States, call +1-651-450-4064.

Annual Meeting

McKesson Corporation's Annual Meeting of Stockholders will be held at 8:30 a.m. PDT, on Wednesday, July 27, 2011 at the Palace Hotel, Sea Cliff Room, 2 New Montgomery Street, San Francisco, California.

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