SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

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

For the fiscal year ended March 31, 2001

OR

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

Commission File Number 1-13252

McKESSON HBOC, INC.

A Delaware Corporation

I.R.S. Employer Identification Number 94-3207296

McKesson HBOC Plaza,
One Post Street,
San Francisco, CA 94104
Telephone — Area Code (415) 983-8300

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

(Title of Each Class)	(Name of Each Exchange on Which Registered)
Common Stock, $.01 par value	New York Stock Exchange Pacific Exchange, Inc.
Preferred Stock Purchase Rights	New York Stock Exchange Pacific Exchange, Inc.

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

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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☒

Aggregate market value of voting stock held by nonaffiliates of the Registrant at April 30, 2001: $8,783,293,063

Number of shares of common stock outstanding at April 30, 2001: 284,801,980

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Registrant's Proxy Statement for its Annual Meeting of Stockholders to be held on July 25, 2001 are incorporated by reference into Part III of this report.

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PART I

Item 1. Business

General

McKesson HBOC, Inc. ("McKessonHBOC," the "Company" or the "Registrant"), the world's largest health care service and technology company and a Fortune 35 corporation, delivers unique supply and information management solutions that reduce costs and improve quality for its health care customers.

Business Segments

The Company is organized under two operating segments: Health Care Supply Management and Health Care Information Technology. Within the United States and Canada, the Health Care Supply Management segment is a leading wholesale distributor of ethical and proprietary drugs, medical-surgical supplies and health and beauty care products principally to chain and independent drug stores, hospitals, alternate care sites, food stores and mass merchandisers. The Health Care Information Technology segment delivers enterprise-wide patient care, clinical, financial, managed care, payor and strategic management software solutions, as well as networking technologies, electronic commerce, information outsourcing and other services to health care organizations throughout the United States and certain foreign countries.

The Company generated annual sales of $42.0 billion, $36.7 billion, and $30.0 billion in fiscal years 2001, 2000, and 1999, respectively; approximately $41.1 billion, 98%, $35.7 billion, 97%, and $28.7 billion, 96%, respectively, in the Health Care Supply Management segment and approximately $0.9 billion, 2%, $1.0 billion, 3% and $1.3 billion, 4%, respectively, in the Health Care Information Technology segment.

Financial information about the Company's business segments for each of the three years in the period ended March 31, 2001 is included in Financial Note 17 to the consolidated financial statements, "Segments of Business," appearing on pages F-60 to F-62 of this Annual Report on Form 10-K.

Health Care Supply Management

Products and Markets

Through its Health Care Supply Management segment, McKessonHBOC is a leading distributor of ethical and proprietary drugs, medical-surgical supplies and health and beauty care products and provider of services to the health care industry in North America. The Company's Health Care Supply Management segment consists of the Pharmaceutical Group, the Medical Group, the Automation Group, the Medical Management Group, the Pharmaceutical Partners Group, Zee Medical and MedManagement (collectively, the "Supply Management Business").

The Pharmaceutical Group supplies pharmaceuticals and health care related products to three primary customer segments: retail chains (pharmacies, food stores, and mass merchandisers), retail independent pharmacies and institutional providers (including hospitals, alternate-site providers, and integrated health networks) in all 50 states. These three customer categories represented approximately 42.4%, 24.5%, and 33.1%, respectively, of the Pharmaceutical Distribution Group's revenues in fiscal 2001. Operating under the trade names EconoMost® and EconoLink® and a number of related service marks, the Company promotes electronic order entry systems and a wide range of computerized merchandising and asset management services for pharmaceutical retailers and health care institutions. The Company has developed advanced marketing programs and information services for retail pharmacies. These initiatives include the Valu-Rite®, Valu-Rite/CareMax® and Health Mart® retail networks, the OmniLink® centralized pharmacy technology platform, which offers retail network members connectivity with managed care organizations while promoting compliance with managed care plans, and .com pharmacy solutions℠, a service initiative that allows independent pharmacies to set up their own websites for selling OTC products and prescription refills to their customers. The Company's nationwide network of distribution centers utilizes the Acumax® Plus warehouse management system which provides real-time inventory statistics and tracks products from the receiving dock to shipping through scanned bar code information and radio frequency signals with accuracy levels above 99%

to help ensure that the right product arrives at the right time and place for both the Company's customers and their patients. The Company believes that its financial strength, purchasing leverage, affiliation networks, nationwide network of distribution centers, and advanced logistics and information technologies provide competitive advantages to its pharmaceutical distribution operations.

The Medical Group offers a full range of medical-surgical supplies, equipment, logistics and related services across the continuum of health care providers: hospitals, physicians' offices, long-term care, and homecare. The Medical Group includes the operations of McKesson General Medical Corporation ("MGM"), RedLine Extended Care, Hawk Medical Supply and MedPath. The Medical Group is the nation's third largest distributor of medical-surgical supplies to hospitals (acute care) and a leading supplier of medical-surgical supplies to the full-range of alternate-site health care facilities, including physicians and clinics (primary care), long-term care and homecare sites. The Medical Group's Supply Management On-Line provides an advanced way of ordering medical-surgical products over the Internet and its Optipak program allows physicians to customize ordering of supplies according to individual surgical procedure preferences.

The Automation Group manufactures and markets automated pharmacy systems and services to hospitals and retail pharmacies through its McKesson Automated Healthcare ("MAH") and McKesson Automated Prescription Systems ("APS") units. Key products of MAH include the ROBOT-Rx™ system, a robotic pharmacy dispensing and utilization tracking system that enables hospitals to lower pharmacy costs while significantly improving the accuracy of pharmaceutical dispensing, AcuDose-Rx™ unit-based cabinets which automate the storage, dispensing and tracking of commonly used drugs in patient areas, AcuScan-Rx™ which records, automates, and streamlines drug administration and medication information requirements through bar code scanning at the patient's bedside and SupplyScan℠, a point-of-use supply management system. APS manufactures a wide range of pharmaceutical dispensing and productivity products including Baker Cells™ and Baker Cassettes™, modular units that provide pharmacists with quick and accurate counting capabilities combined with efficient space management; Autoscript™, a robotic pharmacy dispensing system that enables retail pharmacies to lower pharmacy costs through high volume dispensing while improving accuracy through the use of bar code technology; and Pharmacy 2000™, an interactive workstation system which combines software and automation to improve productivity throughout the pharmacy prescription sales process.

The Medical Management Group brings together a comprehensive platform of medical management services and tools to help payors and providers better manage the cost and outcomes of medical care. The Medical Management Group delivers complete solutions through five Care Enhance℠ product and service families: Care Enhance℠ Services (telephonic nurse advice and disease management), Care Enhance℠ Clinical Management Software (disease, utilization and case management software), Care Enhance℠ Clinical Criteria (InterQual® clinical appropriateness, level-of-care and clinically specific decision support criteria), Care Enhance℠ Resource Management Software (provider profiling, analytic and HEDIS reporting software), and Care Enhance℠ Access Center Products (triage and referral management software).

The Pharmaceutical Partners Group combines the Company's pharmaceutical and biotechnology services in a single group that is focused on helping manufacturers meet their marketing goals. The Pharmaceutical Partners Group provides sales, marketing and other services to pharmaceutical manufacturers and biotechnology customers including distribution management and reimbursement services, services in support of clinical trials and biomedical research, direct mail and fulfillment services, decision support and data analysis, business analytics, and integrated contract sales and marketing support services.

Zee Medical, Inc. ("Zee Medical") is the nation's leading provider of first-aid and safety products, training and services. Zee Medical distributes first-aid products and safety supplies and offers safety programs and materials to assist industrial and commercial customers reduce their exposure to escalating health care costs associated with on-the-job injuries and illnesses.

McKesson MedManagement, L.L.C. ("MedManagement") is a leading pharmacy management, purchasing, consulting and information services company that combines clinical expertise, financial management capabilities, operational tools and technologies and experience to assist health care organizations

optimize care and pharmaceutical resources. MedManagement provides customized solutions that allow its customer to improve their pharmaceutical distribution, automation and information technology capabilities and measure quality improvement through proven clinical and operational metrics.

International operations of the Pharmaceutical Group business include Medis Health and Pharmaceutical Services, Inc. (''Medis''), a wholly-owned subsidiary and the largest pharmaceutical distributor in Canada; and the Company's 22% equity interest in Nadro, S.A. de C.V., a leading pharmaceutical distributor in Mexico.

Intellectual Property

The principal trademarks and service marks of the Health Care Supply Management segment include: ECONOMOST®, ECONOLINK®, VALU-RITE®, Valu-Rite/CareMax®, OmniLink®, Health Mart®, ASK-A-NURSE®, Credentialer®, Episode Profiler®, InterQual®, America's Source for Health Care Answers®, coSource®, ROBOT-Rx™, AcuDose-Rx™, AcuScan-Rx™, Pak Plus-Rx™, SelfPace™, Baker Cells™, Baker Cassettes™, Baker Universal™, Autoscript™, Pharmacy 2000™, CRMS™, Patterns Profiler™, Care Enhance℠, Closed Loop Distribution℠, .com Pharmacy Solutions℠ and SupplyScan℠. The Company also owns other registered and unregistered trademarks and service marks and similar rights used by the Health Care Supply Management segment. All of the principal marks are registered in the United States or registration has been applied for with respect to such marks. The United States federal registrations of these trademarks and service marks have ten or twenty-year terms, depending on date of registration. All are subject to unlimited renewals. The Company believes this business has taken all necessary steps to preserve the registration and duration of its trademarks and service marks, although no assurance can be given that it will be able to successfully enforce or protect its rights thereunder in the event that they are subject to third-party infringement claims. The Company does not consider any particular patent, license, franchise or concession to be material to the business of the Health Care Supply Management segment.

Competition

In every area of operations, the Company's distribution businesses face strong competition both in price and service from national, regional and local full-line, short-line and specialty wholesalers, service merchandisers, self-warehousing chains, and from manufacturers engaged in direct distribution. The Health Care Supply Management segment faces competition from various other service providers and from pharmaceutical and other health care manufacturers (as well as other potential customers of the Health Care Supply Management segment) which may from time to time decide to develop, for their own internal needs, supply management capabilities which are provided by the Health Care Supply Management segment and other competing service providers. Price, quality of service, and, in some cases, convenience to the customer are generally the principal competitive elements in the Health Care Supply Management segment.

Health Care Information Technology

Products and Markets

The Company's Health Care Information Technology segment provides patient care, clinical, financial, supply chain, managed care and strategic management software solutions for providers and payors in the health care industry. The segment also provides a full complement of network communications technologies, including wireless capabilities, as well as outsourcing services in which its staff manages and operates data centers, information systems, organizations and business offices of health care institutions of various sizes and structures. In addition, the segment offers a wide range of care management and electronic commerce services, including electronic medical claims and remittance advice services, and statement processing.

The Health Care Information Technology segment markets its products and services to integrated delivery networks, hospitals, physicians' offices, home health providers, pharmacies, reference laboratories, managed care providers and payors. The segment also sells its products and services internationally through subsidiaries and/or distribution agreements in the United Kingdom, France, the Netherlands, Canada, Ireland, Saudi Arabia, Kuwait, Australia, New Zealand and Puerto Rico.

The Health Care Information Technology segment's product portfolio is organized into eight components: acute-care or hospital information systems ("HIS"), infrastructure, clinical management, practice management, access management, resource management, enterprise management and payor solutions.

Hospital Information Systems. HIS applications automate the operation of individual departments and their respective functions within the in-patient environment. The Company's HIS systems include applications for patient care, laboratory, pharmacy, radiology and finance.

Infrastructure. Infrastructure components include local, wide area and value-added networks, wireless technology, electronic data interchange (EDI) capabilities, an interface manager and a data repository. Other infrastructure applications include document imaging as well as an enterprise master person index.

Clinical Management. The segment's point-of-care applications are designed to allow physicians and other clinicians to document patient information, establish and manage guidelines or standards of care, enter and manage orders, and view all results and clinical information. The Clinical Management product portfolio includes a clinical suite of products consisting of browser-based software applications which may be purchased and used separately or collectively to automate internal and external clinical communications including: multi-laboratory order entry and result reporting, electronic prescribing within formulary and medical guidelines, and advance task management and medical record documentation including web-based dictation, transcription and attestation, most of which are done via paper today.

Practice Management. Practice management applications provide a comprehensive solution for medical groups and physician enterprises, whether they are independent or part of an integrated health network. With business office management as its cornerstone, the Company's practice management solution also includes risk management and managed care capabilities, clinical systems for managing patient care, and scheduling, as well as decision support, computer telephony, data quality analysis and electronic commerce.

Access Management. Access management solutions include indexing applications that organize the vast amounts of information collected about a person throughout the enterprise, allowing patients to be tracked and information about them to be accessed wherever they go for care as well as scheduling systems that instantly register and schedule patients, and the resources needed to serve them, anywhere in the enterprise.

Resource Management. Resource management applications including supply chain and management decision-making help health care organizations better manage people, facilities, supplies, services and equipment by integrating materials management, accounts payable/general ledger, surgical services management and staff scheduling functions.

Enterprise Management. Enterprise management applications focus on providing managers with the clinical, financial and other information necessary to contain costs while ensuring high-quality care, including utilization management, accounts receivable management and managed care contracting and member management applications.

Payor Solutions. Payor solutions support a range of health insurance and managed care needs. Solutions include businesswide systems that automate all financial and administrative operations, as well as clinically intelligent solutions that monitor quality of care and support provider credentialing and profiling, claims audit, care management, utilization and financial-based analysis.

In addition to the segment's product offerings described above, the segment also provides the following services:

Enterprise Services. Enterprise services include UNIX processing support, remote system monitoring and single-point issue resolution. In addition, the Health Care Information Technology segment's service path implementation methodology provides a flexible suite of implementation services that can include an enterprise project manager to assist in planning, installing and supporting multiple Company products. Other service areas include education, enterprise consulting, application-specific services, computer telephony and care management services.

Connect Technology Group. The Connect Technology Group provides network installation and support, as well as a suite of information services that extend local area networks outside of the hospital to include payors, vendors, financial institutions and the Internet.

Outsourcing Services Group. The Health Care Information Technology segment has been in the outsourcing business in the United States for more than 20 years and also offers outsourcing services in the United Kingdom. Outsourcing services include managing hospital data processing operations (traditionally known as facilities management) as well as strategic management services in information systems planning, receivables management, revenue cycle outsourcing, payroll processing, business office administration and major system conversions.

Electronic Commerce Group. The Health Care Information Technology segment's e-commerce capabilities in EDI service include claims processing, eligibility verification and remittance advice as well as statement printing.

Research and Development

The Health Care Information Technology segment's product development effort applies computer technology and installation methodologies to specific information processing needs of hospitals. Management believes a substantial and sustained commitment to such research and development ("R&D") is important to the long-term success of the business.

Investment in software development includes both R&D expense as well as capitalized software. The Health Care Information Technology segment expended $152.5 million (16% of revenue) for R&D activities during fiscal 2001, compared to $148.4 million (15% of revenue) and $145.8 million (11% of revenue) during 2000 and 1999, respectively. The Health Care Information Technology segment capitalized 20%, 29% and 32% of its R&D expenditures in 2001, 2000 and 1999, respectively.

Information regarding R&D is included in Financial Note 1 to the consolidated financial statements, "Significant Accounting Policies," appearing on pages F-35 to F-37 of this Annual Report on Form 10-K.

Intellectual Property

The substantial majority of technical concepts and codes embodied in the Health Care Information Technology segment's computer programs and program documentation are not protected by patents or copyrights but constitute trade secrets that are proprietary to the Company. The principal trademarks and service marks of the Health Care Information Technology segment are: AMISYS®, HealthQuest®, Paragon®, Pathways 2000®, TRENDSTAR®, Horizon WP™, Series 2000™, Star 2000™, Connect 2000℠, Practice-Point℠. The Company also owns other registered and unregistered trademarks and service marks and similar rights used by the Health Care Information Technology segment. All of the principal trademarks and service marks are registered in the United States or registrations have been applied for with respect to such marks, in addition to certain other jurisdictions. The United States federal registrations of these trademarks have terms of ten or twenty years, depending on date of registration, and are subject to unlimited renewals. The Company believes this business has taken all necessary steps to preserve the registration and duration of its trademarks and service marks, although no assurance can be given that it will be able to successfully enforce or protect its rights thereunder in the event that they are subject to third-party infringement claims. The Company does not consider any particular patent, license, franchise or concession to be material to the business of the Health Care Information Technology segment.

Competition

The Company's Health Care Information Technology segment experiences substantial competition from many firms, including other computer services firms, consulting firms, shared service vendors, certain hospitals and hospital groups, hardware vendors and internet-based companies with technology applicable to the health care industry. Competition varies in size from small to large companies, in geographical coverage, and in scope and breadth of products and services offered.

Recent Acquisitions, Investments and Dispositions

McKessonHBOC has undertaken numerous strategic initiatives in recent years to further focus the Company on its core health care businesses and enhance its competitive position. These include the following significant acquisitions and dispositions:

Acquisitions and Investments

- In July 2000, the Company acquired MediVation, Inc., a provider of an automated web-based system for physicians to communicate with patients online, for approximately $24 million in cash, $14 million in Company common stock and the assumption of $6 million of employee stock incentives.
- In April 2000, the Company and three other health care product distributors announced an agreement to form the New Health Exchange (subsequently renamed "Health Nexis"). Health Nexis is an Internet-based company focused on information systems and other technology solutions to streamline communication, processing and management of product and contract data across the health care supply chain. The Company accounts for its 34% interest in Health Nexis under the equity method of accounting. In fiscal 2001, the Company invested $10.8 million in Health Nexis.
- In November 1999, the Company acquired Abaton.com, a provider of internet-based clinical applications for use by physician practices, pharmacy benefit managers, benefit payors, laboratories and pharmacies, for approximately $95 million in cash and the assumption of $8 million of employee stock incentives.
- In January 1999, McKesson Corporation ("McKesson") completed the acquisition of HBO & Company ("HBOC"), a leading health care information technology company, by exchanging 177 million shares of McKesson common stock for all of the issued and outstanding shares of common stock of HBOC. Each share of HBOC common stock was exchanged for 0.37 of a share of McKesson common stock (the "Exchange Ratio"). McKesson was renamed McKesson HBOC, Inc. The transaction was structured as a tax-free reorganization and was accounted for as a pooling of interests.
- In December 1998, the Company acquired Access Health, Inc. ("Access"), a provider of clinically based care management programs and health care information services, for the equivalent, after application of the Exchange Ratio, of approximately 12.7 million shares of Company common stock.
- In November 1998, the Company acquired RedLine HealthCare Corporation ("RedLine"), a distributor of medical supplies and services to the extended-care industry, including long-term care and home-care sites, for approximately $233 million in cash.
- In October 1998, the Company acquired IMNET Systems, Inc. ("IMNET"), a provider of electronic information and document management solutions for the health care industry, for the equivalent, after application of the Exchange Ratio, of approximately 3.6 million shares of Company common stock and 0.6 million Company stock options.

Disposition

- In February 2000, the Company disposed of its last non-health care business, its wholly-owned subsidiary McKesson Water Products Company, for approximately $1.1 billion in cash.

Other Information About the Business

Customers — The Company's recent strategy has been to build relationships with large customers that are achieving rapid growth. A significant portion of the Company's increase in sales has been to a limited number of these large customers. During the fiscal year ended March 31, 2001, sales to the Company's ten largest customers accounted for approximately 57% of the Company's revenues; sales to the largest customer, Rite Aid Corporation, represented approximately 16% of the Company's revenues.

Environmental Legislation — The Company sold its chemical distribution operations in fiscal 1987 and retained responsibility for certain environmental obligations. Agreements with the Environmental Protection

Agency and certain states may require environmental assessments and cleanups at several closed sites. These matters are described further in "Item 3. Legal Proceedings" on pages 7 to 13 of this report. Other than any capital expenditures which may be required in connection with those matters, the Company does not anticipate making substantial capital expenditures for environmental control facilities or to comply with environmental laws and regulations in the future. The amount of capital expenditures expended by the Company for environmental compliance was not material in fiscal 2001 and is not expected to be material in the next fiscal year.

Employees — At March 31, 2001, the Company employed approximately 23,000 persons.

Financial Information About Foreign and Domestic Operations and Export Sales

Information as to foreign operations is included in Financial Note 17 to the consolidated financial statements "Segments of Business," appearing on pages F-60 to F-62 of this Annual Report on Form 10-K.

Item 2. Properties

Because of the nature of the Company's principal businesses, plant, warehousing, office and other facilities are operated in widely dispersed locations. The warehouses are typically owned or leased on a long-term basis. The Company considers its operating properties to be in satisfactory condition and adequate to meet its needs for the next several years without making capital expenditures materially higher than historical levels. Information as to material lease commitments is included in Financial Note 12 to the consolidated financial statements, "Lease Obligations," appearing on page F-50 of this Annual Report on Form 10-K.

Item 3. Legal Proceedings

I. Accounting Litigation

Since the Company's announcements in April, May and July of 1999 that the Company had determined that certain software sales transactions in its Information Technology Business unit, formerly HBOC, were improperly recorded as revenue and reversed, as of April 30, 2001, eighty-five lawsuits have been filed against the Company, certain of the Company's or HBOC's current or former officers or directors, and other defendants including, Bear Stearns & Co., Inc. ("Bear Stearns"), and Arthur Andersen LLP ("Arthur Andersen").

A. Federal Actions

Sixty-five of these actions have been filed in Federal Court (the "Federal Actions"). Of these, fifty-nine were filed in the U.S. District Court for the Northern District of California, one in the Northern District of Illinois (which has been voluntarily dismissed without prejudice), one in the Northern District of Georgia (which has been transferred to the Northern District of California), one in the Eastern District of Pennsylvania (which has been transferred to the Northern District of California), two in the Western District of Louisiana (which have been transferred to the Northern District of California) and one in the District of Arizona (which has been transferred to the Northern District of California).

On November 2, 1999, the Honorable Ronald M. Whyte of the Northern District of California issued an order consolidating fifty-three of these actions into one action entitled *In RE McKesson HBOC, Inc. Securities Litigation* (Case No. C-99-20743 RMW) (the "Consolidated Action"), and by order dated December 22, 1999, appointed the New York State Common Retirement Fund as lead plaintiff ("Lead Plaintiff") and approved Lead Plaintiffs' choice of counsel. Judge Whyte's November 2, 1999 order also provided that related cases transferred to the Northern District of California shall be consolidated with the Consolidated Action. Judge Whyte's December 22 order also consolidated an individual action, *Jacobs v. McKesson HBOC, Inc. et al.* (C-99-21192 RMW), with the Consolidated Action. On September 21, 2000, the plaintiffs in *Jacobs* filed an individual action in the Northern District of California entitled *Jacobs v. HBO & Company* (Case No. C-00-20974 RMW), which is to be consolidated with the Consolidated Action and which purports to

state claims under Sections 11 and 12(2) of the Securities Act of 1933 ("Securities Act"), Section 10(b) of the Securities Exchange Act of 1934 ("Exchange Act") and various state law causes of action. By order dated February 7, 2000, Judge Whyte coordinated a class action alleging ERISA claims, *Chang v. McKesson HBOC, Inc. et al.* (Case No. C-00-20030 RMW) and a shareholder derivative action that had been filed in the Northern District under the caption *Cohen v. McCall et. al.* (Case No. C-99-20916 RMW) with the Consolidated Action.

Lead Plaintiff filed an Amended and Consolidated Class Action Complaint (the "ACCAC") on February 25, 2000. The ACCAC generally alleged that defendants violated the federal securities laws in connection with the events leading to the Company's announcements in April, May and July, 1999. On September 28, 2000, Judge Whyte dismissed all of the ACCAC claims against McKesson under Section 11 of the Securities Act with prejudice, dismissed a claim under Section 14(a) of the Exchange Act with leave to amend and declined to dismiss a claim against McKesson under Section 10(b) of the Exchange Act.

On November 14, 2000, Lead Plaintiff filed its Second Amended and Consolidated Class Action Complaint ("SAC"). As with its ACCAC, Lead Plaintiff's SAC generally alleges that the defendants named therein violated the federal securities laws in connection with the events leading to the Company's announcements in April, May and July, 1999. The SAC names the Company, HBOC, certain current or former officers or directors of the Company or HBOC, Arthur Andersen and Bear Stearns as defendants. The SAC purports to state claims against the Company under Sections 10(b) and 14(a) of the Exchange Act.

On January 18, 2001, the Company filed a motion to dismiss the claim under Section 14(a) of the Exchange Act in its entirety, and the claim under Section 10(b) of the Exchange Act to the extent it is based on the statements or conduct of the Company prior to the Merger. HBOC also filed its own motion to dismiss the claim based on Section 14(a) of the Exchange Act insofar as that claim is asserted on behalf of McKesson shareholders. Those motions were heard on March 23, 2001, and Judge Whyte has not yet issued an order.

On January 11, 2001, the Company filed an action in the U.S. District Court for the Northern District of California against the Lead Plaintiff in the Consolidated Action individually, and as a representative of a defendant class of former HBOC shareholders who exchanged HBOC shares for Company shares in the Merger, *McKesson HBOC, Inc. v. New York State Common Retirement Fund, Inc. et al.* (Case No. C01-20021 RMW) (the "Complaint and Counterclaim"). In the Complaint and Counterclaim, the Company alleges that the exchanged HBOC shares were artificially inflated due to undisclosed accounting improprieties, and that the exchange ratio therefore provided more shares to former HBOC shareholders than would have otherwise been the case. In this action, the Company seeks to recover the "unjust enrichment" received by those HBOC shareholders who exchanged more than 20,000 HBOC shares in the Merger. The Company does not allege any wrongdoing by these shareholders. Lead Plaintiff's motion to dismiss the Complaint and Counterclaim was heard on March 23, 2001, and Judge Whyte has not yet issued an order.

Two other individual actions, *Bea v. McKesson HBOC, Inc. et al.* (Case No. C-0020072 RMV), and *Cater v. McKesson Corporation et al.* (Case No. C-00-20327 RMW), have also been filed in the Northern District of California. By stipulation, *Bea* has been consolidated with the Consolidated Action and *Cater* has been stayed pending resolution of the Company's motion to dismiss the Consolidated Complaint. One other individual action, *Baker v. McKesson HBOC, Inc. et al.* (Case No. CV 00-0188) was filed in the U.S. District Court for the Western District of Louisiana. The Company moved to transfer *Baker* to the Northern District of California, together with a parallel state court action, *Baker v. McKesson HBOC, Inc. et al.* (filed as Case No. 199018; Case No. CV-00-0522 after removal), which had been removed to federal court. Both of the *Baker* cases have been transferred to the Northern District of California where they have been consolidated with the Consolidated Action. An additional action, *Rosenberg v. McCall et al.* (Case No. 1:99-CV-1447 JEC) was filed in the Northern District of Georgia and subsequently transferred to the Northern District of California, but that action names only two former officers and does not name the Company. Finally, on July 24, 2000, an action captioned *Hess v. McKesson HBOC, Inc. et al.* was filed in state court in Arizona (Case No. C-20003862) on behalf of former shareholders of Ephrata Diamond Spring Water Company ("Ephrata") who acquired McKesson shares in exchange for their Ephrata stock when McKesson acquired Ephrata in January, 1999. On August 24, 2000, the Company removed the *Hess* action to the United States

District Court for the District of Arizona, and on March 28, 2001, the District Court in Arizona granted the Company's motion to transfer the case to the Northern District of California.

B. State Actions

Twenty actions have also been filed in various state courts in California, Colorado, Delaware, Georgia, Louisiana and Pennsylvania (the "State Actions"). Like the Consolidated Action, the State Actions generally allege misconduct by the defendants in connection with the events leading to the Company's need to restate its financial statements.

Two of the State Actions are derivative actions: *Ash, et al. v. McCall, et al.* (Case No. 17132), filed in the Delaware Chancery Court and *Mitchell v. McCall et al.* (Case. No. 304415), filed in California Superior Court, City and County of San Francisco. The Company moved to dismiss both of these actions and to stay the *Mitchell* action in favor of the earlier filed *Ash* and *Cohen* derivative actions. Plaintiffs in *Mitchell* agreed to defer any action by the court on the Company's motions pending resolution of the Company's dismissal motions in *Ash*. On September 15, 2000, the *Ash* court dismissed all causes of action with leave to replead certain of the dismissed claims, and on January 22, 2001, the *Ash* plaintiffs filed a Third Amended Complaint which is presently the subject of the Company's motions to dismiss.

Five of the State Actions are class actions. Three of these were filed in Delaware Chancery Court: *Derdiger v. Tallman et al.* (Case No. 17276), *Carroll v. McKesson HBOC, Inc.* (Case No. 17454), and *Kelly v. McKesson HBOC, Inc., et al.* (Case No. 17282 NC). Two additional actions were filed in Delaware Superior Court: *Edmondson v. McKesson HBOC, Inc.* (Case No. 99-951) and *Caravetta v. McKesson HBOC, Inc.* (Case No. 00C-04-214 WTQ). The *Carroll* and *Kelly* actions have been voluntarily dismissed without prejudice. The Company has removed *Edmondson* to Federal Court in Delaware where plaintiffs have filed a motion to remand, which is pending. The Company's motions to stay the *Derdiger* and *Caravetta* actions in favor of proceedings in the federal Consolidated Action have been granted.

Thirteen of the State Actions are individual actions which have been filed in various state courts. Four of these were filed in the California Superior Court, City and County of San Francisco: *Yurick v. McKesson HBOC, Inc. et al.*(Case No. 303857), *The State of Oregon by and through the Oregon Public Employees Retirement Board v. McKesson HBOC, Inc. et al.* (Case No. 307619), *Utah State Retirement Board v. McKesson HBOC, Inc. et al.* (Case No. 311269), and *Minnesota State Board of Investment v. McKesson HBOC, Inc. et al.* (Case No. 311747). In *Yurick,* the trial court sustained the Company's demurrer to the original complaint without leave to amend with respect to all causes of action, except the claims for common law fraud and negligent misrepresentation as to which amendment was allowed. The Court also stayed *Yurick* pending the commencement of discovery in the Consolidated Action, but allowed the filing of an amended complaint. The Company's demurrer to that amended pleading was heard on May 23, 2001 and no order has yet been issued. On May 23, 2001, the California Court of Appeals affirmed the *Yurick* trial court's order dismissing claims against certain of the individual defendants in the action without leave to amend. The *Oregon, Utah* and *Minnesota* actions referenced above are individual securities actions filed in the California Superior Court for the City and County of San Francisco by out-of-state pension funds. Plaintiffs in each of those actions are in the process of filing amended complaints, and action on the Company's motions seeking stays of those actions and demurrers to the prior complaints has been suspended pending defendants' responses to those amended pleadings.

Ten individual actions have been filed in various state courts outside of California. Five of these cases have been filed in Georgia state courts: *Moulton v. McKesson HBOC, Inc. et al.* (Case No. 98-13176-9), involving a former HBOC employee's claim for unpaid commissions, claims under Georgia's securities and racketeering laws, as well as various common law causes of action, has been settled and dismissed with prejudice. *Powell v. McKesson HBOC, Inc. et al.* (Case No. 1999CV-15443), involving a former HBOC employee's claims for unpaid commissions, claims under Georgia's securities and racketeering laws, as well as various common law causes of action, was dismissed by plaintiff and refiled as Case No. 2000-CV-27864 and the Company's motions to dismiss or stay that action are presently pending. *In Adler v. McKesson HBOC, Inc.* (Case No. 99-C-7980-3), a former HBOC shareholder asserts a claim for common law fraud. The Georgia

Court of Appeals has granted interlocutory review of an order issued *in Adler* and the prior June, 2001, trial date has been vacated. *Suffolk Partners Limited Partnership et al. v. McKesson HBOC, Inc. et al.* (Case No.00 VS 010469A) and *Curran Partners, L.P. v. McKesson HBOC, Inc. et al.* (Case No. 00 VS-010801) are related actions brought on behalf of individual shareholders and are based on Georgia securities, racketeering and common law claims. The Company has moved to stay both the *Suffolk* and *Curran* actions in favor of proceedings in the federal Consolidated Action. Those motions have been heard by the Court and no order has yet been issued.

Three individual state court cases have been filed outside of California. *Grant v. McKesson HBOC, Inc.* (C.A. No. 99-03978) was filed on May 12, 1999 in the Pennsylvania Court of Common Pleas, Chester County. The *Grant* case relates to the Company's acquisition of Keystone/Ozone Pure Water Company ("Keystone"). Plaintiffs are former shareholders of Keystone who received McKesson shares in exchange for their shares in Keystone pursuant to a merger agreement between plaintiffs, McKesson and a McKesson subsidiary. On March 6, 2001, the Court denied the Company's motion to stay and dismissed with prejudice all plaintiffs' claims except for those based on breach of contract and negligent misrepresentation. The Company answered the *Grant* complaint on March 26, 2001. On September 28, 1999, an action was filed in Delaware Superior Court under the caption *Kelly v. McKesson HBOC, Inc. et al.* (C.A. No. 99C-09-265 WCC). Plaintiffs in *Kelly* are former shareholders of KWS&P/SFA, Inc., which merged into the Company after the Merger. Plaintiffs assert claims under the federal securities laws, as well as claims for breach of contract and breach of the duty of good faith and fair dealing. The Company's motion to dismiss and plaintiffs' motion for summary judgment remain pending before the Court. On October 19, 1999, an individual action was filed in Colorado District Court, Boulder County, under the caption *American Healthcare Fund II v. HBO & Company et al.* (Case No. 00-CV-1762). Plaintiffs in *American Healthcare* are former shareholders of Access Health, Inc., a company acquired by HBOC prior to the Merger, and assert claims for breach of the merger contract and related claims. The Company has answered an amended complaint and filed a counterclaim against the plaintiffs alleging that, as HBOC shareholders exchanging HBOC shares for McKesson shares in the Merger, plaintiffs were unjustly enriched. Discovery has commenced and trial is currently set for September 10, 2001.

The previously reported investigations by the United States Attorney's Office and the Securities and Exchange Commission are continuing. On May 15, 2000, the United States Attorney's Office filed a one-count information against former HBOC officer, Dominick DeRosa, charging Mr. DeRosa with aiding and abetting securities fraud, and on May 15, 2000, Mr. DeRosa entered a guilty plea to that charge. On September 28, 2000, an indictment was unsealed in the Northern District of California against former HBOC officer, Jay P. Gilbertson, and former Company and HBOC Officer, Albert J. Bergonzi (*United States v. Bergonzi, et al.,* Case No. CR-00-0505). On that same date, a civil complaint was filed by the Securities and Exchange Commission against Mr. Gilbertson, Mr. Bergonzi and Mr. DeRosa (*Securities and Exchange Commission v. Gilbertson, et al.,* Case No. C-00-3570.) Mr. DeRosa has settled with the Securities Exchange Commission without admitting or denying the substantive allegations of the complaint. On January 10, 2001, the grand jury returned a superseding indictment in the Northern District of California against Messrs. Gilbertson and Bergonzi (*United States v. Bergonzi, et al.*, Case No. CR-00-0505).

The Company does not believe it is feasible to predict or determine the outcome or resolution of the Accounting Litigation proceedings, or to estimate the amounts of, or potential range of, loss with respect to these proceedings. In addition, the timing of the final resolution of these proceedings is uncertain. The range of possible resolutions of these proceedings could include judgments against the Company or settlements that could require substantial payments by the Company, which could have a material adverse impact on the Company's financial position, results of operations and cash flows.

II. Other Litigation and Claims

In addition to commitments and obligations in the ordinary course of business, the Company is subject to various claims, other pending and potential legal actions for product liability and other damages, investigations

relating to governmental laws and regulations and other matters arising out of the normal conduct of the Company's business. These include:

A. Antitrust Matters

The Company currently is a defendant in numerous civil antitrust actions filed since 1993 in federal and state courts by retail pharmacies. The federal cases have been coordinated for pretrial purposes in the United States District Court in the Northern District of Illinois and are known as MDL 997. MDL 997 consists of a consolidated class action (the "Federal Class Action") as well as approximately 109 additional actions brought by approximately 3,500 individual retail, chain and supermarket pharmacies (the "Individual Actions"). There are numerous other defendants in these actions including several pharmaceutical manufacturers and several other wholesale distributors. These cases allege, in essence, that the defendants have violated the Sherman Act by conspiring to fix the prices of brand name pharmaceuticals sold to plaintiffs at artificially high, and non-competitive levels, especially as compared with the prices charged to mail order pharmacies, managed care organizations and other institutional buyers. On January 19, 1999, the District Court entered its written opinion and judgment granting defendants' motion for a judgment as a matter of law. On July 13, 1999, the Seventh Circuit affirmed the District Court's judgment as to the dismissal of the claims against the wholesalers. The wholesalers' motion for summary judgment in the Individual Actions has been granted. Plaintiffs have appealed to the Seventh Circuit. Most of the individual cases brought by chain stores have been settled.

State court antitrust cases against the Company are currently pending in California and Mississippi. The state cases are based on essentially the same facts alleged in the Federal Class Action and Individual Actions and assert violations of state antitrust and/or unfair competition laws. The case in Superior Court for the State of California, City and County of San Francisco is referred to as Coordinated Special Proceeding, Pharmaceutical Cases I, II & III. The case is trailing MDL 997. A case filed in Santa Clara County (*Paradise Drugs, et al. v. Abbott Laboratories, et al.*, Case No. CV793852) was coordinated with the case pending in San Francisco. The case in Mississippi (*Montgomery Drug Co., et al. v. The Upjohn Co., et al.*) is pending in the Chancery Court of Prentiss County Mississippi. The Chancery Court has held that the case may not be maintained as a class action.

In each of the cases, plaintiffs seek remedies in the form of injunctive relief and unquantified monetary damages, attorneys' fees and costs. Plaintiffs in the California cases also seek restitution. In addition, treble damages are sought in the Federal Class Action, the Individual Actions and the California case, and statutory penalties of $500 per violation are sought in the Mississippi case. The Company has entered into a judgment sharing agreement with certain pharmaceutical manufacturer defendants, which provides generally that the Company (together with the other wholesale distributor defendants) will be held harmless by such pharmaceutical manufacturer defendants and will be indemnified against the costs of adverse judgments, if any, against the wholesaler and manufacturers in these or similar actions, in excess of $1 million in the aggregate per wholesale distributor defendant.

B. FoxMeyer Litigation

In January 1997, the Company and twelve pharmaceutical manufacturers (the "Manufacturer Defendants") were named as defendants in the matter of *FoxMeyer Health Corporation vs. McKesson, et al.* (Case No. 97 00311) filed in the District Court in Dallas County, Texas ("the Texas Action"). Plaintiff (the parent corporation of FoxMeyer Drug Company and FoxMeyer Corporation, collectively "FoxMeyer Corporation") has alleged that, among other things, the Company (i) defrauded Plaintiff, (ii) competed unfairly and tortiously interfered with FoxMeyer Corporation's business operations, and (iii) conspired with the Manufacturer Defendants, all in order to destroy FoxMeyer Corporation's business, restrain trade and monopolize the marketplace, and allow the Company to purchase that business at a distressed price. Plaintiff seeks relief against all defendants in the form of compensatory damages of at least $400 million, punitive damages, attorneys' fees and costs. The Company answered the complaint, denying the allegations and removed the case to federal bankruptcy court in Dallas.

In March 1997, the Company and the Manufacturer Defendants filed a complaint in intervention against FoxMeyer Health (now known as Avatex Corporation) in the action filed against Avatex by the FoxMeyer Unsecured Creditors Committee in the United States Bankruptcy Court for the District of Delaware. The complaint in intervention seeks declaratory relief and an order enjoining Avatex from pursuing the Texas Action.

In November 1998, the Delaware court granted the Company's motion for summary judgment as to the first three counts asserted in the Texas Action on the ground of judicial estoppel. The Company filed a renewed motion for summary judgment on the four remaining counts of Avatex's complaint in the Texas Action which was denied without prejudice by the Delaware court on August 9, 1999. In addition, the Company filed cross-claims against the Trustee and debtors seeking the same relief as sought in the Company's complaint against Avatex. Based on the order granting summary judgment as to the first three counts, the Texas bankruptcy court dismissed those counts with prejudice and ordered the Texas Action remanded to state court. On November 30, 1998, the Company and the other Defendants filed a notice of appeal to the District Court from the remand ruling as well as the August 1997 ruling denying defendants' motion to transfer the Texas Action to Delaware. In addition, the Company has filed a counter-claim and cross-claim against Avatex and Messrs. Estrin, Butler and Massman in the Texas Action, asserting various claims of misrepresentation and breach of contract. The District Court upheld the remand order and denied as moot the appeal from the order denying transfer. A cross-appeal by Avatex from the order dismissing the first three counts with prejudice failed, as the District Court affirmed the Bankruptcy Court's dismissal by order dated March 28, 2001. The Company and several of the other defendants appealed to the Court of Appeals the ruling upholding the order denying transfer but subsequently moved to dismiss the appeal with prejudice, which motion was granted and the appeal was dismissed on October 4, 1999. As a result, the Texas Action is now pending in Texas state court, and the parties presently are engaged in discovery on the merits of the various claims asserted in the Texas Action.

C. Product Liability Litigation

The Company has been named as a defendant, or has received from customers tenders of defense, in fifteen pending cases alleging injury due to the diet drug combination of fenfluramine or dexfenfluramine and phentermine. All of the cases are pending in the state courts of California, Nebraska and New Jersey. The Company's tender of the cases to the manufacturers of the drugs has been accepted and the manufacturer is paying for counsel and fully indemnifying the Company for judgments or settlements arising from its distribution of the manufacturer's products.

Certain subsidiaries of the Company (i.e. MGM and RedLine, collectively the "Subsidiaries") are two of the defendants in approximately ninety cases in which plaintiffs claim that they were injured due to exposure, over many years, to the latex proteins in gloves manufactured by numerous manufacturers and distributed by a number of distributors, including the Subsidiaries. Efforts to resolve tenders of defense to their suppliers are continuing and a tentative final agreement has been reached with one major supplier. The Subsidiaries' insurers are providing coverage for these cases, subject to the applicable deductibles.

There is one remaining state court class action in South Carolina filed against MGM on behalf of all health care workers in that state who suffered accidental needle sticks that exposed them to potentially contaminated bodily fluids, arising from MGM's distribution of allegedly defective syringes. MGM's suppliers of the syringes are also named defendants in this action. The tender of all cases has been accepted by the two major suppliers. By this acceptance, these suppliers are paying for separate distributors' counsel and have agreed to fully indemnify the Company for any judgments in these cases arising from its distribution of their products.

The Company, along with 134 other companies, has been named in a lawsuit brought by the Lemelson Medical, Educational & Research Foundation ("the Foundation") alleging that the Company and its subsidiaries are infringing seven (7) U.S. patents relating to common bar code scanning technology and its use for the automated management and control of product inventory, warehousing, distribution and point-of-sale transactions. The Foundation seeks to enter into a license agreement with the Company, the lump sum fee for

which would be based upon a fraction of a percent of the Company's overall revenues over the past ten years. Due to the pendency of earlier litigation brought against the Foundation attacking the validity of the patents at issue, the court has stayed the action until the conclusion of the earlier case. The Company is assessing its potential exposure and evaluating the Foundations' claim with the assistance of expert patent counsel, after which it will determine an appropriate course of action.

D. Environmental Matters

Primarily as a result of the operation of its former chemical businesses, which were divested in fiscal 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 action purportedly required to address environmental conditions alleged to exist at five sites where the Company (or entities acquired by the Company) 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.

The current estimate (determined by the Company's environmental staff, in consultation with outside environmental specialists and counsel) of the upper limit of the Company's range of reasonably possible remediation costs for these five sites is approximately $13 million, net of approximately $1.5 million which third parties have agreed to pay in settlement or which the Company expects, based either on agreements or nonrefundable contributions which are ongoing, to be contributed by third parties. The $13 million is expected to be paid out between April 2001 and March 2029 and is included in the Company's recorded environmental liabilities at March 31, 2001.

In addition, the Company has been designated as a potentially responsible party (PRP) under the Comprehensive Environmental Response Compensation and Liability Act of 1980 (as amended, the "Superfund" law or its state law equivalent) for environmental assessment and cleanup costs as the result of the Company's alleged disposal of hazardous substances at 21 sites. With respect to each of 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 liability at those 21 PRP sites is approximately $1.5 million. The aggregate settlements and costs paid by the Company in Superfund matters to date has not been significant. The $1.5 million is included in the Company's recorded environmental liabilities at March 31, 2001.

The potential costs to the Company related to environmental matters is uncertain due to such factors as: the unknown magnitude of possible pollution and cleanup costs; the complexity and evolving nature of governmental laws and regulations and their interpretations; the timing, varying costs and effectiveness of alternative cleanup technologies; the determination of the Company's liability in proportion to other PRPs; and the extent, if any, to which such costs are recoverable from insurance or other parties.

Except as specifically stated above with respect to the litigation matters summarized under "Accounting Litigation" (section I, above), management believes, based on current knowledge and the advice of the Company's counsel, that the outcome of the litigation and governmental proceedings discussed in this Item 3 will not have a material adverse effect on the Company's financial position, results of operations or cash flows.

Item 4. Submission of Matters to a Vote of Security Holders

No matters were submitted to a vote of security holders, through the solicitation of proxies or otherwise, during the three months ended March 31, 2001.

EXECUTIVE OFFICERS OF THE REGISTRANT

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

There are no family relationships between any of the executive officers or directors of the Company. The executive officers are chosen annually to serve until the first meeting of the Board of Directors following the next annual meeting of stockholders and until their successors are elected and have qualified, or until death, resignation or removal, whichever is sooner.

Name	Age	Position with Registrant and Business Experience
Alan Seelenfreund	64	Chairman of the Board since June 1999; Chairman of the Board (1989 – January 1999) and Chief Executive Officer (1989 – 1997). Service with the Company — 26 years.
John H. Hammergren	42	President and Chief Executive Officer since April 1, 2001, Co-President and Co-Chief Executive Officer from July 1999 to April 1, 2001 and a director since July 1999; Executive Vice President, President and Chief Executive Officer of the Supply Management Business (January – July 1999); Group President, McKesson Health Systems (1997 – 1999) and Vice President of the Company since 1996. Service with the Company — 5 years.
William R. Graber	58	Senior Vice President and Chief Financial Officer since March 2000; Vice President and Chief Financial Officer, The Mead Corporation (1993 – 1999). Service with the Company — 1 year, 3 months.
Paul C. Julian	45	Senior Vice President since August 1999, and President of Supply Management Business since March 2000; Group President, McKesson General Medical (1997 – 2000); Executive Vice President, McKesson Health Systems (1996 – 1997); Group Vice President and Corporate Officer, Owens & Minor (1994 – 1996). Service with the Company — 5 years.
Graham O. King	61	Senior Vice President and President, Information Technology Business since October 1999; Group President, Outsourcing Services, HBOC (1998 – 1999); Chairman and Chief Executive Officer, U.S. Servis, Inc. (1994 – 1998). Service with the Company — 2 years, 6 months.
Paul E. Kirincic	50	Senior Vice President — Human Resources since January 2001; Vice President, Human Resources, Consumer Health Sector, Warner Lambert (1998 – 2001); Vice President, Human Resources, Whirlpool Europe, Whirlpool Corporation (1975 – 1998). Service with the Company 3 months.
Ivan D. Meyerson	56	Corporate Secretary since April 1, 1999, and Senior Vice President and General Counsel since January 1999; Vice President and General Counsel (1987 – January 1999). Service with the Company — 23 years.
Carmine J. Villani	58	Senior Vice President and Chief Information Officer since January 1999; Vice President and Chief Information Officer (1997 – January 1999) and Vice President, Information Management, McKesson Drug Company (1994 – 1997). Service with the Company — 9 years.

PART II

Item 5. Market for the Registrant's Common Stock and Related Stockholder Matters

(a) *Market Information*

The principal market on which the Company's common stock is traded is the New York Stock Exchange. The Company's common stock is also traded on the Pacific Exchange, Inc. High and low prices for the common stock by quarter are included in Financial Note 19 to the consolidated financial statements, "Quarterly Financial Information (Unaudited)," appearing on pages F-70 to F-72 of this Annual Report on Form 10-K.

(b) *Holders*

The number of record holders of the Company's common stock at March 31, 2001 was approximately 16,000.

(c) *Dividends*

Dividend information is included in Financial Note 19 to the consolidated financial statements, "Quarterly Financial Information (Unaudited)," appearing on pages F-70 to F-72 of this Annual Report on Form 10-K.

Item 6. Selected Financial Data

Selected financial data is presented in the Five-Year Highlights on pages F-2 to F-5 of this Annual Report on Form 10-K.

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

Management's discussion and analysis of the Company's financial condition and results of operations is presented in the Financial Review on pages F-6 to F-29 of this Annual Report on Form 10-K.

Item 7A. Quantitative and Qualitative Disclosures about Market Risk

Information required by this item is included in the Financial Review on page F-24 of this Annual Report on Form 10-K.

Item 8. Financial Statements and Supplementary Data

Financial Statements and Supplementary Data appear on pages F-31 to F-72 of this Annual Report on Form 10-K.

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

Not applicable.

PART III

Item 10. Directors and Executive Officers of the Registrant

Information with respect to Directors of the Company is incorporated by reference from the Company's 2001 Proxy Statement (the "Proxy Statement"). Certain information relating to Executive Officers of the Company appears on page 14 of this Annual Report on Form 10-K. The information with respect to this item required by Item 405 of Regulation S-K is incorporated herein by reference from the Proxy Statement.

Item 11. Executive Compensation

Information with respect to this item is incorporated herein by reference from the Proxy Statement.

Item 12. Security Ownership of Certain Beneficial Owners and Management

Information with respect to this item is incorporated herein by reference from the Proxy Statement.

Item 13. Certain Relationships and Related Transactions

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

PART IV

Item 14. Exhibits, Financial Statement Schedule, and Reports on Form 8-K

(a) *Financial Statements, Financial Statement Schedule and Exhibits*

		Page
(1)	Consolidated Financial Statements and Independent Auditors' Report: See "Index to Consolidated Financial Statements"	F-1
(2)	Supplementary Consolidated Financial Statement Schedule — Valuation and Qualifying Accounts	19
	Financial statements and 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	
(3)	Exhibits: 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	20

(b) *Reports on Form 8-K*

The following reports on Form 8-K were filed during the three months ended March 31, 2001:

1. *Form 8-K*

Date of Report: January 11, 2001
Date Filed: January 11, 2001

Item 9. Regulation FD Disclosure

The Company announced it had filed an action against the New York State Common Retirement Fund, Inc., individually, and as a representative of a class of former HBO & Company ("HBOC") shareholders who exchanged their HBOC shares for McKesson shares in the 1999 acquisition of HBOC.

2. *Form 8-K*

Date of Report: February 26, 2001
Date Filed: March 1, 2001

Item 5. Other Events

McKesson HBOC, Inc. (the "Company") announced that John H. Hammergren, Co-President and Co-CEO of the Company, will become President and CEO of the Company effective April 1, 2001. The Company further announced the restructuring of its iMcKesson business unit. David L. Mahoney, currently Co-CEO of the Company will leave the Company and resign from its Board of Directors.

SIGNATURES

Pursuant to the requirements of Section 13 of 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 HBOC, Inc.

Dated: May 31, 2001

By /s/ William R. Graber

William R. Graber
Senior Vice President and Chief Financial Officer

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

*
John H. Hammergren
President and Chief Executive Officer and Director
(Principal Executive Officer)

*
William R. Graber
Senior Vice President and Chief Financial Officer
(Principal Financial Officer)

*
Nigel A. Rees
Vice President and Controller
(Principal Accounting Officer)

*
Alfred C. Eckert III,
Director

*
Tully M. Friedman,
Director

*
Alton F. Irby III,
Director

*
M. Christine Jacobs,
Director

*
Martin M. Koffel,
Director

*
Gerald E. Mayo,
Director

*
James V. Napier,
Director

*
David S. Pottruck,
Director

*
Carl E. Reichardt,
Director

*
Alan Seelenfreund,
Chairman of the Board

*
Jane E. Shaw,
Director

Dated: May 31, 2001

/s/ Ivan D. Meyerson

Ivan D. Meyerson
*Attorney-in-Fact

SCHEDULE II

McKESSON HBOC, INC.

SUPPLEMENTARY CONSOLIDATED FINANCIAL SCHEDULE
VALUATION AND QUALIFYING ACCOUNTS
For the Years Ended March 31, 2001, 2000 and 1999
(in millions)

Column A	Column B	Column C		Column D	Column E
		Additions			
Description	Balance at Beginning of Period	Charged to Costs and Expenses	Charged to Other Accounts	Deductions(1)	Balance at End of Period(2)
Amounts deducted from assets to which they apply:					
Year Ended March 31, 2001					
Allowances for doubtful accounts	$236.5	$239.6(3)	$ 9.1	$(101.5)	$383.7
Other allowances	39.0	8.4	—	(10.8)	36.6
	$275.5	$248.0	$ 9.1	$(112.3)	$420.3
Year Ended March 31, 2000					
Allowances for doubtful accounts	$140.4	$216.8(4)	$ —	$(120.7)	$236.5
Other allowances	40.8	0.5	—	(2.3)	39.0
	$181.2	$217.3	$ —	$(123.0)	$275.5
Year Ended March 31, 1999					
Allowances for doubtful accounts	$ 54.0	$ 87.2(5)	$16.2	$ (17.0)	$140.4
Other allowances	29.8	11.1	—	(0.1)	40.8
	$ 83.8	$ 98.3	$16.2	$ (17.1)	$181.2

	2001	2000	1999
(1) Deductions:			
Written off	$108.7	$120.4	$ 17.1
Credited to other accounts	3.6	2.6	—
Total	$112.3	$123.0	$ 17.1
(2) Amounts shown as deductions from:			
Current receivables	$419.7	$274.9	$180.6
Other assets	0.6	0.6	0.6
Total	$420.3	$275.5	$181.2

(3) Includes charges of $161.1 million for customer settlements (forgiveness of accounts receivable, customer credits and refunds) resulting from software and services issues associated with pre-July 1999 Health Care Information Technology contracts.

(4) Includes charges of $68.5 million for a change in estimate of receivable allowance requirements, $72.6 million for customer settlements (forgiveness of accounts receivable, customer credits and refunds) associated with discontinued product lines and $7.7 million for uncollectible unbilled receivables primarily in the Health Care Information Technology segment.

(5) Includes charges of $70.0 million for Health Care Information segment bad debts, disputed amounts and customer allowances.

EXHIBIT INDEX

Exhibit Number	Description
2.1	Agreement and Plan of Merger, dated as of October 17, 1998, by and among McKesson Corporation ("the Company"), McKesson Merger Sub, Inc. ("Merger Sub") and HBO & Company ("HBOC") (Exhibit 2.1(1)).
2.2	Amendment Agreement to Agreement and Plan of Merger, dated as of November 9, 1998, by and among the Company, Merger Sub and HBOC (Exhibit 2.2(1)).
2.3	Second Amendment Agreement to that certain Agreement and Plan of Merger dated October 17, 1998, as amended by an Amendment Agreement dated as of November 9, 1998 (Exhibit 2.1(2)).
3.1	Restated Certificate of Incorporation of the Company as filed with the office of the Delaware Secretary of State on July 30, 1998 (Exhibit 3.2(3)).
3.2	Certificate of Amendment to the Restated Certificate of Incorporation of Registrant as filed with the office of the Delaware Secretary of State on January 12, 1999 (Exhibit 4.3(4)).
3.3	Amended and Restated By-Laws of the Company dated as of March 31, 2001.
4.1	Rights Agreement dated as of October 21, 1994 between the Company and First Chicago Trust Company of New York, as Rights Agent (the "Rights Agreement") (Exhibit 4.1(6)).
4.2	Amendment No. 1 to the Rights Agreement dated as of October 19, 1998 (Exhibit 99.1(7)).
4.3	Indenture, dated as of March 11, 1997, by and between the Company, as Issuer, and The First National Bank of Chicago, as Trustee (Exhibit 4.4(8)).
4.4	Amended and Restated Declaration of Trust of McKesson Financing Trust, dated as of February 20, 1997, among the Company, as Sponsor, The First National Bank of Chicago, as Institutional Trustee, First Chicago Delaware, Inc., as Delaware Trustee and William A. Armstrong, Ivan D. Meyerson and Nancy A. Miller, as Regular Trustees (Exhibit 4.2(9)).
4.5	McKesson Corporation Preferred Securities Guarantee Agreement, dated as of February 20, 1997, between the Company, as Guarantor, and The First National Bank of Chicago, as Preferred Guarantor (Exhibit 4.7(10)).
4.6	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.
10.1	Employment Agreement, dated as of August 1, 1999, by and between the Company and the Chairman of the Board(16).
10.2	Amended and Restated Employment Agreement, dated as of June 21, 1999, by and between the Company and its President and Chief Executive Officer(16).
10.3	Form of Termination Agreement by and between the Company and certain designated Corporate Officers (Exhibit 10.23(11)).
10.4	McKesson HBOC, Inc. 1994 Stock Option and Restricted Stock Plan, as amended through January 27, 1999 (Exhibit 10.5(14)).
10.5	McKesson HBOC, Inc. 1997 Non-Employee Directors' Equity Compensation and Deferral Plan, as amended through January 27, 1999 (Exhibit 10.6(14)).
10.6	McKesson HBOC, Inc. Supplemental PSIP (Exhibit 10.7(14)).
10.7	McKesson HBOC, Inc. Deferred Compensation Administration Plan, amended as of January 27, 1999 (Exhibit 10.8(14)).
10.8	McKesson HBOC, Inc. Deferred Compensation Administration Plan II, as amended effective January 27, 1999 (Exhibit 10.9(14)).
10.9	McKesson HBOC, Inc. 1994 Option Gain Deferral Plan, as amended effective January 27, 1999 (Exhibit 10.10(14)).
10.10	McKesson HBOC, Inc. Directors' Deferred Compensation Plan, as amended effective January 27, 1999 (Exhibit 10.11(14)).
10.11	McKesson HBOC, Inc. 1985 Executives' Elective Deferred Compensation Plan, amended as of January 27, 1999 (Exhibit 10.12(14)).

Exhibit Number	Description
10.12	McKesson HBOC, Inc. Management Deferred Compensation Plan, amended as of January 27, 1999 (Exhibit 10.13(14)).
10.13	McKesson HBOC, Inc. 1984 Executive Benefit Retirement Plan, as amended through January 27, 1999 (Exhibit 10.14(14)).
10.14	McKesson HBOC, Inc. 1988 Executive Survivor Benefits Plan, as amended effective January 27, 1999 (Exhibit 10.15(14)).
10.15	McKesson HBOC, Inc. Executive Medical Plan Summary (Exhibit 10.16(14)).
10.16	McKesson HBOC, Inc. Severance Policy for Executive Employees, as amended through January 27, 1999 (Exhibit 10.17(14)).
10.17	McKesson HBOC, Inc. Management Incentive Plan, as amended through January 27, 1999 (Exhibit 10.18(14)).
10.18	McKesson HBOC, Inc. Long-Term Incentive Plan, as amended through January 27, 1999 (Exhibit 10.19(14)).
10.19	McKesson HBOC, Inc. Stock Purchase Plan, as amended through January 27, 1999 (Exhibit 10.20(14)).
10.20	McKesson HBOC, Inc. 1999 Executive Stock Purchase Plan (Exhibit 99.1(12)).
10.21	Stock Purchase Agreement, dated as of January 10, 2000, by and among the Company, Danone International Brands, Inc. and Groupe Danone SA (Exhibit 99.1(15)).
10.22	Amendment No. 1 to January 10, 2000 Stock Purchase Agreement, dated as of February 28, 2000 (Exhibit 10.23(16)).
10.23	First Amendment to October 22, 1999 Credit Agreement dated as of October 10, 2000.
10.24	HBO & Company 1993 Stock Option Plan for Nonemployee Directors (Exhibit 4(13)).
10.25	Amendment and Restated Employment Agreement, dated as of June 21, 1999, by and between the Company and its former Co-President and Co-Chief Executive Officer (Exhibit 10.26(16)).
10.26	Third Amendment to June 25, 1999 Receivables Purchase Agreement dated as of June 16, 2000.
10.27	Statement of Terms and Conditions Applicable to Certain Stock Options Granted on January 27, 1999 (Exhibit 10.28(14)).
10.28	Credit Agreement dated as of November 10, 1998 among the Company, Medis Health and Pharmaceutical Services Inc., Bank of America National Trust and Savings Association, as Agent, Bank of America Canada, as Canadian Administrative Agent, The Chase Manhattan Bank, as documentation agent, First Union National Bank, as documentation agent, The First National Bank of Chicago, as documentation agent, and the other financial institutions party thereto (Exhibit 10.29(14)).
10.29	Stock Option Agreement, dated October 17, 1998, between McKesson and HBOC (Exhibit 99.1(1)).
10.30	Stock Option Agreement, dated October 17, 1998, between HBOC and McKesson (Exhibit 99.2(1)).
10.31	Credit Agreement dated as of October 22, 1999 among the Company and the several financial institutions from time to time party to the Agreement ("Banks"), The Chase Manhattan Bank, First Union National Bank, Morgan Guaranty Trust Company as documentation agents for Banks and Bank of America N.A. as administrative agent for Banks (Exhibit 10.32(16)).
10.32	First Amendment to November 10, 1998 Credit Agreement, dated as of June 28, 1999 (Exhibit 10.33(16)).
10.33	Second Amendment to November 10, 1998 Credit Agreement, dated as of December 1, 1999 (Exhibit 10.34(16)).
10.34	Receivables Purchase Agreement dated as of June 25, 1999 among the Company, as servicer, CGSF Funding Corporation, as seller, Preferred Receivables Funding Corporation, Falcon Asset Securitization Corporation and Blue Ridge Asset Funding Corporation, as conduits, The First National Bank of Chicago and Wachovia Bank, N.A., as managing agents, the several financial institutions from time to time party to the Agreement, and The First National Bank of Chicago, as collateral agent (Exhibit 10.35(16)).

Exhibit Number	Description
10.35	First Amendment to June 25, 1999 Receivables Purchase Agreement, dated as of September 29, 1999 (Exhibit 10.36(16)).
10.36	Second Amendment to June 25, 1999 Receivables Purchase Agreement, dated as of December 6, 1999 (Exhibit 10.37(16)).
10.37	Statement of Terms and Conditions Applicable to certain Stock Options granted on August 16, 1999 (Exhibit 10.38(16)).
10.38	Statement of Terms and Conditions Applicable to certain Restricted Stock grants on January 31, 2000 (Exhibit 10.39(16)).
10.39	Syndicated Revolving Promissory Note dated as of May 28, 1999 among the Company, Bank of America National Trust and Savings Association, as Agent, and the other noteholders' signatures to the Note, Banc of America LLC as Sole Lead Arranger (Exhibit 10.40(16)).
10.40	Employment Agreement, dated as of June 21, 1999 by and between the Company and its Senior Vice President, President, Information Technology Business (Exhibit 10.41(16)).
10.41	Employment Agreement, dated as of August 1, 1999 by and between the Company and its Senior Vice President, President, Supply Management Business (Exhibit 10.42(16)).
21	List of Subsidiaries of the Company.
23.1	Consent of Deloitte & Touche LLP.
24	Power of Attorney.

Footnotes to Exhibit Index:

(1) Incorporated by reference to designated exhibit to Amendment No. 1 to McKesson's Form S-4 Registration Statement No. 333-67299 filed on November 27, 1998.

(2) Incorporated by reference to designated exhibit to the Company's Current Report on Form 8-K dated January 14, 1999.

(3) Incorporated by reference to designated exhibit to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 1998.

(4) Incorporated by reference to designated exhibit to the Company's Form S-8 Registration Statement No. 333-70501 filed on January 12, 1999.

(5) Incorporated by reference to designated exhibit to the Company's Quarterly Report on for 10-Q for the quarter ended June 30, 1999.

(6) Incorporated by reference to designated exhibit to Amendment No. 3 to the Company's Registration Statement on Form 10 filed on October 27, 1994.

(7) Incorporated by reference to designated exhibit to the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 1998.

(8) Incorporated by reference to designated exhibit to the Company's Annual Report on Form 10-K for the fiscal year ended March 31, 1997.

(9) Incorporated by reference to designated exhibit to Amendment No. 1 to the Company's Form S-3 Registration Statement No. 333-26433 filed on June 18, 1997.

(10) Incorporated by reference to designated exhibit to the Company's Form S-3 Registration Statement No. 333-26433 filed on May 2, 1997.

(11) Incorporated by reference to designated exhibit to the Company's Annual Report on Form 10-K for the fiscal year ended March 31, 1995.

(12) Incorporated by reference to designated exhibit to the Company's Form S-8 Registration Statement No. 333-71917 filed on February 5, 1999.

(13) Incorporated by reference to designated exhibit to HBOC's Form S-8 Registration Statement No. 33-67300 filed on August 12, 1993.

(14) Incorporated by reference to designated exhibit to the Company's Annual Report on Form 10-K for the fiscal year ended March 31, 1999.

(15) Incorporated by reference to designated exhibit to the Company's Current Report on Form 8-K dated February 1, 2000.

(16) Incorporated by reference to designated exhibit to the Company's Annual Report on Form 10-K for the fiscal year ended March 31, 2000.

CONSOLIDATED FINANCIAL INFORMATION

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FIVE-YEAR HIGHLIGHTS

CONSOLIDATED OPERATIONS

	Years Ended March 31,				
	2001	2000	1999	1998	1997(1)
	(dollars in millions, except per share amounts)				
Revenues(2)	$42,010.0	$36,687.0	$29,970.9	$22,041.8	$16,559.3
Percent change	14.5%	22.4%	36.0%	33.1%	23.2%
Gross profit(3)	2,431.0	2,224.9	2,320.5	2,094.8	1,426.1
Percent of revenues	5.8%	6.1%	7.7%	9.5%	8.6%
Operating profit	370.0(4)	322.4(5)	310.0(6)	579.8(7)	216.0(8)
Percent of revenues	0.9%	0.9%	1.0%	2.6%	1.3%
Interest expense-net of corporate interest income	102.7	107.3	90.4	72.7	35.6
Income from continuing operations before income taxes	15.8(4,9)	313.1(5,10)	168.2(6)	459.3(7)	135.0(8)
Income taxes	52.3	122.3	101.4	177.9(11)	73.3
Effective tax rate	331.0%	39.1%	60.3%	38.7%	54.3%
Dividends on preferred securities of subsidiary trust, net of tax benefit	6.2	6.2	6.2	6.2	0.7
Income (loss) after taxes					
Continuing operations	(42.7)(4,9)	184.6(5,10)	60.6(6)	275.2(7,11)	61.0(8)
Discontinued operations	(5.6)(12)	539.1(13)	24.3	29.4	151.1(14)
Net income (loss)	(48.3)	723.7	84.9	304.6	212.1
Percent change	—	752.4%	(72.1)%	43.6%	94.4%
Average stockholders' equity	3,655.5	3,082.9	2,772.0	2,273.8	1,690.9
Return on equity(15)	(1.3)%	23.5%	3.1%	13.4%	12.5%
Common dividends declared	68.3	67.5	84.9	62.0	52.1
Shares on which diluted earnings per common share were based					
Diluted	283.1	281.3	275.2	282.1	265.2
Basic	283.1	281.3	275.2	266.2	253.9
Diluted earnings (loss) per common share(16)					
Continuing operations	$ (0.15)	$ 0.66	$ 0.22	$ 1.00	$ 0.23
Discontinued operations	(0.02)	1.91	0.09	0.10	0.57
Total	(0.17)	2.57	0.31	1.10	0.80

(1) Includes the results of the FoxMeyer Corporation pharmaceutical distribution business ("FoxMeyer") from the acquisition date of November 8, 1996 and of McKesson General Medical Corporation ("MGM") from the acquisition date of February 21, 1997.

(2) Excludes other income.

(3) Revenues less cost of sales; fiscal 2000 and 1999 include $0.8 million and $1.2 million, respectively, of Health Care Supply Management segment charges for restructuring, asset impairments and other operating items representing 0.002% and 0.004% of fiscal 2000 and 1999 revenues, respectively.

(4) Includes Health Care Supply Management segment charges for asset impairments, severance and facility closing costs of $28.9 million (including $18.2 million for the restructure of the former iMcKesson segment), partially offset by a $7.8 million gain of the liquidation of an investment and Health Care Information Technology segment charges of $161.1 million for customer settlements and $134.5 million for asset impairments, severance and exit-related costs primarily related to the restructure of the former iMcKesson business, 0.8% of revenues in the aggregate, $239.4 million after-tax.

(5) Includes Health Care Supply Management segment charges of $40.0 million for asset impairments, accounts receivable reserves and customer settlements primarily related to a prior year implementation of a contract system, and $2.9 million in severance and exit-related charges primarily associated with segment staff reductions, partially offset by income of $8.1 million related to reductions in prior year restructuring accruals. Also includes Health Care Information Technology segment charges of $239.8 million for asset impairments, customer accounts receivable, severance and exit costs primarily associated with product streamlining and reorganization, $61.8 million for accounts receivable and customer settlements, $1.5 million for the write-off of purchased in-process technology, partially offset by income of $7.0 million related to a reduction in prior year accruals for acquisition-related activities, 0.9% of revenues in the aggregate, $198.7 million after-tax.

(6) Includes $214.3 million of Health Care Supply Management and $181.6 million of Health Care Information Technology segment charges for transaction costs, costs associated with employee benefits, primarily related to change of control provisions, employee severance, asset impairment write-downs, restructuring, integration and affiliation costs incurred, and system installation costs associated primarily with acquisitions, 1.3% of revenues in the aggregate, $285.8 million after-tax.

(7) Includes $16.7 million of Health Care Supply Management segment charges for the terminated merger with AmeriSource Health Corporation ("AmeriSource") and $44.1 million in costs associated primarily with the integration and rationalization of acquisitions; and, $35.3 million of Health Care Information Technology segment charges related to the acquisitions of AMISYS Managed Care Systems, Inc. and Enterprise Systems, Inc., 0.4% of revenues in the aggregate, $65.3 million after-tax.

(8) Includes Health Care Supply Management segment charges of $98.8 million for restructuring, asset impairment and other operating items, $48.2 million for the write-off of purchased in-process technology related to the acquisition of Automated Healthcare, Inc., and $6.4 million related to the merger of Access Health, Inc. and Informed Access Systems Inc. and Health Care Information Technology segment charges of $68.1 million related to the acquisition of CyCare Systems, Inc., Management Software, Inc. and GMIS Inc., 1.3% of revenues in the aggregate, $156.9 million after-tax.

(9) In addition to the items discussed in Note 4 above, includes Corporate segment charges of $33.9 million for asset impairments, severance and facility closing costs related to the restructure of the iMcKesson business, $105.2 million for asset impairments of investments and $2.5 million in legal fees incurred in connection with the Company's earlier restatement of prior years' financial results and resulting pending litigation. These items represent 0.3% of revenues in the aggregate, $86.3 million after-tax.

(10) In addition to items described in Note 5 above, includes Corporate segment net gains of $259.2 from the exchange and subsequent sale and donation of equity investments, partially offset by charges of $55.8 million for accounting, legal and other costs incurred in connection with the Company's earlier restatement of prior years' financial results and resulting pending litigation, costs associated with former employees and other acquisition related costs. These items represent 0.6% of revenues in the aggregate, $118.3 million after-tax.

(11) Includes a $4.6 million tax settlement.

(12) Includes an after-tax loss reflecting an adjustment to the gain recorded on the fiscal 2000 sale of McKesson Water Products Company ("Water Products business").

(13) Includes after-tax income from the Water Products business of $24.4 million, an after-tax charge of $1.2 million for increases in environmental costs for sites associated with the discontinued chemical operations and a $515.9 million after-tax gain on sale of the Water Products business.

(14) Includes after-tax gain on sale of Armor All Products Corporation ("Armor All") of $120.2 million.

(15) Based on net income.

(16) Dilutive securities are excluded in the computation of diluted earnings per share in fiscal 2001, 2000, and 1999 due to their antidilutive effect.

FIVE-YEAR HIGHLIGHTS

CONSOLIDATED FINANCIAL POSITION

	Years Ended March 31,				
	2001	2000	1999	1998	1997(1)
	(dollars in millions, except per share amounts)				
Customer receivables	$ 3,298.8	$ 2,847.4	$2,290.0	$1,774.0	$1,452.6
Days of sales(2)	28.3	27.9	27.5	29.0	25.9
Inventories	5,116.4	4,149.3	3,522.5	2,603.1	2,271.1
Days of sales(2)	46.6	43.4	45.9	47.0	44.5
Drafts and accounts payable	5,361.9	3,883.9	3,549.4	2,186.1	2,102.7
Days of sales(2)	48.8	40.6	46.3	39.5	41.2
Current assets	9,164.0	7,965.5	6,452.8	5,318.1	4,571.7
Current liabilities	6,549.7	5,121.8	4,744.8	3,083.8	3,031.9
Working capital	2,614.3	2,843.7	1,708.0	2,234.3	1,539.8
Percent of revenues(2)	6.2%	7.8%	5.7%	10.1%	7.6%
Property, plant and equipment-net	595.3	555.4	529.6	448.6	372.2
Percent of revenues(3)	1.4%	1.5%	1.8%	2.0%	1.8%
Capital expenditures	158.9	145.1	199.2	166.4	91.4
Total assets	11,529.9	10,372.9	9,020.0	7,291.8	6,413.4
Total debt(3)	1,229.7	1,260.0	1,151.2	1,318.4	1,032.0
Convertible preferred securities	195.9	195.8	195.6	195.4	194.8
Stockholders' equity	3,492.9	3,565.8	2,881.8	2,561.7	2,081.8
Capital employed(4)	4,918.5	5,021.6	4,228.6	4,075.5	3,308.6
Ratio of net debt to net capital employed(5)	17.5%	14.8%	22.4%	18.8%	16.2%
Common shares outstanding at March 31	284.0	283.4	280.6	271.0	259.0
Dividends per common share(6)	0.24	0.24	0.44	0.50	0.50
Book value per common share(7)	12.30	12.58	10.27	9.45	8.04
Market price					
High	37.00	69.25	96.25	61.75	34.13
Low	16.00	18.19	52.25	31.50	20.56
At year end	26.75	21.00	66.00	57.75	32.00

(1) Includes the results of FoxMeyer from the acquisition date of November 8, 1996 and of MGM from the acquisition date of February 21, 1997.

(2) Based on year-end balances and sales or cost of sales assuming major acquisitions occurred at beginning of year and a 360-day year.

(3) Total debt includes all interest-bearing debt and capitalized lease obligations.

(4) Capital employed consists of total debt, convertible preferred securities of subsidiary trust and stockholders' equity.

(5) Ratio computed as net debt (total debt less cash and cash equivalents and marketable securities) to net capital employed (capital employed less cash and cash equivalents and marketable securities).

(6) Dividends per common share amounts do not reflect the effects of poolings of interest transactions.

(7) Stockholders' equity divided by year-end common shares outstanding.

FIVE-YEAR HIGHLIGHTS—SUPPLEMENTAL DATA

CONSOLIDATED OPERATIONS

	Years Ended March 31,				
	2001	2000	1999	1998	1997(1)
	(dollars in millions)				
EBIT(2,7)	$ 118.5	$ 420.4	$ 258.6	$ 532.0	$ 170.6
Percent of revenues	0.3%	1.1%	0.9%	2.4%	1.0%
EBIT excluding unusual items(2,3,7)	576.8	547.9	654.5	628.1	392.1
Percent of revenues	1.4%	1.5%	2.2%	2.8%	2.4%
Amortization of intangibles	66.2	55.5	41.0	34.7	24.1
EBITA(4,7)	184.7	475.9	299.6	566.7	194.7
Percent of revenues	0.4%	1.3%	1.0%	2.6%	1.2%
EBITA excluding unusual items(3,4,7)	643.0	603.4	695.5	662.8	416.2
Percent of revenues	1.5%	1.6%	2.3%	3.0%	2.5%
Average committed capital(5)	3,565.8	3,420.2	3,026.8	2,230.7	1,520.3
Return on committed capital(6)	5.2%	15.4%	11.5%	27.8%	16.8%
Return on committed capital(6) excluding unusual items(3)	18.0%	19.1%	24.9%	32.1%	31.8%

(1) Includes the results of FoxMeyer from the acquisition date of November 8, 1996 and of MGM from the acquisition date of February 21, 1997.

(2) Income (loss) from continuing operations before interest expense-net of corporate interest income, taxes and dividends on preferred securities of subsidiary trust.

(3) Unusual items include those which management believes are either one-time occurrences and/or events which are not related to normal, on-going operations or represent charges that are in excess of normal/historical amounts. See Notes 3 to 11 on pages F-2 and F-3.

(4) Income (loss) from continuing operations before interest expense-net of corporate interest income, income taxes and amortization of intangibles.

(5) Capital employed less cash and cash equivalents, marketable securities and intangibles (including accounts associated with discontinued operations).

(6) Earnings (including income from discontinued operations) before interest expense-net of corporate interest income, income taxes and amortization of intangibles divided by average committed capital (capital employed less cash and cash equivalents, marketable securities and intangibles).

(7) EBITA and EBIT are not intended to represent cash flow from operations, or alternatives to net income, each as defined by accounting principles generally accepted in the United States of America. In addition, the measures of EBITA and EBIT presented herein may not be comparable to other similarly titled measures used by other companies. The Company believes that EBITA and EBIT are standard measures commonly reported and widely used by analysts, investors and other interested parties operating in the Company's industries. Accordingly, this information has been disclosed herein to permit a more complete comparative analysis of the Company's operating performance relative to other companies in similar industries.

McKESSON HBOC, INC.

FINANCIAL REVIEW

GENERAL

Management's discussion and analysis, referred to as the Financial Review, is intended to assist in the understanding and assessment of significant changes and trends related to the results of operations and financial position of McKesson HBOC, Inc. ("McKesson HBOC" or the "Company"), together with its subsidiaries. This discussion and analysis should be read in conjunction with the Company's consolidated financial statements and accompanying Financial Notes.

FACTORS AFFECTING FORWARD-LOOKING STATEMENTS

In addition to historical information, management's discussion and analysis includes certain forward-looking statements within the meaning of section 27A of the Securities Act of 1933, as amended (the "Securities Act") and section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). Some of the forward-looking statements can be identified by use of forward-looking words such as "believes", "expects", "anticipates", "may", "will", "should", "seeks", "approximately", "intends", "plans", or "estimates", or the negative of these words or other comparable terminology. The discussion of financial trends, strategy, plans or intentions may also include forward-looking statements. Forward-looking statements involve risks and uncertainties that could cause actual results to differ materially from those projected. These include, but are not limited to, the factors discussed under "Additional Factors That May Affect Future Results" of this "Financial Review."

These and other risks and uncertainties are described herein or in the Company's other public documents. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date hereof. The Company undertakes no obligation to publicly release the result of any revisions to these forward-looking statements to reflect events or circumstances after the date hereof or to reflect the occurrence of unanticipated events.

BUSINESS SEGMENTS

The Company conducts its operations through two operating business segments: Health Care Supply Management and Health Care Information Technology. The Health Care Supply Management segment includes the Company's U.S. pharmaceutical, health care products and medical-surgical supplies distribution businesses. U.S. Health Care Supply Management operations also include the manufacture and sale of automated pharmaceutical dispensing systems for hospitals and retail pharmacists, medical management services and tools to payors and providers, marketing and other support services to pharmaceutical manufacturers, consulting and outsourcing services to pharmacies, and distribution of first-aid products to industrial and commercial customers. In addition, Health Care Supply Management includes the Company's international distribution operations (including operations in Canada and an equity interest in a Mexican distribution business). The Health Care Information Technology segment delivers enterprise-wide patient care, clinical, financial, supply chain, managed care and strategic management software solutions, as well as networking technologies, including wireless capabilities, electronic commerce, outsourcing and other services to health care organizations throughout the U.S. and certain foreign countries.

Acquisitions

Fiscal Year 2001 Acquisitions and Investments

In April 2000, the Company and three other health care product distributors announced an agreement to form the New Health Exchange (subsequently renamed "Health Nexis"). Health Nexis is an Internet-based company focused on information systems and other technology solutions to streamline communication, processing and management of product and contract data across the health care supply chain. The Company accounts for its 34% interest in Health Nexis under the equity method of accounting. In fiscal 2001, the

Company invested $10.8 million in Health Nexis and recorded equity in the losses of Health Nexis of $5.0 million.

In July 2000, the Company completed the acquisition of MediVation, Inc., a provider of an automated web-based system for physicians to communicate with patients online, for approximately $24 million in cash, $14 million in Company common stock and the assumption of $6 million of employee stock incentives. A charge of $2.1 million was recorded in the second quarter to write off the portion of the purchase price allocated to in-process technology for which technological feasibility had not been established as of the acquisition date and for which there were no alternative uses. The Company received an independent valuation that utilized a discounted cash flow methodology by product line to assist in valuing in-process and existing technologies as of the acquisition date. In connection with the restructure of the Company's former iMcKesson business in February, 2001 and based on the utilization of a discounted cash flow methodology, the Company recorded an impairment loss for the unamortized goodwill and intangibles balance as of March 31, 2001.

In fiscal 2001, the Company also completed a number of smaller acquisitions in the Health Care Supply Management and Health Care Information Technology segments.

Fiscal Year 2000 Acquisitions

In November 1999, the Company acquired Abaton.com, a provider of internet-based clinical applications for use by physician practices, pharmacy benefit managers, benefit payors, laboratories and pharmacies, for approximately $95 million in cash and the assumption of approximately $8 million of employee stock incentives. A charge of $1.5 million was recorded to write off the portion of the purchase price of Abaton.com allocated to in-process technology for which technological feasibility had not been established as of the acquisition date and for which there were no alternative uses. The Company received an independent valuation that utilized a discounted cash flow methodology by product line to assist in valuing in-process and existing technologies as of the acquisition date. In connection with the restructure of the Company's former iMcKesson business in February, 2001 and based on the utilization of a current discounted cash flow methodology, the Company recorded an impairment loss for the unamortized goodwill and intangibles balance as of March 31, 2001.

In fiscal 2000, the Company also made several smaller acquisitions and investments in the Health Care Supply Management and Health Care Information Technology segments.

Fiscal Year 1999 Acquisitions

On January 12, 1999, McKesson Corporation ("McKesson"), completed the acquisition of HBO & Company ("HBOC"), a leading health care information technology company, by exchanging 177 million shares of McKesson common stock for all of the issued and outstanding shares of common stock of HBOC. Each share of HBOC common stock was exchanged for 0.37 of a share of McKesson common stock (the "Exchange Ratio"). McKesson was renamed McKesson HBOC, Inc. The transaction was structured as a tax-free reorganization and was accounted for as a pooling of interests.

In addition, the Company completed several acquisitions in fiscal 1999 in the Health Care Supply Management and Health Care Information Technology segments that were accounted for under the pooling of interests method as follows:

In August 1998, the Company acquired Hawk Medical Supply, Inc., a distributor of medical-surgical supplies, for approximately 2 million shares of Company common stock.

Also, in August 1998, the Company acquired J. Knipper and Company, a provider of direct mail, fulfillment and sales support services, including sample distribution to physician and pharmaceutical company sales representatives, for approximately 300,000 shares of Company common stock.

In September 1998, the Company acquired Automated Prescription Systems, Inc., a manufacturer of automated prescription filling and dispensing systems, for approximately 1.4 million shares of Company common stock.

In October 1998, the Company acquired US Servis, Inc., a professional management company that provides outsourcing services for physician delivery systems and hospital business offices, for the equivalent, after application of the Exchange Ratio, of approximately 700,000 shares of Company common stock.

Also in October 1998, the Company completed the acquisition of IMNET Systems, Inc., a provider of electronic information and document management solutions for the health care industry, for the equivalent of approximately 3.6 million shares of Company common stock and 0.6 million Company stock options.

In December 1998, the Company acquired Access Health, Inc., a provider of clinically based care management programs and health care information services, for the equivalent of approximately 12.7 million shares of Company common stock

In fiscal 1999, the Company completed the acquisitions of the following companies in its Health Care Supply Management segment, each accounted for under the purchase method of accounting:

In September 1998, the Company acquired MedManagement, a pharmacy management, purchasing, consulting and information services company, for approximately $38 million in cash. The acquisition was funded with short-term borrowings. The excess of the purchase price over the fair value of the net assets acquired of $41 million is being amortized on a straight-line basis over 20 years.

In November 1998, the Company acquired RedLine Health Care Corporation (“RedLine”) a distributor of medical supplies and services to the extended-care industry, including long-term-care and home-care sites for approximately $233 million in cash. The acquisition was funded with short-term borrowings. The excess of the purchase price over the fair value of the net assets acquired of $149 million is being amortized on a straight-line basis over 40 years.

Divestiture

In February 2000, the Company sold its wholly-owned subsidiary, McKesson Water Products Company for approximately $1.1 billion and recognized an after-tax gain of $515.9 million. The Water Products business has been classified as a discontinued operation for all periods presented.

Financial Results

The results of continuing operations include the following:

	Years Ended March 31,					
	2001		2000		1999	
	Pre-tax	After-tax	Pre-tax	After-tax	Pre-tax	After-tax
	(in millions)					
Income from Continuing Operations						
Before unusual items and dividends on convertible preferred securities of subsidiary trust	$ 474.1	$ 289.2	$ 440.6	$ 271.2	$ 564.1	$ 352.6
Dividends on convertible preferred securities of subsidiary trust	—	(6.2)	—	(6.2)	—	(6.2)
Before unusual items	474.1	283.0	440.6	265.0	564.1	346.4
Unusual items by segment						
Health Care Supply Management	(21.1)	(12.9)	(34.8)	(20.8)	(214.3)	(133.3)
Health Care Information Technology	(295.6)	(226.5)	(296.1)	(177.9)	(181.6)	(152.5)
Corporate	(141.6)	(86.3)	203.4	118.3	—	—
Income (Loss) from Continuing Operations	$ 15.8	$ (42.7)	$ 313.1	$ 184.6	$ 168.2	$ 60.6

Fiscal 2001

Fiscal 2001 after-tax income from continuing operations before unusual items was $283.0 million, a 7% increase over the prior year's income from continuing operations of $265.0 million. Fiscal 2001 results reflect revenue and operating margin growth in the Health Care Supply Management segment partially offset by declines in revenues and operating profits in the Health Care Information Technology segment.

Fiscal 2000

Fiscal 2000 after-tax income from continuing operations before unusual items was $265.0 million, a 23% decline from the prior year's income from continuing operations before unusual items of $346.4 million. Fiscal 2000 results reflect revenue and operating profit declines in the Health Care Information Technology segment, modest operating profit growth in the Health Care Supply Management segment, and higher financing costs to support revenue growth in the Health Care Supply Management segment.

Fiscal 1999

Fiscal 1999 after-tax income from continuing operations before unusual items was $346.4 million, a 3% increase over the prior year's income from continuing operations before unusual items of $335.9 million. Fiscal 1999 results reflect revenue and operating margin growth and the positive impact of acquisitions in the Health Care Supply Management segment offset, in part, by a decline in Health Care Information Technology segment operating results.

Unusual Items

In fiscal 2001, the Company incurred charges for asset impairments, severance and exit costs primarily associated with the restructure of the Company's former iMcKesson business segment. In fiscal 2001 and 2000, the Company incurred charges associated with product streamlining and reorganization in its Health Care Information Technology segment including, provision for customer settlements in 2001, and asset impairments, customer settlements and severance in 2000. In both years, the Company recorded gains and losses for certain equity investments and costs incurred in connection with the Investigation (as defined

below), the restatement of historical (pre-acquisition) consolidated financial statements and the resulting pending securities litigation. In fiscal 2000 and 1999, the Company incurred charges for acquisition-related activities including transaction costs, employee benefit costs, severance, as well as costs for consolidation of facilities and administrative processes and certain operating charges.

For the purposes of discussing the results of operations, the items described above are referred to as "unusual items" in the Financial Review. The results of operations excluding "unusual items" are not intended to represent income from operations, or alternatives to net income, each as defined by accounting principles generally accepted in the United States of America. In addition, the charges included as "unusual items" presented herein may not be comparable to other similarly titled measures used by other companies. Management believes, however, that the discussion of the results of operations excluding such unusual items is the most informative representation of recurring, non-transactional operating results. Management believes that these items either represent one-time occurrences and/or events which are not related to normal, ongoing operations or represent charges that are in excess of normal/historical operating amounts.

The unusual items in fiscal 2001, 2000 and 1999 are as follows:

	Years Ended March 31,		
	2001	2000	1999
		(in millions)	
Restatement-related costs incurred	$ 2.5	$ 18.9	
Net losses (gains) on the exchange and sale of equity investments	97.8	(259.2)	
Transaction costs			$ 79.6
Costs associated with the terminated merger transaction with AmeriSource Health Corporation			5.0
Costs associated with employee benefits, primarily related to change in control provisions			88.7
Restructuring, asset impairments and customer settlements	319.3	228.5	108.4
Employee severance	36.6	4.2	31.9
Other merger-related costs	2.1	(0.4)	13.8
Costs associated with former employees		23.8	
Acquisition-related integration costs incurred			32.3
Other operating items:			
Accounts receivable allowances		68.5	
Contract system costs		31.5	36.2
Other		11.7	
Total pre-tax	$458.3	$ 127.5	$395.9
Total after-tax	$325.7	$ 80.4	$285.8

Fiscal 2001 Unusual Items

In fiscal 2001, the Company recorded net pre-tax charges for unusual items totaling $458.3 million including $21.1 million in the Health Care Supply Management segment, $295.6 million in the Health Care Information Technology segment and $141.6 million in the Corporate segment. Following is a description of these items in fiscal 2001:

Restatement-Related Costs Incurred

In April 1999, following the January 1999 acquisition of HBOC, the Company discovered improper accounting practices at HBOC. In July 1999, the Audit Committee of the Company's Board of Directors

completed an investigation into such matters (the "Investigation"), which resulted in the previously reported restatement of the Company's historical consolidated financial statements related to HBOC (pre-acquisition) in fiscal 1999, 1998 and 1997. In fiscal 2001, the Company incurred legal fees totaling $2.5 million, in connection with the pending securities litigation arising out of the restatement.

(Gain) Loss on Investments

The Company recorded an other than temporary impairment loss of $105.6 million on its WebMD warrants and other equity and venture capital investments as a result of significant declines in the market values of these investments. The Company also recorded a $7.8 million gain on the liquidation of another investment.

Restructuring, Asset Impairments and Customer Settlements

In May 2000, the Company announced the formation of a new business unit, iMcKesson, to focus on healthcare applications using the Internet and other emerging technologies. iMcKesson included selected net assets from the former e-Health, Health Care Supply Management and Health Care Information Technology segments and fiscal 2001 acquisitions of strategic investments and businesses.

In February 2001, the Company announced the restructuring of the iMcKesson business unit by moving responsibility for iMcKesson's medical management business to the Health Care Supply Management segment and the physician services business to the Health Care Information Technology segment. In connection with the assessment of these businesses, management shut down certain iMcKesson operations. The Company wrote down goodwill and intangibles totaling $116.2 million arising from the acquisitions of Abaton.com and MediVation, Inc., based upon an updated analysis of discounted cash flows. The Company also recorded $29.8 million in non-cash asset impairments including $23.1 million for the write-down of equity investments whose market values had significantly declined, $5.2 million in capitalized software costs and $1.5 million in other fixed assets. In addition, the Company recorded $9.1 million in exit-related costs including $6.0 million for non-cancelable services directly related to discontinued products, $1.5 million for estimated claims resulting from the abandonment of products no longer core to its business and $1.6 million in other exit-related costs.

In the second quarter of fiscal 2001, the Company reviewed the operations and cost structure of its medical management business resulting in the planned closure of a call center and a workforce reduction and recorded $0.2 million in charges for exit-related activities.

In the third quarter of fiscal 2001, the Company closed a pharmaceutical distribution center and recorded $0.7 million in asset impairments and $0.5 million in charges for exit-related activities.

In the fourth quarter of fiscal 2001, the Company reviewed the operations and cost structure of its pharmaceutical services business resulting in the planned closures of two offices. The Company recorded $1.4 million in asset impairments and $1.6 million in exit-related costs primarily related to remaining lease obligations subsequent to termination of operations.

The Company also reduced prior year reserves for exit-related activities by $1.3 million.

In addition, the Company's Health Care Information Technology segment recorded a $161.1 million charge for customer settlements (forgiveness of accounts receivable, customer credits and refunds) associated with pre-July 1999 software contracts. These customer settlements generally relate to product replacements as well as requirements for certain customers to upgrade hardware and software to accommodate new product releases.

Severance

The Company recorded severance costs totaling $29.0 million related to the restructure of the former iMcKesson business, $1.0 million in the Health Care Supply Management segment, $3.3 million in the Health Care Information Technology segment and $24.7 million in the Corporate segment. The severance charges relate to the termination of approximately 220 employees, primarily in sales, service and administration functions.

The Company also recorded severance costs totaling $8.5 million in the aggregate related to workforce reductions in the Health Care Supply Management segment associated with the closure of a pharmaceutical distribution center, closure of a medical management call center, consolidation of medical-surgical customer service centers, closures of facilities in the pharmaceutical services business and staff reductions in the pharmaceutical management business. The fiscal 2001 severance charges relate to the termination of approximately 360 employees, primarily in sales, service, administration and distribution center functions. In addition, the Company reduced prior year severance reserves by $0.9 million.

In connection with the severance charges described above, $3.2 million was a non-cash charge, severance of $2.4 million was paid in fiscal 2001, $12.4 million will be paid in fiscal 2002 and the balance of $19.5 million, primarily pension benefits, will be paid in fiscal 2003 and thereafter.

As a result of the previously discussed restructuring activities, future operating results and cash flows will be impacted. Development and support activities for certain discontinued products associated with the former iMcKesson business will be phased out within twelve months. Although future revenues associated with the discontinued products will be reduced or eliminated, the Company does not anticipate they will materially impact the company's future operating results or cash flows. The Company anticipates that goodwill amortization expense will be approximately $20 million lower in fiscal 2002 as a result of the Abaton.com and MediVation, Inc. goodwill and intangibles write downs. In addition, the Company anticipates reduced product development expenses as a result of terminating certain product licensing agreements and gradual reductions in payroll expenses and occupancy costs as the former iMcKesson operations wind down. Closure of the medical management call center is not anticipated to significantly impact future revenues (customers will be serviced out of the remaining call centers) but payroll cost savings are anticipated. Closure of the pharmaceutical distribution center, pharmaceutical services facilities and consolidations of the medical-surgical customer service centers are not expected to have a material impact on the Company's fiscal 2002 operating results.

Other Merger-Related Items

The Company recorded a charge of $2.1 million in the Information Technology segment to write off the portion of the purchase price of MediVation, Inc. allocated to purchased in-process technology for which feasibility had not been established as of the acquisition date.

Fiscal 2000 Unusual Items

In fiscal 2000, the Company recorded net pre-tax charges for unusual items totaling $127.5 million including $34.8 million in the Health Care Supply Management segment, $296.1 million in the Health Care Information Technology segment, and $203.4 million income in Corporate. Following is a description of these items in fiscal 2000:

Restatement-Related Costs Incurred

In fiscal 2000, the Company incurred costs in connection with the previously discussed Investigation, the restatement of the historical consolidated financial statements and the resulting pending litigation, and recorded charges of $18.9 million for accounting and legal fees and other costs.

Net Gains on the Exchange and Sale of Equity Investments

The Company recorded gains on the exchange of the Company's WebMD common shares and warrants for Healtheon/WebMD (subsequently renamed WebMD) common shares and warrants that were recognized upon the November 11, 1999 merger of the two companies. Subsequently in fiscal 2000, the Company donated 250,000 WebMD shares to the McKesson HBOC Foundation and sold the remaining common shares. As a result of these transactions, the Company recognized gains related to the investment in WebMD of $248.7 million of which $155.3 million was realized. The remaining gain of $93.4 million which resulted from the November 11, 1999 exchange of warrants, had not been realized as of March 31, 2000. The estimated fair value of the warrants declined from $93.4 million as of November 11, 1999 to $32.3 million as of March 31, 2000, resulting in an unrealized loss of $61.1 million. In fiscal 2001, the estimated fair value of the warrants declined further and the Company recognized a loss (see Fiscal 2001 Unusual Items). In addition, other equity investments were sold during the year at a gain of $20.3 million, and a $9.8 million charge was recorded to reflect the donation of the WebMD shares to the McKesson HBOC Foundation.

Restructuring, Asset Impairments and Customer Settlements

In the fourth quarter of fiscal 2000, the Company completed an assessment of the Health Care Information Technology's business and product portfolio. This resulted in the decision to reorganize the business and to discontinue overlapping or nonstrategic product offerings. The Company recorded asset impairments of $232.5 million. These included charges to write off $49.1 million of capitalized product development costs, $39.3 million of purchased software and $50.7 million of goodwill associated with discontinued product lines based upon an analysis of discounted cash flows. In addition, a $74.1 million reserve was recorded for customer settlements attributable to the discontinued product lines. The Company also recorded a $9.4 million loss on the disposition of a non-core foreign operation, a $7.7 million charge for uncollectible unbilled receivables and a $2.2 million charge for obsolete equipment associated with the discontinued products. Substantially all of these charges were non-cash asset write-offs except for the customer settlements.

In addition, a charge of $0.6 million was recorded for costs to prepare facilities for disposal, lease costs and property taxes required subsequent to termination of operations and other exit-related activities.

In the fourth quarter of fiscal 2000, the Company reviewed the operations and cost structure of the Health Care Supply Management's medical-surgical business. This resulted in the planned closure of a sales office and a workforce reduction. The Company recorded $0.6 million in charges for exit-related activities. Also in fiscal 2000, the Company reassessed prior years' restructuring plans resulting in the decision to retain one of the six pharmaceutical distribution centers identified for closure in fiscal 1999 and to reduce the number of medical-surgical distribution center closures. In addition, the Company announced and completed the closure of one additional pharmaceutical distribution center in fiscal 2000. The Company recorded income of $6.9 million as a result of reducing prior year accruals for exit-related costs, offset in part, by additional asset impairments of $1.5 million. The Company also recorded asset impairments for its medical-management business of $0.2 million for obsolete equipment associated with discontinued products.

Severance

In fiscal 2000, the Company completed the closures of three pharmaceutical distribution centers, including the additional distribution center mentioned above. In addition, the realignment of the sales organization was completed and certain back office functions were eliminated. This resulted in the termination of approximately 200 employees and the payment of $3.6 million in severance. Also, the Company completed the closures of three medical-surgical distribution centers and paid $1.0 million in severance to approximately 100 employees who were terminated in fiscal 1999 and 2000. The Company plans to continue these closure activities throughout fiscal 2002.

The Company recorded severance costs totaling $6.2 million in the aggregate related to workforce reductions in the Health Care Information Technology segment associated with product streamlining and reorganization and in the Health Care Supply Management segment associated with distribution facility consolidations. This charge was offset, in part, by a $2.0 million reduction in prior year severance reserves. The fiscal 2000 severance charges relate to the termination of approximately 500 employees, primarily in product development and support, administration and distribution center functions. In fiscal 2001, the Company paid severance of $4.9 million and reduced previously recorded reserves by $0.9 million. The remaining balance will be paid in fiscal 2002.

Other Merger-Related Items

The Company recorded a charge of $1.5 million to write off the portion of the purchase price of Abaton.com allocated to purchased in-process technology for which feasibility had not been established as of the acquisition date. The Company also recorded a $1.3 million charge for the impairment of a note receivable from a former stockholder of an acquired company and reversed $6.9 million of accruals booked in prior years for estimated merger-related costs.

Corporate and other includes a charge of $3.7 million related to additional costs incurred and paid associated with the acquisition of HBOC.

Costs Associated With Former Employees

In fiscal 2000, the Company recorded charges of $23.8 million for severance and benefit costs resulting from changes in executive management made in the first quarter. The charges were based on the terms of employment contracts in place with these executives. $2.8 million was paid in fiscal 2000 and $2.1 million was paid in fiscal 2001. The Company estimates that $3.7 million will be paid in fiscal 2002 and the balance, primarily pension benefits, will be paid thereafter.

Other Operating Items

Other operating items include charges of $61.8 million in the Health Care Information Technology segment for accounts receivable and customer settlements, a $1.1 million non-cash charge for the write-off of internal-use computer software that was abandoned and a $1.2 million charge related to the settlement of a software patent infringement claim that was paid during the year.

The Health Care Supply Management segment recorded a charge of $31.5 million for asset impairments and receivables related primarily to a prior year implementation of a contract system, and a $6.7 million charge for customer accounts receivable in the medical management business.

Corporate includes non-cash charges of $7.7 million for impairment of notes receivable from former employees and $1.7 million for costs associated with employee-retention following the announcement of the Investigation.

Fiscal 1999 Unusual Items

In fiscal 1999, the Company recorded pre-tax charges for unusual items of $214.3 million in the Health Care Supply Management segment and $181.6 million in the Health Care Information Technology segment, $395.9 million in the aggregate. Following is a description of these items in fiscal 1999:

Transaction Costs

Total unusual items include $84.6 million of transaction costs incurred in connection with the acquisitions described above, primarily consisting of professional fees such as investment banking, legal and accounting fees. This amount includes $6.6 million of transaction costs related to terminated transactions of which

$5.0 million related to the terminated merger with AmeriSource Health Corporation. Approximately $83.6 million was paid in fiscal 1999, with a balance of $1.0 million paid in fiscal 2000.

Employee Benefits

The Company incurred $88.7 million of employee benefit costs related to acquisitions, including $39.0 million for restricted stock and stock appreciation rights subject to change of control provisions, $37.0 million of long-term incentive and phantom stock awards subject to change of control provisions, $8.7 million of signing and retention bonuses, and $4.0 million of retirement and employee benefit plan costs. Of these amounts, $36.3 million were non-cash charges, primarily related to restricted stock, $44.1 million was paid in fiscal 1999, $1.6 million was paid in fiscal 2000 and $3.5 million was paid in fiscal 2001.

Restructuring and Asset Impairments

In fiscal 1999, the Health Care Supply Management segment identified six distribution centers for closure, of which one distribution center was shut down by March 31, 1999. The Company recorded a charge of $25.5 million related to closures of the distribution centers. Of this charge, $21.7 million was required to reduce the carrying value of facility assets to their estimated fair value less disposal costs, and $3.8 million was related to computer hardware and software which will no longer be used at such facilities. Fair value was determined based on sales of similar assets, appraisals, and/or other estimates such as discounting of estimated future cash flows. Considerable management judgment is necessary to estimate fair values; accordingly, actual results could vary significantly from such estimates. Also related to such closures, a charge of $17.2 million was recorded for exit-related costs. These primarily consist of costs to prepare facilities for disposal, lease costs and property taxes required subsequent to termination of operations, as well as the write-off of costs related to duplicate assets from acquired companies that do not have future use by the Company. Of the above charges, $25.5 million were non-cash asset write-offs. $3.9 million was paid in fiscal 1999, $2.6 million was paid in fiscal 2000, and $2.9 million was paid in fiscal 2001. Also, in connection with the previously discussed reassessment of this restructuring plan, the Company reduced previously recorded exit-related reserves by $6.9 million in fiscal 2000 and by $1.3 million in fiscal 2001, and recorded charges of $1.5 million for additional asset impairments in fiscal 2000.

The Health Care Supply Management segment also wrote off $23.5 million of computer hardware and software which was abandoned as the result of an acquisition during the year.

In connection with acquisitions in the medical management business, the Company terminated royalty agreements at a cost of $12.0 million because products subject to minimum royalty payments to third parties were replaced with acquired products. In addition, the Company recorded charges of $4.3 million primarily for the write-off of capitalized software costs.

In connection with acquisitions made by the Health Care Information Technology segment and its acquisition by McKesson, duplicate facilities, products and internal systems were identified for elimination, resulting in charges of $5.9 million, relating principally to the write-off of capitalized costs and lease termination costs. In addition, following the HBOC Transaction, the Company evaluated the performance of a foreign business and elected to shut down its facility. Charges of $11.6 million were recorded, principally related to the write-down of goodwill to fair value based on estimated discounted cash flows. Revenues and net operating income for this foreign business were not significant in fiscal 1999. Certain investments became impaired during fiscal 1999 and were written down by $4.3 million to their net realizable values based primarily on estimated discounted cash flows, and other reserves of $4.1 million were recorded to cover customer and other claims arising out of the acquisitions. Substantially all of the above charges were non-cash asset write-offs.

Severance

Severance costs totaled $31.9 million (net of a $3.0 million reversal of previously recorded severance obligations which were determined to be in excess), resulting from the consolidation of acquired company operating and corporate functions, the consolidation of existing U.S. Health Care pharmaceutical distribution centers, and other employee terminations. The severance charges relate to the termination of approximately 1,550 employees, primarily in distribution centers, administration and product functions. The Company paid severance of $12.1 million in fiscal 1999, $14.9 million in fiscal 2000 and reduced previously recorded reserves by $2.0 million in fiscal 2000. Severance of $3.2 million was paid in 2001 and the remaining severance will be paid in fiscal 2002 and thereafter.

Other Merger-related Costs

The Health Care Information Technology segment incurred costs totaling $13.8 million in fiscal 1999 due to an acquired company which had receivables outstanding from HBOC competitors that became uncollectible and were written off after the HBOC Transaction.

Acquisition-related Integration Costs

Acquisition-related integration costs of $32.3 million consist of $1.9 million incurred for salaries and benefits of integration and affiliation team members of the Company and $30.4 million of other direct costs associated with the integration and rationalization of recent acquisitions in the Health Care Supply Management and Health Care Information Technology segments.

Other Operating Items

Other operating items of $36.2 million consist of losses resulting from the implementation of a contract administration system and expenses incurred for corrective actions associated with that system.

Results Of Operations

The discussion of the financial results that follows focuses on the results of continuing operations excluding unusual items, as management believes such discussion is the most informative representation of recurring, non-transactional related operating results.

Health Care Supply Management

The following table identifies significant performance indicators of the Health Care Supply Management segment:

	2001	2000	1999
	(dollars in millions)		
Revenues			
Excluding Sales to customers' warehouses			
Pharmaceutical distribution and services			
U.S. Health Care	$24,853	$21,994	$17,612
International	2,645	2,220	1,946
Total pharmaceutical	27,498	24,214	19,558
Medical-Surgical distribution and services	2,849	2,706	2,292
Subtotal	30,347	26,920	21,850
Sales to customers' warehouses	10,730	8,746	6,813
Total	$41,077	$35,666	$28,663
Revenue growth			
Excluding sales to customers' warehouses			
Pharmaceutical distribution and services			
U.S. Health Care	13%	25%	21%
International	19	14	20
Total pharmaceutical	14	24	21
Medical-Surgical distribution and services	5	18	22
Total excluding sales to customers' warehouse	13	23	21
Total	15	24	38
Operating profit	$ 686.2	$ 571.3	$ 574.1
Percentage change	20%	(0.5)%	37%
Gross profit margin(1)	6.7	7.0	7.6
Operating expense margin(1)	4.4	4.9	5.0
Operating profit as a percent of revenues(1)	2.3	2.1	2.6
Depreciation	$ 76.3	$ 72.1	$ 60.2
Amortization of intangibles	32.1	31.1	25.1
Capital expenditures	90.9	99.0	105.0
Capital employed at year-end			
Committed capital(2)			
Operating working capital(3)	$ 3,282	$ 3,328	$ 2,661
Other — net	225	208	66
Total	3,507	3,536	2,727
Intangibles	997	1,017	1,028
Total	$ 4,504	$ 4,553	$ 3,755
Returns			
Committed capital(4)	19.6%	16.3%	19.9%
Total capital employed(5)	14.6	13.8	15.6

(1) Excluding sales to customers' warehouses and other income.

(2) Capital employed less cash and cash equivalents, marketable securities and goodwill and other intangibles.

(3) Receivables and inventories net of related payables.

(4) Operating profit before amortization of intangibles divided by average committed capital.

(5) Operating profit divided by average capital employed.

Over the most recent three fiscal years, the Health Care Supply Management business has experienced internal revenue growth and growth as a result of acquisitions. Revenue growth in this segment, excluding sales to customers' warehouses, is as follows:

	2001	2000	1999
Pharmaceutical Distribution and Services			
Existing businesses	13.6%	23.5%	20.1%
Acquisitions	—	0.3	0.5
Total	13.6%	23.8%	20.6%
Medical-Surgical Supply Distribution and Services			
Existing businesses	5.3%	6.6%	14.4%
Acquisitions	—	11.5	7.6
Total	5.3%	18.1%	22.0%

Internal growth in Health Care Supply Management is due primarily to increased sales volume to the retail chain and institutional customer segments. Sales to retail customers have benefited from the Company's service offerings and programs that focus on broad product selection, service levels, inventory carrying cost reductions, connectivity and automation technologies. Growth with institutional customers has benefited from the focus on reducing both product cost and internal labor and logistics costs for the customers. Services available include pharmaceutical distribution, medical-surgical supply distribution, pharmaceutical dispensing automation, pharmacy outsourcing and utilization reviews. These retail chain and institutional capabilities have resulted in the implementation of significant long-term contracts with major customers.

	2001	2000	1999
Customer Mix — Pharmaceutical Distribution Revenues(1)			
Independents	24.5%	25.5%	28.7%
Retail Chains	42.4	42.4	38.5
Institutions	33.1	32.1	32.8
	100.0%	100.0%	100.0%

(1) Excluding sales to customer warehouses.

Sales to customers' warehouses are large volume sales of pharmaceuticals to major self-warehousing drugstore chains whereby the Company acts as an intermediary in the order and subsequent delivery of products directly from the manufacturer to the customers' warehouses. The growth in sales to customers' warehouses in fiscal 2001 was due to the addition of a significant retail chain customer and to growth from existing customers. The growth in fiscal 2000 and 1999 was primarily the result of two significant contracts with retail chains which also provided new direct store sales growth.

The operating profit margin increased in fiscal 2001, reflecting margin expansion in the U.S. pharmaceutical distribution and services business due to gross margin initiatives and productivity improvements in both back-office and field operations and in the Canadian pharmaceutical business reflecting new customers, sales

growth and operational efficiencies. This impact was partially offset by a decline in the medical management business reflecting the loss of a number of services customers and reduced profits from the Company's 22% interest in Nadro, a Mexican pharmaceutical distribution business. The operating profit margin declined in fiscal 2000 from 1999 due to a decline in the gross profit margin reflecting the competitive environment, a shift in the mix of pharmaceutical distribution revenues to a higher proportion of chain business and somewhat lower procurement profits as a percentage of revenues in the current year. Procurement profits benefited in fiscal 1999 from price increases on inventory expansion associated with new customer agreements. The decline in the gross profit margin was offset, in part, by a lower operating expense ratio reflecting continuing productivity improvements. The improvement in the operating expense ratio was achieved despite higher expenses for receivable and transaction processing related charges. Fiscal 1999 operating margins reflect higher margin businesses resulting from acquisitions in pharmaceutical services for manufacturers, retail and institutional automation and medical-surgical supply distribution. In addition, expanded profitability from product procurement, warehouse automation and efficiency improvements, and fixed cost leverage from volume growth contributed to the margin expansion.

The Health Care Supply Management segment uses the last-in, first-out (LIFO) method of accounting for the majority of its inventories which results in cost of sales that more closely reflect replacement cost than other accounting methods, thereby mitigating the effects of inflation and deflation on operating profit. The practice in the Health Care Supply Management distribution businesses is to pass published price changes from suppliers on to customers. Manufacturers generally provide the Company with price protection, which prevents inventory losses. Price declines on many generic pharmaceutical products in this segment in each of the fiscal years ended March 31, 2001, 2000 and 1999 have moderated the effects of inflation in other product categories, which resulted in minimal overall price changes in those fiscal years.

Fiscal 2001, 2000 and 1999 capital expenditures include new systems upgrades to distribution facilities and facility consolidations in the pharmaceutical and medical-surgical businesses and growth in the automation and services businesses.

The Health Care Supply Management segment requires a substantial investment in operating working capital (customer receivables and inventories net of related trade payables). Operating working capital is susceptible to large variations during the year as a result of inventory purchase patterns and seasonal demands. Inventory purchase activity is a function of sales activity, new customer build-up requirements and the desired level of investment inventory. Operating working capital at March 31, 2001 was flat relative to 2000. An increase in receivables, reflecting sales growth, and inventories was offset by a significant increase in vendor payables reflecting purchases made late in the fiscal year and the timing of vendor payments. No accounts receivable were sold at March 31, 2001 and 2000. Operating working capital was significantly higher at March 31, 2000 compared to 1999. The working capital increase primarily reflects increases in receivables and net financial inventories (inventories net of accounts and drafts payable) resulting from sales growth, the absence of accounts receivable sales at March 31, 2000 compared to $400.0 million of sales at March 31, 1999 and the timing of vendor payments.

Health Care Information Technology

Significant performance indicators of the Health Care Information Technology segment are as follows:

	2001	2000	1999
	(dollars in millions)		
Revenues			
Software	$ 134	$ 144	$ 268
Services	712	782	832
Subtotal	846	926	1,100
Hardware	84	92	208
Total revenues	$ 930	$1,018	$1,308
Revenue growth (decline)			
Software	(7)%	(46)%	(23)%
Services	(9)	(6)	23
Subtotal	(9)	(16)	8
Hardware	(8)	(56)	(3)
Total	(9)	(22)	6
Operating profit	$ 0.5	$ 82.0	$131.8
Percent change	(99)%	(38)%	(49)%
Gross profit margin	42.4	40.3	41.8
Operating expense margin	42.3	32.3	31.7
Operating profit as a percent of revenues	0.1	8.1	10.1
Depreciation	$36.1	$ 41.0	$ 38.0
Amortization of intangibles	34.2	24.4	15.9
Amortization of capitalized software held for sale	25.9	28.3	25.9
Capital expenditures	26.5	43.3	71.4
Capital employed			
Committed capital(1)	$ 198	$ 259	$ 234
Intangibles	80	182	187
Total	$ 278	$ 441	$ 421
Returns			
Committed capital(2)	21.8%	35.1%	70.2%
Total capital employed(3)	0.1	14.8	15.4

(1) Capital employed less cash and cash equivalents, marketable securities and goodwill and other intangibles.

(2) Operating profit before amortization of intangibles divided by average committed capital.

(3) Operating profit divided by average capital employed.

Health Care Information Technology revenues declined 9% to $0.9 billion in fiscal 2001 and 22% to $1.0 billion in fiscal 2000. In fiscal 2001, certain contracts were entered into which the Company is accounting for under the percentage of completion method, which extends the recognition of revenue over a period of time. Services revenues declined, reflecting the lagging impact of reduced prior period software sales on implementation services revenues. The decline in fiscal 2000 revenues was attributable to the overall industry-wide slowdown in sales of health care information technology software and hardware products resulting from delays in purchasing decisions that are attributed both to Year 2000 issues and a general weakness in demand for healthcare software. Services revenues associated with software implementation also declined for the same

reasons. Also contributing to the decline was the impact to the business caused by the investigation into improper accounting practices and resulting senior management changes made early in the year. In addition, the terms of certain contracts for software and implementation services executed late in the fiscal year resulted in such contracts being accounted for under the percentage of completion accounting method. Revenues increased 6% to $1.3 billion in fiscal 1999. The fiscal 1999 decline in software revenues of 23% reflects a general industry-wide slowdown in sales of health care information technology products and changes in accounting due to the adoption of Statement of Position 97-2, "Software Revenue Recognition", effective April 1, 1998. In addition, during fiscal 1999, the Health Care Information Technology segment experienced delays in current and potential customers' purchasing decisions with respect to its enterprise solutions. Management believes such delays were due to Year 2000 issues, technological innovations, increased competition, greater requirement for integration of products and general market conditions in the computer software industry.

Hardware is sold as an accommodation to customers and at a significantly lower operating margin than software and services. Fiscal 2001, 2000 and 1999 revenues from the sale of hardware reflect the lower level of software sales, general price declines for hardware and a shift to less costly Microsoft Windows NT™ platforms.

Health Care Information Technology segment operating profit before unusual items declined 99% to $0.5 million in fiscal 2001, and 38% to $82.0 million in fiscal 2000. The decline in fiscal 2001 reflects the extended software revenue recognition cycle under the percentage of completion accounting method, lower service and hardware revenues, and an increased level of expenses to enhance customer support and future product introduction. The decline in fiscal 2000 reflects the previously discussed decline in overall sales and a lower mix of higher-margin software sales in fiscal 2000 compared to 2001 and 1999 (14% in fiscal 2000 as compared to 20% in fiscal 1999, as a percentage of total Health Care Information Technology revenues). The fiscal 2000 operating profit includes an increased level of expenses to enhance customer support and future product introductions. Fiscal 1999 results included a bad debt provision of $70 million and a termination fee associated with a telecommunications contract. The bad debt provision reflects, in part, inadequate staffing of and focus on receivables collections during a portion of fiscal 1999, implementation issues associated with certain products and contingencies associated with contract disputes.

Fiscal 1999 capital expenditures reflect the acquisition and construction of the segment's new corporate office building in Georgia.

The return on committed capital and total capital employed in fiscal 2001 and 2000 reflect the previously discussed decline in operating profit.

International Operations

International operations accounted for 6.6%, 6.4% and 6.9%, and 4.2%, 8.7% and 6.6%, of fiscal 2001, 2000 and 1999 consolidated revenues and operating profits before unusual items, respectively, and 5.6%, 5.8% and 5.5% of consolidated assets at March 31, 2001, 2000 and 1999, respectively. International operations are subject to certain opportunities and risks, including currency fluctuations. The Company monitors its operations and adopts strategies responsive to changes in the economic and political environment in each of the countries in which it operates.

Consolidated Working Capital

Operating working capital (receivables and inventories net of related payables) as a percent of revenues was 7.6%, 9.0% and 8.4% at March 31, 2001, 2000 and 1999, respectively. Excluding the impact of receivable sales, operating working capital as a percent of revenues was 7.6%, 9.0% and 9.7% at March 31, 2001, 2000

and 1999, respectively. The calculation is based on year-end balances and assumes major purchase acquisitions occurred at the beginning of the year.

The improvement in the operating working capital ratio in fiscal 2001 is due to an increase in days sales outstanding in payables reflecting purchases made later in the year and the timing of vendor payments. The improvement in the ratio in 2000 (excluding the impact of receivable sales) is due to a reduction in year-end days sales outstanding in both customer receivables and inventory, reflecting working capital initiatives. In fiscal 2000, this improvement was offset, in part, by lower days sales outstanding in payables at March 31, 2000 compared to March 31, 1999.

CASH FLOW AND LIQUIDITY

Cash and cash equivalents and marketable securities (primarily U.S. Treasury securities with maturities of one year or less) were $446 million, $606 million and $262 million at March 31, 2001, 2000 and 1999, respectively.

The increase in cash and cash equivalents and marketable securities in 2000 reflects proceeds from the February 2000 sale of the Water Products business and a private placement of term debt (see "Other Financing Activities" below).

Marketable securities balances include $4 million, $17 million and $23 million at March 31, 2001, 2000 and 1999, respectively, from the fiscal 1997 sale of Armor All, which securities are restricted and held in trust as exchange property in connection with the Company's exchangeable debentures.

Cash Flows from Operations Available for Capital Expenditures

The following table summarizes the excess (deficit) of cash flow from operations over capital expenditures:

	Years Ended March 31,		
	2001	2000	1999
		(in millions)	
Net cash provided (used) by continuing operations:			
Income (loss) from continuing operations(1)	$ (43)	$ 185	$ 61
Depreciation	116	116	104
Amortization of intangibles	66	55	41
Amortization of capitalized software	65	51	36
Other non-cash charges(1)	513	382	361
Working capital changes	(357)	(689)	(445)
Total before receivables sales and capital expenditures	360	100	158
Receivable sales	—	(400)	100
Capital expenditures	(159)	(145)	(199)
Excess (Deficit)	$ 201	$(445)	$ 59

(1) Includes previously discussed "Unusual Items".

Cash flows from continuing operations reflect the cash earnings of the Company's continuing businesses and the effects of the changes in working capital. The working capital increase in fiscal 2001 primarily reflects the timing of vendor payments in the Health Care Supply Management segment partially offset by the payment of income taxes on the gain on sale of the Water Products business that was sold in late fiscal 2000. The working capital increase in fiscal 2000 primarily reflects the timing of vendor payments in the prior year and increases in receivables and inventories associated with sales growth in the Health Care Supply

Management segment that were offset, in part, by improvements in days sales outstanding in both customer receivables and inventories resulting from working capital initiatives. The March 31, 1999 payables balance was approximately $400 million higher than expected based on the historical relationship of payables to sales. The increase in working capital requirements in fiscal 2000 reflects the restoration of payables to a more normalized level. Adjusting for the impact of the payables fluctuation, net cash provided (used) by continuing operations before receivable sales and capital expenditures would have been approximately $500 million and $(242) million in fiscal 2000 and 1999, respectively. The working capital increase in fiscal 1999 primarily reflects increases in receivables and inventories resulting from sales growth in all operating segments offset, in part, by the higher payables balance due to the timing of vendor payments in the Health Care Supply Management segment.

Fiscal 1999 capital expenditures reflect the acquisition and construction of the Health Care Information Technology segment's new headquarters office building.

Other Financing Activities

In July 2000, the Company announced a program to repurchase from time to time up to $250 million of the Company's shares of common stock in open market or private transactions. In fiscal 2001, the Company repurchased 2.2 million shares under this program for $66 million.

In October 2000, the Company renewed its 364-day revolving credit agreement which allows for borrowings up to $825 million under terms substantially similar to those previously in place, except that a 364-day term out option was reinstated.

In February 2000, the Company completed the sale of its wholly-owned subsidiary McKesson Water Products Company to Groupe Danone for $1.1 billion in cash, which enabled the Company to reduce short-term borrowings and add to its cash and marketable securities.

Also in February 2000, the Company completed a private placement of $335 million in term debt, the proceeds of which were used to retire term debt maturing in March 2000 and for other general corporate purposes. $100 million of the debt matures on February 28, 2005, $20 million matures on February 28, 2007 and $215 million is due on February 28, 2010.

In May 1998, the Company's Employee Stock Ownership Plan purchased approximately 1.3 million shares of newly issued Company common stock from the Company at a market value of $78.125 per share.

Credit Resources

The Company currently has $1.225 billion of available credit under committed revolving credit lines: a $400 million five-year facility expiring in fiscal 2004 and an $825 million facility expiring on October 9, 2001. These revolving credit facilities are primarily intended to support commercial paper borrowings. The Company also has available a committed revolving receivables sale facility aggregating $850 million. The Company anticipates that this facility will be renewed prior to its termination date of June 15, 2001. At March 31, 2001, the Company had no commercial paper or revolving credit borrowings outstanding and its committed receivables sale facility was fully available.

The Company's senior debt credit ratings from S&P, Fitch, and Moody's are currently BBB, BBB and Baa2, respectively, and its commercial paper ratings are currently A-2, F-2, and P-2, respectively. The Company's ratings are on negative credit outlook.

Management believes that the Company has adequate access to credit sources to meet its funding requirements. Funds necessary for future debt maturities and other cash requirements of the Company are expected to be met by existing cash balances, cash flow from operations, existing credit sources or other capital market transactions.

Market Risk

The Company's major risk exposure is changing interest rates, primarily in the United States. The Company manages interest rates through the use of a combination of fixed and floating rate debt. Interest rate swaps may be used to adjust interest rate exposures when appropriate, based upon market conditions. These contracts are entered into with major financial institutions thereby minimizing the risk of credit loss.

If interest rates on existing variable-rate debt were to change 50 basis points, the Company believes that its results from operations and cash flows would not be materially affected.

The Company conducts business in Canada, Mexico, France, the Netherlands, Ireland, Saudi Arabia, Kuwait, Australia, New Zealand and the United Kingdom, and is subject to foreign currency exchange risk on cash flows related to sales, expenses, financing and investment transactions. If exchange rates on such currencies were to fluctuate 10%, the Company believes that its results from operations and cash flows would not be materially affected. Aggregate foreign exchange translation gains and losses included in operations, comprehensive income and in equity are discussed in Financial Note 1 on pages F-35 to F-37 of the accompanying consolidated financial statements.

Capitalization

The Company's capitalization was as follows:

	March 31,		
	2001	2000	1999
		(in millions)	
Short-term borrowings	$ —	$ —	$ 17
Term debt	1,223	1,232	1,097
Exchangeable debt	7	28	37
Total debt	1,230	1,260	1,151
Convertible preferred securities of subsidiary trust	196	196	196
Stockholders' equity	3,493	3,566	2,882
Total capitalization	$4,919	$5,022	$4,229
Debt-to-capital ratio	25.0%	25.1%	27.2%
Net debt-to-net capital ratio(1)	17.5%	14.8%	22.4%
Average interest rates during year			
Total debt	7.4%	6.4%	6.3%
Short-term borrowings	6.6	5.6	5.6
Other debt	7.5	6.9	6.7

(1) Ratio computed as net debt (total debt less cash and cash equivalents and marketable securities) to net capital employed (capital employed less cash and cash equivalents and marketable securities).

The increase in the net debt-to-capital ratio at March 31, 2001 primarily reflects the increase in net debt to fund internal growth. The decline in the net debt-to-capital ratio at March 31, 2000 primarily reflects the February 2000 proceeds from the sale of the Water Products business.

At March 31, 2001, the Company had an $850 million committed receivables sales facility which was fully available. The Company's accounts receivable sales program accommodated the sale by the Company in March 1999 of $400.0 million, of undivided interests in the Company's trade accounts receivable. The program qualifies for sale treatment under Statement of Financial Accounting Standards ("SFAS") No. 125, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities" and under SFAS No. 140, "Accounting For Transfers and Servicing Financial Assets and Extinguishments of Liabili-

ties" which replaces SFAS No. 125 effective in the Company's fiscal year 2002. The sales were recorded at the estimated fair values of the receivables sold, reflecting discounts for the time value of money based on U.S. commercial paper rates and estimated loss provisions.

Average diluted shares were 292.9 million in fiscal 2001, 289.6 million in fiscal 2000 and 289.8 million in fiscal 1999. The increase in the average diluted shares in fiscal 2001 is due to an increase in the effect of dilutive securities resulting from the increase in the Company's stock price, and an increase in common shares outstanding. Common stock outstanding increased to 284.0 million at March 31, 2001, 283.4 million at March 31, 2000, 280.6 million at March 31, 1999, due primarily to the issuance of common stock under employee benefit plans and in fiscal 2001 by the acquisition of MediVation, Inc., partially offset by the 2.2 million shares repurchased as part of the previously discussed $250 million share repurchase program.

Environmental Matters

The Company's continuing operations do not require ongoing material expenditures to comply with federal, state and local environmental laws and regulations. However, in connection with the disposition of its chemical operations in fiscal 1987, the Company retained responsibility for certain environmental obligations. In addition, the Company is a party to a number of proceedings brought under the Comprehensive Environmental Response, Compensation and Liability Act (commonly known as "Superfund"), and other federal and state environmental statutes primarily involving sites associated with the operation of the Company's former chemical distribution businesses. In fiscal 2000, a $2.0 million increase to the liability for these environmental matters was recorded within discontinued operations. There were no adjustments made to the reserves in fiscal 2001 and 1999. Management does not believe that changes in the remediation cost estimates in future periods, or the ultimate resolution of the Company's environmental matter, will have a material impact on the Company's consolidated financial position or results of operations. See Financial Note 18, "Other Commitments and Contingent Liabilities" on pages F-62 to F-69 of the accompanying consolidated financial statements.

Income Taxes

The tax rate on income from continuing operations (excluding unusual items) was 39.0% in fiscal 2001, 38.5% in fiscal 2000 and 37.5% in fiscal 1999. The increase in the effective rate from fiscal 1999 to 2001 primarily reflects the impact of non-deductible goodwill amortization associated with purchase acquisitions made late in fiscal 1999 and in fiscal 2000 and 2001.

NEW ACCOUNTING PRONOUNCEMENTS

See Financial Note 1 "Significant Accounting Policies" on pages F-35 to F-37 of the accompanying consolidated financial statements.

ADDITIONAL FACTORS THAT MAY AFFECT FUTURE RESULTS

The following additional factors may affect the Company's future results:

Adverse resolution of pending litigation regarding the restatement of the Company's historical financial statements may cause it to incur material losses.

Subsequent to the Company's April 28, 1999 restatement of financial results announcement, and as of April 30, 2001, 85 lawsuits have been filed against the Company, certain of the Company's or HBOC's current or former officers or directors, and other defendants (see Financial Note 18, "Other Commitments and Contingent Liabilities" on pages F-62 to F-69 of the accompanying consolidated financial statements.) In addition, the United States Attorney's Office for the Northern District of California and the San Francisco

District Office of the SEC have also commenced investigations in connection with the matters relating to the restatement of previously reported amounts.

The Company does not believe it is feasible to predict or determine the outcome or resolution of these proceedings, or to estimate the amount of, or potential range of, loss with respect to these proceedings. In addition, the timing of the final resolution of these proceedings is uncertain. The range of possible resolutions of these proceedings could include judgments against the Company or settlements that could require substantial payments by the Company which could cause it to incur material losses.

The restatement of the Company's earnings may negatively impact the management of the Company's business.

The effect of the pending litigation and government investigations could impair the Company's ability to attract and retain quality employees and managers.

Changes in the United States healthcare environment could have a material negative impact on the Company's revenues.

The Company's products and services are intended to function within the structure of the healthcare financing and reimbursement system currently being used in the United States. In recent years, the healthcare industry has changed significantly in an effort to reduce costs. These changes include increased use of managed care, cuts in Medicare reimbursement levels, consolidation of pharmaceutical and medical-surgical supply distributors, and the development of large, sophisticated purchasing groups. The Company expects the healthcare industry to continue to change significantly in the future. Some of these changes, such as a reduction in governmental support of healthcare services or adverse changes in legislation or regulations governing the privacy of patient information, or the delivery or pricing of pharmaceuticals and healthcare services or mandated benefits, may cause healthcare industry participants to greatly reduce the amount of the Company's products and services they purchase or the price they are willing to pay for the Company's products and services. Changes in pharmaceutical manufacturers' pricing or distribution policies could also significantly reduce the Company's income. Due to the diverse range of health care supply management and health care information technology products and services the Company offers, such changes may adversely impact the Company while not affecting some of the Company's competitors that offer a more narrow range of products and services.

Substantial defaults in payment or a material reduction in purchases of the Company's products by large customers could have a significant negative impact on the Company's financial condition, results of operations and liquidity.

The Company's recent strategy has been to build relationships with a limited number of large customers that are achieving rapid growth. During the fiscal year ended March 31, 2001, sales to the Company's ten largest customers accounted for approximately 57% of the Company's total revenues. Sales to the Company's largest customer, Rite Aid Corporation, represented approximately 16% of the Company's fiscal 2001 revenues. As a result, the Company's sales and credit concentration have significantly increased. Any defaults in payment or a material reduction in purchases from the Company by these large customers could have a significant negative impact on the Company's financial condition, results of operations and liquidity.

The ability of the Health Care Information Technology business to attract and retain customers due to challenges in integrating software products and technological advances may significantly reduce the Company's revenues.

The Company's Health Care Information Technology business delivers enterprise-wide patient care, clinical, financial, managed care, payor and strategic management software solutions, as well as networking

technologies, electronic commerce, outsourcing and other services to health care organizations throughout the United States and certain foreign countries. Challenges in integrating software products used by the Health Care Information Technology business with those of its customers could impair the Company's ability to attract and retain customers and may reduce its revenues or increase its expenses.

Future advances in the health care information systems industry could lead to new technologies, products or services that are competitive with the products and services offered by the Health Care Information Technology business. Such technological advances could also lower the cost of such products and services or otherwise result in competitive pricing pressure. The success of the Health Care Information Technology business will depend, in part, on its ability to be responsive to technological developments, pricing pressures and changing business models. To remain competitive in the evolving health care information systems marketplace, the Health Care Information Technology business must develop new products on a timely basis. The failure to develop competitive products and to introduce new products on a timely basis could curtail the ability of the Health Care Information Technology business to attract and retain customers and thereby significantly reduce the Company's net income.

Proprietary technology protections may not be adequate and proprietary rights may infringe on rights of third parties.

The Company relies on a combination of trade secret, patent, copyright and trademark laws, nondisclosure and other contractual provisions and technical measures to protect its proprietary rights in its products. There can be no assurance that these protections will be adequate or that the Company's competitors will not independently develop technologies that are substantially equivalent or superior to the Company's technology. Although the Company believes that its products and other proprietary rights do not infringe upon the proprietary rights of third parties, from time to time third parties have asserted infringement claims against the Company and there can be no assurance that third parties will not assert infringement claims against the Company in the future. Additionally, the Company may find it necessary to initiate litigation to protect the Company's trade secrets, to enforce its patent, copyright and trademark rights, and to determine the scope and validity of the proprietary rights of others. These types of litigation can be costly and time consuming. These litigation expenses or any damage payments resulting from adverse determinations of third party claims could be significant and result in material losses to the Company.

Potential product liability claims arising from Health Care Information Technology business products could result in material losses to the Company.

The Company provides products that assist clinical decision-making and relate to patient medical histories and treatment plans. If these products fail to provide accurate and timely information, customers could assert liability claims against the Company. Litigation with respect to liability claims, regardless of the outcome, could result in substantial cost to the Company, divert management's attention from operations and decrease market acceptance of the Company's products. The Company attempts to limit by contract its liability for damages from negligence, errors or mistakes. Despite this precaution, the limitations of liability set forth in the contracts may not be enforceable or may not otherwise protect the Company from liability for damages. The Company maintains general liability insurance coverage, including coverage for errors and omissions. However, this coverage may not continue to be available on acceptable terms or may not be available in sufficient amounts to cover one or more large claims against the Company. In addition, the insurer might disclaim coverage as to any future claim.

System errors and warranties in Health Care Information Technology business products could cause unforeseen liabilities.

The Company's Health Care Information Technology business' systems are very complex. As with complex systems offered by others, the Company's systems may contain errors, especially when first introduced. The Health Care Information Technology business' systems are intended to provide information for health care providers in providing patient care. Therefore, users of its products have a greater sensitivity to system errors than the market for software products generally. Failure of a client's system to perform in accordance with its documentation could constitute a breach of warranty and could require the Company to incur additional expense in order to make the system comply with the documentation. If such failure is not timely remedied, it could constitute a material breach under a contract allowing the client to cancel the contract, obtain refunds of amounts previously paid or assert claims for significant damages.

Potential regulation by the U.S. Food and Drug Administration ("FDA") of Information Technology products as medical devices could impose increased costs, delay the introduction of new products and hurt the Company's business.

The FDA is likely to become increasingly active in regulating computer software intended for use in the health care setting. The FDA has increasingly focused on the regulation of computer products and computer-assisted products as medical devices under the federal Food, Drug and Cosmetic Act. If the FDA chooses to regulate any of the Company's products as medical devices, it can impose extensive requirements upon the Company. If the Company fails to comply with the applicable requirements, the FDA could respond by imposing fines, injunctions or civil penalties, requiring recalls or product corrections, suspending production, refusing to grant pre-market clearance or approval of products, withdrawing clearances and approvals and initiating criminal prosecution. Any final FDA policy governing computer products, once issued, may increase the cost and time to market of new or existing products or may prevent the Company from marketing its products.

New and potential federal regulations relating to patient confidentiality could depress the demand for Information Technology products and impose significant product redesign costs on the Company.

State and federal laws regulate the confidentiality of patient records and the circumstances under which those records may be released. These regulations govern both the disclosure and use of confidential patient medical record information and may require the users of such information to implement specified security measures. Regulations governing electronic health data transmissions are evolving rapidly and are often unclear and difficult to apply.

The Health Insurance Portability and Accountability Act of 1996 ("HIPAA") requires national standards for some types of electronic health information transactions and the data elements used in those transactions, standards to ensure the integrity and confidentiality of health information and national health data privacy legislation or regulations. In December 2000, final health data privacy regulations were published which will require health care organizations to be in compliance by April, 2003. These regulations restrict the use and disclosure of personally identifiable health information without the prior informed consent of the patient.

Evolving HIPAA-Related laws or regulations could restrict the ability of the Company's customers to obtain, use or disseminate patient information. This could adversely affect demand for the Company's products and force product re-design in order to meet the requirements of any new regulations and protect the privacy and integrity of patient data. The Company may need to expend significant capital, research and development and other resources to modify its products to address these evolving data security and privacy issues.

The Company's business could be hindered if it is unable to complete and integrate acquisitions successfully.

An element of the Company's business is to pursue strategic acquisitions that either expand or complement its business. The Company routinely reviews such potential acquisition opportunities and has historically engaged in numerous acquisitions. Integration of acquisitions involves a number of special risks. Such risks include:

- the diversion of management's attention to the assimilation of the operations of businesses the Company has acquired;
- difficulties in the integration of operations and systems and the realization of potential operating synergies;
- difficulties in the integration of any acquired companies operating in a different sector of the health care industry;
- delays or difficulties in opening and operating larger distribution centers in a larger and more complex distribution network;
- the assimilation and retention of the personnel of the acquired companies;
- challenges in retaining the customers of the combined businesses; and
- potential adverse effects on operating results.

If the Company is unable to successfully complete and integrate strategic acquisitions in a timely manner, its business and the Company's growth strategies could be negatively affected.

The Company's issuance of equity to finance acquisitions could have a potential dilutive effect on its stock.

The Company anticipates that it will finance acquisitions, at least partly by incurring debt or by the issuance of additional securities. The use of equity financing, rather than debt, for acquisitions would dilute the ownership of the Company's then current stockholders.

INDEPENDENT AUDITORS' REPORT

The Stockholders and Board of Directors of
McKesson HBOC, Inc:

We have audited the accompanying consolidated balance sheets of McKesson HBOC, Inc. and subsidiaries (the ''Company'') as of March 31, 2001, 2000 and 1999, and the related consolidated statements of operations, stockholders' equity and cash flows for the years then ended. Our audits also included the supplementary consolidated financial statement schedule listed in Item 14(a). These consolidated financial statements and supplementary consolidated financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements and supplementary consolidated financial statement schedule based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company at March 31, 2001, 2000 and 1999, and the results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, based on our audits, such supplementary consolidated financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

As discussed in Financial Note 18 to the consolidated financial statements, the Company is involved in certain shareholder litigation related to HBOC.

DELOITTE & TOUCHE LLP

San Francisco, California
April 30, 2001

McKESSON HBOC, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS

	Years Ended March 31,		
	2001	2000	1999
	(in millions, except per share amounts)		
Revenues	$42,010.0	$36,687.0	$29,970.9
Costs and Expenses			
Cost of sales	39,579.0	34,462.1	27,650.4
Selling	372.4	356.2	444.9
Distribution	509.2	460.7	503.9
Research and development	147.5	112.6	114.7
Administrative	1,193.9	1,184.4	1,028.6
Interest	111.6	114.2	118.0
Total	41,913.6	36,690.2	29,860.5
Operating Income (Loss)	96.4	(3.2)	110.4
Gain (Loss) on Investments	(120.9)	269.1	—
Other Income, Net	40.3	47.2	57.8
Income from Continuing Operations Before Income Taxes and Dividends on Preferred Securities of Subsidiary Trust	15.8	313.1	168.2
Income Taxes	52.3	122.3	101.4
Income (Loss) from Continuing Operations Before Dividends on Preferred Securities of Subsidiary Trust	(36.5)	190.8	66.8
Dividends on Preferred Securities of Subsidiary Trust, Net of Tax Benefit of $4.0, $4.0 and $4.1	(6.2)	(6.2)	(6.2)
Income (Loss) After Taxes			
Continuing operations	(42.7)	184.6	60.6
Discontinued operations	(5.6)	23.2	24.3
Discontinued operations — Gain on sale of McKesson Water Products Company	—	515.9	—
Net Income (Loss)	$ (48.3)	$ 723.7	$ 84.9
Earnings (Loss) Per Common Share			
Basic and Diluted			
Continuing operations	$ (0.15)	$ 0.66	$ 0.22
Discontinued operations	(0.02)	0.08	0.09
Discontinued operations — Gain on sale of McKesson Water Products Company	—	1.83	—
Total	$ (0.17)	$ 2.57	$ 0.31
Shares on Which Earnings Per Common Share Were Based Basic and Diluted	283.1	281.3	275.2

See Financial Notes.

McKESSON HBOC, INC.

CONSOLIDATED BALANCE SHEETS

	March 31, 2001	March 31, 2000	March 31, 1999
	(in millions, except par value)		
Assets			
Cash and cash equivalents	$ 433.7	$ 548.9	$ 233.7
Marketable securities available for sale	11.9	57.0	28.2
Receivables	3,443.4	3,034.5	2,552.0
Inventories	5,116.4	4,149.3	3,522.5
Prepaid expenses	158.6	175.8	116.4
Total current assets	9,164.0	7,965.5	6,452.8
Property, plant and equipment, net	595.3	555.4	529.6
Capitalized software	103.7	92.2	106.9
Notes receivable	131.3	100.9	73.0
Goodwill and other intangibles	1,064.4	1,185.6	1,200.6
Net assets of discontinued operations	—	—	179.4
Other assets	471.2	473.3	477.7
Total assets	$11,529.9	$10,372.9	$9,020.0
Liabilities			
Drafts payable	$ 758.6	$ 205.6	$ 417.7
Accounts payable — trade	4,603.3	3,678.3	3,131.7
Deferred revenue	378.5	368.7	408.6
Short-term borrowings	—	—	16.7
Current portion of long-term debt	194.1	16.2	195.3
Salaries and wages	142.2	115.5	93.0
Taxes	79.8	354.8	90.8
Interest and dividends	31.0	33.9	34.7
Other	362.2	348.8	356.3
Total current liabilities	6,549.7	5,121.8	4,744.8
Postretirement obligations and other noncurrent liabilities	255.8	245.7	258.6
Long-term debt	1,035.6	1,243.8	939.2
McKessonHBOC-obligated mandatorily redeemable preferred securities of subsidiary grantor trust whose sole assets are junior subordinated debentures of McKessonHBOC	195.9	195.8	195.6
Other Commitments and Contingent Liabilities (Note 18)	—	—	—
Stockholders' Equity			
Common stock (400.0 shares authorized, 286.3, 283.9 and 281.1 issued as of March 31, 2001, 2000 and 1999, respectively; par value of $.01)	2.9	2.8	2.8
Additional paid-in capital	1,828.7	1,791.1	1,725.7
Other capital	(108.4)	(126.1)	(107.7)
Retained earnings	2,006.6	2,122.3	1,465.0
Accumulated other comprehensive losses	(75.0)	(97.1)	(57.7)
ESOP notes and guarantees	(89.0)	(99.9)	(115.5)
Treasury shares, at cost	(72.9)	(27.3)	(30.8)
Stockholders' equity	3,492.9	3,565.8	2,881.8
Total liabilities and stockholders' equity	$11,529.9	$10,372.9	$9,020.0

See Financial Notes.

McKESSON HBOC, INC.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
Years Ended March 31, 2001, 2000 and 1999
(shares in thousands, dollars in millions)

	Common Stock		Additional Paid-in Capital	Other Capital	Retained Earnings	Accumulated Other Comprehensive Losses	ESOP Notes and Guarantees	Treasury		Stockholders' Equity	Comprehensive Income (Loss)
	Shares	Amount						Common Shares	Amount		
Balances, March 31, 1998	271,162	$2.7	$1,330.9	$ (59.1)	$1,462.5	$(54.9)	$(115.6)	(179)	$ (4.8)	$2,561.7	
Issuance of shares under employee plans	7,454	0.1	288.3	(48.6)				(360)	(26.0)	213.8	
Employee Stock Ownership Plan (ESOP) note payments							0.1			0.1	
Translation adjustment						(2.5)				(2.5)	$ (2.5)
Additional minimum pension liability, net of tax of $0.2						(0.3)				(0.3)	(0.3)
Net income					84.9					84.9	84.9
Sale of shares to ESOP	1,346		105.2							105.2	
Other	1,161		1.3		2.5					3.8	
Cash dividends declared (Note 14)					(84.9)					(84.9)	
Balances, March 31, 1999	281,123	2.8	1,725.7	(107.7)	1,465.0	(57.7)	(115.5)	(539)	(30.8)	2,881.8	$ 82.1
Issuance of shares under employee plans	2,745		61.4	(18.4)				(92)	(3.0)	40.0	
ESOP note payments							15.6			15.6	
Translation adjustment						(3.7)				(3.7)	$ (3.7)
Additional minimum pension liability, net of tax of $(0.1)						0.3				0.3	0.3
Net income					723.7					723.7	723.7
Acquisition of Abaton.com			8.1							8.1	
Unrealized loss on investments, net of tax of $23.8						(36.0)				(36.0)	(36.0)
Other			(4.1)		1.1			116	6.5	3.5	
Cash dividends declared, $0.24 per common share					(67.5)					(67.5)	
Balances, March 31, 2000	283,868	2.8	1,791.1	(126.1)	2,122.3	(97.1)	(99.9)	(515)	(27.3)	3,565.8	$684.3
Issuance of shares under employee plans	1,811	0.1	17.6	17.7				429	20.0	55.4	
ESOP note payments							10.9			10.9	
Translation adjustment						(15.4)				(15.4)	$(15.4)
Additional minimum pension liability, net of tax of $(0.8)						1.1				1.1	1.1
Net loss					(48.3)					(48.3)	(48.3)
Acquisition of MediVation.com	625		20.0							20.0	
Unrealized gain on investments, net of tax of $(23.3)						36.4				36.4	36.4
Repurchase of shares								(2,235)	(65.6)	(65.6)	
Other					0.9					0.9	
Cash dividends declared, $0.24 per common share					(68.3)					(68.3)	
Balances, March 31, 2001	286,304	$2.9	$1,828.7	$(108.4)	$2,006.6	$(75.0)	$ (89.0)	(2,321)	$(72.9)	$3,492.9	$(26.2)

See Financial Notes.

McKESSON HBOC, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Years Ended March 31,		
	2001	2000	1999
		(in millions)	
Operating Activities			
Income (loss) from continuing operations	$ (42.7)	$ 184.6	$ 60.6
Adjustments to reconcile to net cash provided (used) by operating activities:			
Depreciation	115.6	116.3	103.9
Amortization	130.5	106.3	76.7
Provision for bad debts	239.6	216.8	87.2
Deferred taxes on income	(21.4)	26.5	(33.0)
Other noncash	295.1	138.4	307.2
Total	716.7	788.9	602.6
Effects of changes in:			
Receivables	(624.3)	(753.0)	(685.3)
Inventories	(985.0)	(629.8)	(894.2)
Accounts and drafts payable	1,500.7	296.1	1,268.6
Deferred revenue	13.0	14.0	126.5
Taxes	(297.3)	25.8	(55.8)
Other	36.0	(42.4)	(104.7)
Total	(356.9)	(1,089.3)	(344.9)
Net cash provided (used) by continuing operations	359.8	(300.4)	257.7
Discontinued operations	(6.7)	(13.1)	(23.6)
Net cash provided (used) by operating activities	353.1	(313.5)	234.1
Investing Activities			
Maturities of marketable securities, net	13.9	1.7	90.0
Property acquisitions	(158.9)	(145.1)	(199.2)
Properties sold	11.6	14.9	22.3
Proceeds from sales of subsidiaries and investments	—	1,077.9	—
Notes receivable issuances, net	(30.9)	(36.9)	(32.9)
Acquisitions of businesses, less cash and short-term investments acquired	(51.9)	(128.9)	(277.8)
Other	(126.6)	(231.3)	(189.6)
Net cash provided (used) by investing activities	(342.8)	552.3	(587.2)
Financing Activities			
Proceeds from issuance of debt	9.3	335.0	82.7
Repayment of debt	(42.1)	(222.9)	(189.5)
Dividends paid on convertible preferred securities	(10.0)	(10.0)	(10.0)
Capital stock transactions:			
Issuances	38.6	26.2	224.9
Repurchases	(65.6)	—	—
ESOP note payments	10.9	15.6	0.1
Dividends paid	(68.3)	(67.5)	(84.9)
Other	1.7	—	(0.9)
Net cash provided (used) by financing activities	(125.5)	76.4	22.4
Net Increase (Decrease) in Cash and Cash Equivalents	(115.2)	315.2	(330.7)
Cash and Cash Equivalents at beginning of year	548.9	233.7	564.4
Cash and Cash Equivalents at end of year	$ 433.7	$ 548.9	$ 233.7

See Financial Notes.

McKESSON HBOC, INC.

FINANCIAL NOTES

1. Significant Accounting Policies

The consolidated financial statements of McKesson HBOC, Inc. ("McKesson HBOC" or the "Company") include the financial statements of all majority-owned companies, except those classified as discontinued operations. All significant intercompany transactions and balances have been eliminated. Certain prior year amounts have been reclassified to conform to the current year presentation.

The Company is organized under two operating segments, Health Care Supply Management and Health Care Information Technology. Within the United States and Canada, the Health Care Supply Management segment is a leading wholesale distributor of ethical and proprietary drugs, medical-surgical supplies and health and beauty care products principally to chain and independent drug stores, hospitals, alternate care sites, food stores and mass merchandisers. Health Care Supply Management operations also include the manufacture and sale of automated pharmaceutical dispensing systems for hospitals and retail pharmacists, medical management services and tools for payors and providers, marketing and other support services to pharmaceutical manufacturers, consulting and outsourcing services to pharmacies, and distribution of first-aid products to industrial and commercial customers. The Health Care Information Technology segment delivers enterprise-wide patient care, clinical, financial, supply chain, managed care, payor and strategic management software solutions, as well as networking technologies, including wireless capabilities, electronic commerce, outsourcing and other services to health care organizations throughout the United States and certain foreign countries.

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires that management make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents include all highly liquid debt instruments purchased with a maturity of three months or less at the date of acquisition.

Marketable Securities Available for Sale are carried at fair value and the net unrealized gains and losses, net of the related tax effect, computed in marking these securities to market have been reported within stockholders' equity. The investments mature on various dates through fiscal 2002.

Inventories are stated at the lower of cost or market. Inventories of the Health Care Supply segment consist of merchandise held for resale with the majority of the cost of domestic inventories determined on the last-in first-out ("LIFO") method and international inventories stated at average cost. Health Care Information Technology segment inventories consist of computer hardware with cost determined either by the specific identification or first-in, first-out ("FIFO") method.

Property, Plant and Equipment is stated at cost and depreciated on the straight-line method at rates designed to distribute the cost of properties over estimated service lives ranging from one to 50 years.

Capitalized Software primarily includes development costs of Health Care Information Technology software products once the project has reached the point of technological feasibility. Management monitors the net realizable value of all software development investments to ensure that the investment will be recovered through future sales. Completed projects are amortized after reaching the point of general availability using the straight-line method based on an estimated useful life of three years.

The Company capitalized software development costs of $39.3 million, $54.5 million and $56.3 million in fiscal 2001, 2000 and 1999, respectively. Amortization of capitalized software held for sale totaled $31.8 million, $32.2 million and $25.9 million in 2001, 2000, and 1999, respectively. Royalty fees of $17.9 million, $18.2 million and $39.0 million, were expensed in 2001, 2000 and 1999, respectively, for software provided by third-party business partners.

Goodwill and Other Intangibles are amortized on a straight-line basis over periods estimated to be benefited, generally 3 to 40 years. Accumulated amortization balances netted against goodwill and other intangibles were $218.7 million, $178.7 million and $172.3 million at March 31, 2001, 2000 and 1999, respectively.

Long-lived Assets. The Company periodically assesses the recoverability of the cost of its long-lived assets, including goodwill. Measurement of impairment losses for long-lived assets, including goodwill, that the Company expects to hold and use is based on estimated fair values of the assets. Estimates of fair values are based on quoted market prices, when available, the results of valuation techniques utilizing discounted cash flows (using the lowest level of identifiable cash flows) or fundamental analysis. Long-lived assets to be disposed of, either by sale or abandonment, are reported at the lower of carrying amount or fair value less costs to sell.

Insurance Programs. Under the Company's insurance programs, coverage is obtained for catastrophic exposures as well as those risks required to be insured by law or contract. It is the policy of the Company to retain a significant portion of certain losses related primarily to workers' compensation, physical loss to property, business interruption resulting from such loss, and comprehensive general, product, and vehicle liability. Provisions for losses expected under these programs are recorded based upon the Company's estimates of the aggregate liability for claims incurred. Such estimates utilize certain actuarial assumptions followed in the insurance industry.

Revenue Recognition. Revenues of the Health Care Supply Management segment are recognized when products are shipped or services are provided to customers. Included in these revenues are large volume sales of pharmaceuticals to major self-warehousing drugstore chains whereby the Company acts as an intermediary in the order and subsequent delivery of products directly from the manufacturer to the customers' warehouses. These sales totaled $10.7 billion in 2001, $8.7 billion in 2000 and $6.8 billion in 1999.

Revenues of the Health Care Information Technology segment are generated primarily by licensing software systems (consisting of software, hardware and maintenance support), and providing outsourcing and professional services. Software systems are marketed under information systems agreements as well as service agreements. Perpetual software arrangements are recognized at the time of delivery or under the percentage of completion contract method in accordance with Statement of Position 97-2 ("SOP 97-2"), "Software Revenue Recognition" and SOP 81-1 "Accounting for Performance of Construction-Type and Certain Product-Type Contracts," based on the terms and conditions in the contract. Changes in estimates to complete and revisions in overall profit estimates on percentage of completion contracts are recognized in the period in which they are determined. Hardware is generally recognized upon delivery. Multi-year software license agreements are recognized ratably over the term of the agreement. Implementation fees are recognized as the work is performed or under the percentage of completion contract method. Maintenance and support agreements are marketed under annual or multiyear agreements and are recognized ratably over the period covered by the agreements. Remote processing services are recognized monthly as the work is performed. Outsourcing services are recognized as the work is performed.

The Company also offers its products on an application service provider ("ASP") basis, making available Company software functionality on a remote processing basis from the Company's data centers. The data centers provide system and administrative support as well as processing services. Revenue on products sold on an ASP basis is recognized on a monthly basis over the term of the contract.

In December 1999, the SEC released Staff Accounting Bulletin No. 101 ("SAB 101"), which provides the staff's views on applying generally accepted accounting principles to selected revenue recognition issues. During the quarter ended December 31, 2000, the Company adopted SAB 101, which did not materially impact the Company's consolidated financial position, results of operations or cash flows.

Other Income, net includes interest income of $29.1 million, $21.7 million and $37.8 million and the Company's share in the net income (loss) from investments accounted for under the equity method of accounting of $5.9 million, $18.2 million and $14.6 million in fiscal 2001, 2000 and 1999, respectively.

Income Taxes. The Company accounts for income taxes under the liability method, which requires the recognition of deferred tax assets and liabilities for the expected future tax consequences of events that have been included in the financial statements. Under this method, deferred tax assets and liabilities are determined based on the difference between the financial statements and tax bases of assets and liabilities using enacted tax rates in effect for the year in which the differences are expected to reverse.

Foreign Currency Translation. Assets and liabilities of the Company's foreign affiliates are translated at current exchange rates, while revenue and expenses are translated at average rates prevailing during the year. Translation adjustments related to the Company's foreign operations are reported as a component of stockholders' equity.

Derivative Financial Instruments. The Company's policy generally is to use financial derivatives only to manage exposure to fluctuations in interest and foreign currency exchange rates. The Company has entered into interest rate and currency swap agreements to hedge certain interest and currency rate risks which are accounted for using the settlement basis of accounting. Premiums paid on interest rate and currency swap agreements are deferred and amortized to interest expense over the life of the underlying hedged instrument, or immediately if the underlying hedged instrument is settled. No gains or losses are recorded for movements in the swaps' values during the terms of the respective agreements. The interest rate swaps were terminated in February 2000. (See Financial Note 10).

Employee Stock Options. The Company uses the intrinsic value method to account for stock-based compensation in accordance with Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees".

New Accounting Pronouncements. In 1998, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 133, "Accounting for Derivative Instruments and Hedging Activities", which established accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts (collectively referred to as "derivatives") and for hedging activities. It requires that an entity recognize all derivatives as either assets or liabilities in the statement of financial position and measure these instruments at fair value. In June 1999, the FASB issued SFAS No. 137 "Accounting for Derivative Instruments and Hedging Activities — Deferral of the Effective Date of FASB Statement No. 133" which defers the effective date of SFAS No. 133 until the Company's fiscal year 2002. The FASB further amended SFAS No. 133 to address implementation issues by issuing SFAS No. 138, "Accounting for Certain Derivative Instruments and Certain Hedging Activities — an amendment of FASB Statement No. 133", in June 2000. The Company completed the inventory of potential derivative instruments and adopted SFAS No. 133 as of April 1, 2001. The adoption of this accounting standard did not materially impact the consolidated financial statements.

In September 2000, the FASB issued SFAS No. 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities," which revises the standards for accounting for securitizations and other transfers of financial assets and collateral and requires entities that have securitized financial assets to provide specific disclosures. SFAS No. 140 is effective for transfers and servicing of financial assets and extinguishments of liabilities occurring after March 31, 2001. The adoption of this accounting standard did not materially impact the consolidated financial statements.

2. Acquisitions, Investments and Divestitures

Fiscal 2001 Acquisitions and Investments:

In April 2000, the Company and three other health care product distributors announced an agreement to form the New Health Exchange (subsequently renamed "Health Nexis"). Health Nexis is an Internet-based company focused on information systems and other technology solutions to streamline communication, processing and management of product and contract data across the health care supply chain. The Company accounts for its 34% interest in Health Nexis under the equity method of accounting. In fiscal 2001, the Company invested $10.8 million in Health Nexis and recorded equity in the losses of Health Nexis of $5.0 million.

In July 2000, the Company acquired MediVation, Inc., a provider of an automated web-based system for physicians to communicate with patients online, for approximately $24 million in cash, $14 million in Company common stock and the assumption of $6 million of employee stock incentives. A charge of $2.1 million was recorded to write off the portion of the purchase price allocated to in-process technology for which technological feasibility had not been established as of the acquisition date and for which there were no alternative uses. The Company received an independent valuation that utilized a discounted cash flow methodology by product line to assist in valuing in-process and existing technologies as of the acquisition date. In connection with the restructure of the Company's former iMcKesson business in February, 2001 and based on the utilization of a discounted cash flow methodology, the Company recorded an impairment loss for the unamortized goodwill and intangibles balance as of March 31, 2001.

In fiscal 2001, the Company also completed a number of smaller acquisitions including two medical-surgical distributors, nine distributors of first-aid products, a medical management business and an information technology business. The aggregate cost of these acquisitions, accounted for as purchases, totaled approximately $28.1 million. The aggregate excess of purchase price over the fair value of net assets acquired of $23.5 million is being amortized on a straight-line basis over periods ranging from 3 to 20 years. The results of operations of the acquired businesses have been included in the consolidated financial statements since their respective acquisition dates.

Fiscal 2000 Acquisitions:

On November 2, 1999, the Company completed the acquisition of Abaton.com, a provider of internet-based clinical applications for use by physician practices, pharmacy benefit managers, benefit payors, laboratories and pharmacies, for approximately $95 million in cash and the assumption of approximately $8 million of employee stock incentives. A charge of $1.5 million was recorded to write off the portion of the purchase price of Abaton.com allocated to in-process technology for which technological feasibility had not been established as of the acquisition date and for which there were no alternative uses. The Company received an independent valuation that utilized a discounted cash flow methodology by product line to assist in valuing in-process and existing technologies as of the acquisition date. Goodwill and other intangibles related to the acquisition amounted to $101 million. In connection with the restructure of the Company's former iMcKesson business in February, 2001 and based on the utilization of a discounted cash flow methodology, the Company recorded an impairment loss for the unamortized goodwill and intangibles balance as of March 31, 2001.

In fiscal 2000, the Company also made a number of smaller acquisitions including eight distributors of first-aid products, a provider of systems that adjudicate third party prescription claims and three health care information technology businesses. The aggregate cost of these acquisitions, accounted for as purchases, totaled approximately $34.1 million. The aggregate excess of the purchase price over the fair value of net assets acquired of $34.9 million is being amortized on a straight-line basis over periods ranging from 6 to

20 years. The results of operations of the acquired businesses have been included in the consolidated financial statements since their respective acquisition dates.

Fiscal 1999 Acquisitions:

HBOC Acquisition

On January 12, 1999, McKesson Corporation ("McKesson") completed the acquisition of HBO & Company ("HBOC"), a leading health care information technology company, by exchanging 177 million shares of McKesson common stock for all of the issued and outstanding shares of common stock of HBOC. Each share of HBOC stock was exchanged for 0.37 of a share of McKesson common stock (the "Exchange Ratio"). McKesson was renamed McKesson HBOC, Inc. The transaction was structured as a tax-free reorganization and was accounted for as a pooling of interests.

In April 1999, the Company discovered improper accounting practices at HBOC. In July, 1999, the Audit Committee of the Company's Board of Directors completed an investigation into such matters which resulted in the previously reported restatement of the Company's historical consolidated financial statements related to HBOC (pre-acquisition) in fiscal 1999, 1998 and 1997. In fiscal 2000, the Company incurred costs in connection with the investigation and the resulting restatement of the historical consolidated financial statements, and pending litigation (see Financial Note 18) and recorded charges of $18.9 million for accounting and legal fees and other costs.

Other Poolings of Interests

In addition to the HBOC acquisition, the following acquisitions were accounted for under the pooling of interests method:

In August 1998, the Company acquired Hawk Medical Supply, Inc., a distributor of medical-surgical supplies primarily to the primary care sector, for approximately 2 million shares of Company common stock.

Also in August 1998, the Company acquired J. Knipper and Company, a provider of direct mail, fulfillment and sales support services, including sample distribution to physician and pharmaceutical company sales representatives, for approximately 300,000 shares of Company common stock.

In September 1998, the Company acquired Automated Prescription Systems, Inc., a manufacturer of automated prescription filling and dispensing systems, for approximately 1.4 million shares of Company common stock.

In October 1998, the Company acquired US Servis, Inc., a professional management company that provides outsourcing services for physician delivery systems and hospital business offices, for the equivalent, after application of the Exchange Ratio, of approximately 700,000 shares of Company common stock.

In October 1998, the Company completed the acquisition of IMNET Systems, Inc., a provider of electronic information and document management solutions for the health care industry, for the equivalent, after application of the Exchange Ratio, of approximately 3.6 million shares of Company common stock and 0.6 million Company stock options.

In December 1998, the Company acquired Access Health, Inc., a provider of clinically based care management programs and health care information services, for the equivalent, after application of the Exchange Ratio, of approximately 12.7 million shares of Company common stock.

In connection with the fiscal 1999 acquisitions discussed above, the Company incurred transaction costs, primarily consisting of professional fees such as investment banking, legal and accounting fees of $84.6 million, including $6.6 million of transaction costs associated with various terminated transactions which had been explored by the Company. In addition, the Company incurred acquisition-related employee benefit costs

of $88.7 million, primarily related to benefits received by employees in connection with change of control provisions, signing and retention bonuses and retirement and employee benefits.

Purchase Transactions

The following fiscal 1999 acquisitions were accounted for under the purchase method and the results of operations of the acquired businesses have been included in the consolidated financial statements since their respective acquisition dates:

In September 1998, the Company acquired MedManagement LLC, a pharmacy management, purchasing, consulting and information services company, for approximately $38 million in cash. The acquisition was funded with debt. The excess of the purchase price over the fair value of the net assets acquired of $41 million is being amortized on a straight-line basis over 20 years.

In November 1998, the Company acquired RedLine HealthCare Corporation (“RedLine”), a distributor of medical supplies and services to the extended-care industry, including long-term-care and home-care sites for approximately $233 million in cash. The acquisition was funded with debt. The valuation of the RedLine net assets acquired included the recognition of liabilities totaling $5.8 million related to closures of duplicate facilities, and involuntary termination and relocation benefits. The excess of the purchase price over the fair value of the net assets acquired of $149 million is being amortized on a straight-line basis over 40 years.

In fiscal 1999, the Company also made a number of smaller acquisitions including six distributors of first-aid products. The aggregate cost of these acquisitions, accounted for as purchases, totaled approximately $35 million.

Divestiture

On February 29, 2000, the Company sold its wholly-owned subsidiary, McKesson Water Products Company (the “Water Products business”) to Groupe Danone for approximately $1.1 billion in cash and recognized an after-tax gain of $515.9 million. The taxes related to this transaction were accrued in fiscal 2000 and paid in fiscal 2001. All of the net assets and results of operations of the Water Products business have been classified as discontinued operations and all prior years restated accordingly.

3. Gain (Loss) on Investments

In November 1999, the Company received 4.5 million shares of WebMD Corporation common stock and 8.4 million warrants to purchase WebMD Corporation common stock in exchange for its shares and warrants of WebMD, Inc. as a result of the November 11, 1999 merger between Healtheon Corporation and WebMD, Inc. The Company recorded gains on the exchange of the common stock based on the November 11, 1999 closing market price and on the warrants at fair value using the Black-Scholes valuation method.

In December 1999, the Company donated 250,000 shares of WebMD common stock to the McKesson HBOC Foundation and sold 2.0 million WebMD common shares. As a result of these events, the Company recognized gains related to the investment in WebMD of $242.8 million. In addition, other equity investments were sold in December 1999 at a gain of $20.3 million, and a $9.8 million charge was recorded in administrative expense to reflect the donation of the WebMD common stock to the McKesson HBOC Foundation. In January 2000, the Company recognized a gain of $5.9 million on the sale of its remaining investment in WebMD common shares.

The estimated fair value of the WebMD warrants declined to $0.3 million as of March 31, 2001. As a result of the continued decline in the value, the Company recorded an other than temporary impairment loss on this investment of $93.1 million during the fiscal year. The Company also recorded an impairment loss of

$35.6 million based upon its review of other equity and venture capital investments during the fiscal year. The impairment losses were partially offset by a gain of $7.8 million on the liquidation of another investment.

4. Restructuring and Asset Impairments

In fiscal 2001, 2000 and 1999, the Company recorded charges and adjustments for restructuring and asset impairments of $355.9 million, $232.7 million and $140.3 million, respectively. The major components of the charges are as follows:

	2001	2000	1999
		(in millions)	
Write-down of assets	$309.2	$234.2	$ 91.2
Other exit-related costs	10.1	(5.7)	17.2
Severance	36.6	4.2	31.9
	$355.9	$232.7	$140.3

A summary of the activity for severance and exit-related accruals from March 31, 1998 to March 31, 2001, by operating segment, follows:

	Health Care Supply Management		Health Care Information Technology		Corporate		
	Severance	Exit-Related	Severance	Exit-Related	Severance	Exit-Related	Total
				(in millions)			
Balance, March 31, 1998	$ 9.6	$ 5.7	$ 0.5	$ 1.1	$ —	$ —	$ 16.9
Fiscal 1999 Charges	22.3	17.2	12.6	—	—	—	52.1
Adjustments	(3.0)	—	—	—	—	—	(3.0)
Severance paid during the year	(12.1)	—	(7.1)	—	—	—	(19.2)
Costs paid during the year	—	(3.9)	—	(0.5)	—	—	(4.4)
Balance, March 31, 1999	16.8	19.0	6.0	0.6	—	—	42.4
Fiscal 2000 Charges	2.3	0.6	3.9	0.6	—	—	7.4
Adjustments	(1.2)	(6.9)	(0.8)	—	—	—	(8.9)
Severance paid during the year	(10.7)	—	(4.2)	—	—	—	(14.9)
Costs paid during the year	—	(2.6)	—	(0.5)	—	—	(3.1)
Balance, March 31, 2000	7.2	10.1	4.9	0.7	—	—	22.9
Fiscal 2001 Charges	9.5	2.6	3.3	8.5	24.7	0.3	48.9
Adjustments	(0.9)	(1.3)	—		—	—	(2.2)
Severance paid during the year	(5.8)	—	(4.7)	—	—	—	(10.5)
Costs paid during the year	—	(3.9)	—	(0.2)	—	—	(4.1)
Balance, March 31, 2001	$ 10.0	$ 7.5	$ 3.5	$ 9.0	$24.7	$0.3	$ 55.0

The remaining balances at March 31, 2001 relate primarily to charges recorded in fiscal 2001 and 1999. The reserves for exit-related items consist primarily of remaining contract obligations and costs for preparing facilities for disposal, lease costs and property taxes required subsequent to termination of operations.

A description of the restructuring and asset impairment charges in fiscal 2001, 2000 and 1999, by segment, follows:

Fiscal 2001

Health Care Supply Management

In May 2000, the Company announced the formation of a new business unit, iMcKesson to focus on healthcare applications using the Internet and other emerging technologies. iMcKesson included selected assets from the former e-Health, Health Care Supply Management and Health Care Information Technology segments and acquisitions of strategic investments and businesses.

In February 2001, the Company announced the restructuring of the iMcKesson business unit by moving responsibility for iMcKesson's medical management business to the Health Care Supply Management segment and the physician services business to the Health Care Information Technology segment.

In connection with an assessment of these businesses, management decided to discontinue a product line and close an office in the United Kingdom. Asset impairment charges totaling $16.9 million were recorded, including $15.9 million for certain strategic investments held by the medical management business that became impaired during the year and $1.0 million primarily for capitalized software. A severance charge of $1.0 million was recorded related to the termination of approximately 70 employees primarily in customer service and administrative functions which will be paid in fiscal 2002. In addition, the Company recorded exit-related costs of $0.3 million and paid $0.2 million for contract termination fees and lease obligations remaining subsequent to termination of operations.

Also during fiscal 2001, the Company announced its plans to close a call center. The Company recorded severance charges of $2.1 million related to the termination of approximately 114 employees, primarily in customer service functions, and exit-related costs of $0.2 million. During the year, severance of $1.6 million was paid to approximately 95 of those employees and the remainder will be paid in fiscal 2002.

In addition, the Company closed a Health Care Supply Management pharmaceutical distribution center. In connection with this closure, the Company recorded charges of $0.7 million in asset impairments, $0.5 million for severance relating to the termination of 54 employees and $0.5 million for facility closing costs. The Company paid $0.4 million to 43 of those employees and $0.5 million of facility closing costs. The Company also recorded a severance charge of $0.5 million relating to the termination of 25 employees in the Health Care Supply Management pharmacy management business and paid $0.4 million to 20 of those employees.

In the fourth quarter of fiscal 2001, the Company reviewed the operations and cost structure of its pharmaceutical services business resulting in the planned closures of two offices. The Company recorded $1.4 million in asset impairments, $2.5 million in severance charges and $1.6 million in exit-related costs. The severance charge relates to the termination of approximately 50 employees in customer service and administrative functions and will be paid in fiscal 2002. The exit-related costs are associated primarily with lease obligations remaining subsequent to the termination of operations. The Company also announced the consolidation of customer service centers in the medical-surgical business and a workforce reduction. This resulted in the planned termination of approximately 120 employees in customer service functions. The Company recorded severance charges of $2.9 million, of which $1.8 million will be paid in fiscal 2002, $0.6 million will be paid in fiscal 2003 and $0.5 million will be paid in fiscal 2004. The Company also reduced prior year severance reserves that were determined to be in excess by $0.9 million.

In conjunction with restructuring plans provided for in prior fiscal years, during fiscal 2001, the Company closed two other pharmaceutical distribution centers, eight medical-surgical distribution centers and one medical-surgical sales office in the Health Care Supply Management segment. This resulted in the payment of

$1.5 million in severance to approximately 80 terminated pharmaceutical distribution center and administrative employees. Also, the Company paid $1.8 million in severance to approximately 220 employees that were terminated in the medical-surgical business. In addition, the Company paid $3.2 million for costs incurred in connection with the distribution center closures and associated real estate property taxes, rents, utility and other costs for facilities subsequent to termination of operations in the Health Care Supply Management segment and reversed previously recorded exit-related reserves of $1.3 million. The Company plans to continue the previously announced distribution center closures, back-office reductions and workforce reductions in the Health Care Supply Management segment throughout fiscal 2002.

Health Care Information Technology

In connection with the restructure of the former iMcKesson business, the Company discontinued certain physician services product offerings. This resulted in the recording of impairment charges totaling $120.2 million including $116.2 million for the write-off of goodwill and intangibles from the acquisitions of Abaton.com and MediVation. In addition, capitalized software costs of $2.9 million and fixed assets of $1.1 that are no longer going to be used were written off. Severance charges of $3.3 million relating to the termination of approximately 140 employees in development, customer service and administrative functions, was also recorded. Also, charges totaling $8.5 million for remaining contract obligations and lease liabilities continuing subsequent to termination of business was recorded.

In addition, the Company's Health Care Information Technology segment revised estimates for software and services issues associated with pre-July 1999 software contracts and recorded an additional $161.1 million charge for estimated customer settlements (forgiveness of accounts receivable, customer credits and refunds). These customer settlements generally relate to product replacements as well as requirements for certain customers to upgrade computer hardware and software to accommodate new product releases.

In the Health Care Information Technology segment, severance of $4.7 million was paid to approximately 240 employees that were terminated in fiscal 1999 and 2000 but have severance agreements that provide for payments through fiscal 2002. In addition, $0.2 million in exit-related costs was paid related to closed facilities in the Health Care Information Technology segment.

Corporate

In connection with the previously discussed restructure of iMcKesson, the Company recorded asset impairment charges totaling $8.9 million. These charges include $7.2 million for investments that were impaired based upon declining market values and $1.7 million for the write-off of internal systems and fixed assets that will no longer be utilized. The Company also recorded severance charges of $24.7 million associated with the closure of iMcKesson's headquarters function. The severance charge relates to the termination of 8 employees in administrative functions, including the former CEO of iMcKesson. In addition, the Company recorded $0.3 million in exit-related costs associated with the shut down of iMcKesson's headquarters function.

To reflect the charges discussed above, the Company recorded charges of $1.7 million in distribution expense and $2.1 million in research and development expense and $329.6 million in administrative expense and a $0.6 million reduction in selling expense. In addition, investment impairment charges of $23.1 million have been recorded in gain (loss) on investments.

Fiscal 2000

Health Care Supply Management

In the fourth quarter of fiscal 2000, the Company reviewed the operations and cost structure of the Health Care Supply Management's medical-surgical business. This resulted in the planned closure of a sales

office and a workforce reduction. The Company recorded a $0.6 million charge for exit-related costs and a severance charge of $2.3 million relating to the termination of approximately 200 employees primarily in warehouse, administrative and sales functions. During fiscal 2001, severance of $1.2 million was paid to approximately 160 employees under salary continuance agreements. The remaining severance will be paid in fiscal 2002.

The Company also recorded a $0.2 million charge for obsolete equipment associated with certain discontinued products in the medical management business.

In addition, the Company reassessed prior years' restructuring plans resulting in the decision to retain one of the six pharmaceutical distribution centers identified for closure in fiscal 1999, and to reduce the number of medical-surgical distribution center closures. The Company also announced and completed the closure of one additional pharmaceutical distribution center in fiscal 2000. The Company recorded $6.9 million and $1.2 million for net reductions of prior year-reserves for exit-related activities and severance, respectively, and charges of $1.5 million for additional asset impairments associated with closed distribution centers ($0.7 million for receivables and $0.8 million for inventories).

In fiscal 2000, the Company completed the closures of three pharmaceutical distribution centers, including the additional distribution center mentioned above. In addition, the realignment of the sales organization was completed and certain back office functions were eliminated. This resulted in the termination of approximately 200 employees and the payment of $3.6 million in severance. The Company also completed the closures of three medical-surgical distribution centers and paid $1.0 million in severance to approximately 100 employees who were terminated in fiscal 1999 and 2000. In addition, the Company paid $2.6 million in costs incurred in connection with the distribution center closures and also real estate property taxes, rents, utility and other costs for the facilities subsequent to termination of operations. The Company plans to continue these closure activities throughout fiscal 2002.

Health Care Information Technology

In the fourth quarter of fiscal 2000, the Company completed an assessment of the Health Care Information Technology's business and product portfolio. This resulted in the decision to reorganize the business and to discontinue overlapping or non-strategic product offerings. The Company recorded charges of $232.5 million for asset impairments. These included charges to write off $49.1 million of capitalized software development costs, $39.3 million of purchased software and $50.7 million of goodwill associated with the discontinued product lines. In addition, a $74.1 million reserve was recorded for customer settlements attributable to the discontinued product lines. The Company also recorded a $9.4 million loss on the disposition of a non-core foreign operation, and a $7.7 million charge for uncollectible unbilled receivables and $2.2 million charge for obsolete equipment associated with the discontinued products. Substantially all of the charges were non-cash asset write-offs except for the customer settlements. In addition, a charge of $0.6 million was recorded for costs to prepare facilities for disposal, lease costs and property taxes required subsequent to termination of operations and other exit-related activities. In fiscal 2000, the Company paid $0.5 million in rent costs for office space abandoned in prior years.

The Company also recorded a $3.9 million severance charge related to the product streamlining and reorganization. The fiscal 2000 charge relates to approximately 300 employees, primarily in product development and support and administrative functions who were terminated at the end of fiscal 2000. Substantially all of the severance was paid in fiscal 2001. In addition, the Company reduced prior-year severance reserves by $0.8 million, in this segment.

To reflect the items discussed above, charges of $0.8 million have been recorded in cost of sales and $234.8 million have been recorded in administrative expenses. In addition, the Company recorded $0.3 million and $2.6 million as reductions to selling expenses and distribution expenses, respectively.

Fiscal 1999

Health Care Supply Management

In fiscal 1999, the Company identified six distribution centers for closure of which one distribution center was shut down by March 31, 1999. The Company recorded a charge of $25.5 million related to such closures. Of this charge, $21.7 million was required to reduce the carrying value of facility assets to their estimated fair value less disposal costs, and $3.8 million was related to computer hardware and software which will no longer be used at such facilities. Fair value was determined based on sales of similar assets, appraisals, and/or other estimates such as discounting of estimated future cash flows. Also related to such closures, a charge of $17.2 million was recorded for other exit-related costs. These primarily consist of costs to prepare facilities for disposal, lease costs and property taxes required subsequent to termination of operations, as well as the write-off of costs related to duplicate assets which do not have future use by the Company. Of the above charges, $25.5 million were non-cash asset write-offs. Also, in connection with the previously discussed reassessment of this plan in fiscal 2000, the Company reduced exit-related reserves by $6.9 million, offset in part by additional asset impairments of $1.5 million.

As part of this plan, the Company recorded a severance charge of $13.3 million for workforce reductions. The severance charge relates to the termination of approximately 1,000 employees, primarily in distribution centers and associated back-office functions. Severance of $2.7 million was paid during fiscal 1999 in connection with the termination of approximately 100 distribution center employees and $4.6 million was paid in fiscal 2000 to approximately 300 employees, primarily in distribution centers, sales and associated back-office functions. In fiscal 2001, $2.1 million was paid to approximately 150 employees primarily in distribution centers and associated back-office functions. In addition, $1.2 million in severance reserves, primarily associated with a reduction in estimated terminations of approximately 100 employees, was recorded as a reduction of expenses in fiscal 2000, as a result of the previously discussed reassessment of this restructuring plan. The Company also wrote off $23.5 million (non-cash) of computer hardware and software which were abandoned as the result of an acquisition during the year.

In connection with acquisitions in the medical management business, plans for integration of the companies, workforce reductions and consolidation of facilities were completed. The Company recorded charges of $6.0 million (net of a $3.0 million reversal of severance obligations which were determined to be in excess) for severance related to the termination of 230 employees primarily in customer service, development and administrative functions. Severance of $2.8 million was paid in fiscal 1999, $6.1 million was paid in fiscal 2000 and $0.1 million was paid in fiscal 2001. In addition, the Company recorded charges of $12.0 million associated with the termination of royalty agreements because products subject to minimum royalty payments to third parties were replaced with acquired products and $4.3 million primarily for the write-off of capitalized software costs.

Health Care Information Technology

In fiscal 1999, the Health Care Information Technology segment completed several acquisitions. In connection with these acquisitions, and the merger of HBOC with McKesson, plans were approved by management to consolidate facilities, reduce workforce and eliminate duplicate products and internal systems.

In order to effect these plans, the Company identified workforce reductions, including both acquired company and Company personnel, and recorded severance costs of $12.6 million. The severance charge relates to the termination of approximately 320 employees, primarily in development and administrative functions. Severance of $6.6 million, $4.2 million and $1.0 million was paid during fiscal 1999, 2000 and 2001,

respectively, primarily under salary continuance arrangements. Also, $0.8 million of excess severance reserves were reversed in fiscal 2000.

In addition, duplicate facilities, products and internal systems were identified for elimination, resulting in charges of $5.9 million, relating principally to the write-off of capitalized costs and lease termination costs. In addition, following the HBOC Acquisition, the Company evaluated the performance of a foreign business and elected to shut down its facility. Charges of $11.6 million were recorded, principally related to the write-off of goodwill to fair value based on discounted cash flows. Revenues and net operating income for this foreign business were not significant in fiscal 1999. Certain investments became impaired during fiscal 1999 and were written down by $4.3 million to their net realizable values based primarily on discounted cash flows, and other reserves of $4.1 million were recorded to cover customer and other claims arising out of the acquisitions. Substantially all of the above charges were non-cash asset write-offs.

The charges discussed above have been recorded in cost of sales, selling, distribution and administrative expenses. During fiscal 1999, there were no significant changes in estimates or recharacterizations of amounts from restructuring reserves recorded in prior years, except for the $3.0 million reversal described above.

5. Off-Balance Sheet Risk and Concentrations of Credit Risk

Trade receivables subject the Company to a concentration of credit risk with customers in the retail and institutional sectors. A significant proportion of the Company's increase in sales has been to a limited number of large customers. Consequently, the Company's credit concentration has increased. Accordingly, any defaults in payment by these large customers could have a significant negative impact on the Company's financial condition, results of operations and liquidity. At March 31, 2001, receivables from the Company's ten largest customers accounted for approximately 41% of total customer accounts receivable. Fiscal 2001 sales to, and March 31, 2001 receivables from, the Company's largest customer, Rite Aid Corporation, represented approximately 16% of consolidated sales and 10% of consolidated customer accounts receivable, respectively. Receivables from the Company's second largest customer represented approximately 11% of consolidated customer accounts receivable. No other customers represented greater than 10% of consolidated sales or customer accounts receivable.

At March 31, 2001, the Company had an $850 million committed receivables sales facility which was fully available. The Company's accounts receivable sales program accommodated the sale by the Company in March, 1999 of $400.0 million of undivided interests in the Company's trade accounts receivable. The program qualifies for sale treatment under SFAS No. 125, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities" and under SFAS No. 140, "Accounting For Transfers and Servicing Financial Assets and Extinguishments of Liabilities which replaces SFAS No. 125 effective in the Company's fiscal year 2002. The sales were recorded at the estimated fair values of the receivables sold, reflecting discounts for the time value of money based on U.S. commercial paper rates and estimated loss provisions.

The Company's Canadian subsidiary, Medis, has agreements with certain of its customers' financial institutions under which Medis has guaranteed the repurchase of certain inventory at a discount in the event the customers are unable to meet certain obligations to the financial institutions. Medis has also agreed to guarantee credit facilities for certain customers and the payment of a major customer's leases. The amounts related to these guarantees were approximately $22.8 million for credit facilities and $7.6 million for lease obligations at March 31, 2001.

The Company's U.S. pharmaceutical distribution business has entered into agreements to provide loans to certain customers, some of which are on a revolving basis. As of March 31, 2001, a total of $94.2 million of these commitments remained outstanding and were reflected as other receivables and notes receivable on the

consolidated balance sheet. Under the terms of the loans, the Company has a security interest in the assets of the customers. In addition, the Company has agreed to guarantee customer loans of $36.6 million.

6. Receivables

	March 31, 2001	2000	1999
		(in millions)	
Customer accounts	$3,298.8	$2,847.4	$2,290.0
Other	564.3	462.0	442.6
Total	3,863.1	3,309.4	2,732.6
Allowances	(419.7)	(274.9)	(180.6)
Net	$3,443.4	$3,034.5	$2,552.0

The allowances are for uncollectible accounts, discounts, returns, refunds, customer settlements and other adjustments.

7. Inventories

The LIFO method was used to value approximately 90%, 87% and 86% of the inventories at March 31, 2001, 2000 and 1999, respectively. Inventories before the LIFO cost adjustment, which approximates replacement cost, were $5,358.4 million, $4,397.2 million and $3,762.5 million at March 31, 2001, 2000 and 1999, respectively.

8. Property, Plant and Equipment, net

	March 31, 2001	2000	1999
		(in millions)	
Land	$ 33.8	$ 34.5	$ 37.0
Building, machinery and equipment	1,225.2	1,115.1	1,029.1
Total property, plant and equipment	1,259.0	1,149.6	1,066.1
Accumulated depreciation	(663.7)	(594.2)	(536.5)
Property, plant and equipment, net	$ 595.3	$ 555.4	$ 529.6

9. Discontinued Operations

The net assets (liabilities) of discontinued operations were as follows:

	March 31, 2001	2000	1999
		(in millions)	
Total assets	$ 0.9	$ 0.9	$242.6
Total liabilities	(1.3)	(2.4)	(63.2)
Net assets (liabilities)	$(0.4)	$(1.5)	$179.4

At March 31, 2001 and 2000, the net liabilities of discontinued operations are included in other current liabilities. Assets consist primarily of land held for sale and investments in affiliates. Liabilities consist primarily of other accrued liabilities.

At March 31, 1999, assets of discontinued operations consist primarily of receivables, inventory, property, plant and equipment and goodwill of the Water Products business. Liabilities of discontinued operations consist primarily of accounts payable and other accrued liabilities of the Water Products business.

Results of discontinued operations were as follows:

	Years Ended March 31,		
	2001	2000	1999
		(in millions)	
Revenues	$ —	$366.3	$355.1
Discontinued operations before income taxes	$(9.2)	$ 38.3	$ 40.1
Income taxes	3.6	(15.1)	(15.8)
Discontinued operations	(5.6)	23.2	24.3
Gain on sale of Water Products business, net of tax of $333.9	—	515.9	—
Total	$(5.6)	$539.1	$ 24.3

Discontinued operations in fiscal 2000 and 1999 include the operations of the Water Products business.

10. Long-Term Debt

	March 31,		
	2001	2000	1999
		(in millions)	
ESOP related debt	$ 88.9	$ 99.9	$ 115.5
4.50% Exchangeable subordinated debentures due March, 2004	6.5	28.1	37.3
8.91% Series A Senior Notes due February, 2005	100.0	100.0	—
8.95% Series B Senior Notes due February, 2007	20.0	20.0	—
9.13% Series C Senior Notes due February, 2010	215.0	215.0	—
6.60% Notes due March, 2000	—	—	175.0
6.875% Notes due March, 2002	175.0	175.0	175.0
6.55% Notes due November, 2002	125.0	125.0	125.0
6.30% Notes due March, 2005	150.0	150.0	150.0
6.40% Notes due March, 2008	150.0	150.0	150.0
7.65% Debentures due March, 2027	175.0	175.0	175.0
5.375% IDRBs due through December, 2011	5.5	9.0	9.0
Capital lease obligations (averaging 8.5%)	16.0	9.9	19.0
Other, 7.0% to 10.0%, due through March, 2008	2.8	3.1	3.7
Total Debt	1,229.7	1,260.0	1,134.5
Less current portion	194.1	16.2	195.3
Total Long-Term Debt	$1,035.6	$1,243.8	$ 939.2

The Company has a revolving credit agreement with several domestic and international banks whereby the banks commit $400 million borrowing availability at the reference rate (8% at March 31, 2001) or money market-based rates. The agreement expires in fiscal 2004. The Company has an additional $825 million available for general purposes under a facility with a duration of 364 days or less which is due to expire on October 9, 2001. At March 31, 2001, the Company had $1.225 billion of unused borrowing capacity under these agreements, which are used primarily to support commercial paper borrowings. In addition, the Company has an $850 million committed receivables sales facility, which was fully available as of March 31, 2001. The Company anticipates that this facility will be renewed prior to its termination date of June 15, 2001.

In fiscal 2000, the Company issued fixed-rate debt totaling $335.0 million. The 8.91% Series A notes mature on February 28, 2005, the 8.95% Series B notes mature on February 28, 2007 and the 9.13% Series C notes mature on February 28, 2010. Interest only is payable semiannually.

Total interest payments were $114.5 million, $115.0 million and $117.8 million in fiscal 2001, 2000 and 1999, respectively.

ESOP related debt (see Note 16) is payable to banks and insurance companies, bears interest at rates ranging from 8.6% fixed rate to approximately 89% of LIBOR or LIBOR +0.4% and is due in semi-annual and annual installments through 2009.

In connection with the 4.5% exchangeable subordinated debentures, the March 31, 2001 marketable securities balance included $4.0 million held in trust as exchange property for the exchangeable subordinated debentures. Through March 31, 2001, the Company had repurchased $173.5 million of the exchangeable subordinated debentures.

In fiscal 1998, the Company entered into two interest rate swap agreements, each with a notional principal amount of $150 million. The swaps were scheduled to mature in 2005 and 2008 and swap fixed interest payments of 6.30% and 6.40%, respectively, for floating interest payments based on a LIBOR index. These swaps included an imbedded interest rate cap of 7%. In February 2001, the Company paid $8.2 million to terminate the swaps. The termination fee is being amortized on the straight-line method over the remaining life of the underlying debt.

In fiscal 1998, a subsidiary of the Company entered into a currency swap agreement to convert the $125 million proceeds from the issuance of senior notes to $173 million Canadian currency, which was used to pay down short-term borrowings of the Company's Canadian subsidiary, Medis. This swap matures on November 1, 2002.

Certain debt agreements require the Company to maintain certain financial ratios, including a limitation that the Company's total debt not exceed 56.5% of total capitalization (total debt plus equity). At March 31, 2001, the Company was in compliance with its capitalization covenant and other financial covenants.

Aggregate annual payments on long-term debt and capitalized lease obligations (see Financial Note 12) for the years ending March 31 are:

	Long-Term Debt	Capital Leases	Total
		(in millions)	
2002	$ 187.6	$ 6.5	$ 194.1
2003	138.0	5.8	143.8
2004	14.1	2.9	17.0
2005	259.6	0.1	259.7
2006	7.9	—	7.9
Thereafter	606.5	0.7	607.2
Total	$1,213.7	$16.0	$1,229.7

11. Convertible Preferred Securities

In February 1997, a wholly-owned subsidiary trust of the Company issued 4 million shares of preferred securities to the public and 123,720 common securities to the Company, which are convertible at the holder's option into McKesson HBOC common stock. The proceeds of such issuances were invested by the trust in $206,186,000 aggregate principal amount of the Company's 5% Convertible Junior Subordinated Debentures due 2027 (the "Debentures"). The Debentures represent the sole assets of the trust. The Debentures mature

on June 1, 2027, bear interest at the rate of 5%, payable quarterly, and are redeemable by the Company at 103.0% of the principal amount.

Holders of the securities are entitled to cumulative cash distributions at an annual rate of 5% of the liquidation amount of $50 per security. Each preferred security is convertible at the rate of 1.3418 shares of McKesson HBOC common stock, subject to adjustment in certain circumstances. The preferred securities will be redeemed upon repayment of the Debentures and are callable by the Company at 103.0% of the liquidation amount.

The Company has guaranteed, on a subordinated basis, distributions and other payments due on the preferred securities (the "Guarantee"). The Guarantee, when taken together with the Company's obligations under the Debentures, and in the indenture pursuant to which the Debentures were issued, and the Company's obligations under the Amended and Restated Declaration of Trust governing the subsidiary trust, provides a full and unconditional guarantee of amounts due on the preferred securities.

The Debentures and related trust investment in the Debentures have been eliminated in consolidation and the preferred securities reflected as outstanding in the accompanying consolidated financial statements.

12. Lease Obligations

The Company leases facilities and equipment under both capital and operating leases. Net assets held under capital leases included in property, plant and equipment were $13.7 million, $9.1 million and $4.4 million at March 31, 2001, 2000 and 1999, respectively. Amortization of capital leases is included in depreciation expense.

As of March 31, 2001, future minimum lease payments and sublease rentals in years ending March 31 are:

	Non-cancelable Operating Leases	Non-cancelable Sublease Rentals	Capital Leases
		(in millions)	
2002	$ 83.3	$ 4.9	$ 7.3
2003	72.0	3.4	6.3
2004	56.9	1.5	3.1
2005	46.8	1.0	0.2
2006	40.1	0.4	0.1
Thereafter	84.3	0.7	1.0
Total minimum lease payments	$383.4	$11.9	18.0
Less amounts representing interest			2.0
Present value of minimum lease payments			$16.0

Rental expense was $108.7 million, $108.3 million and $110.0 million in fiscal 2001, 2000 and 1999, respectively.

Most real property leases contain renewal options and provisions requiring the Company to pay property taxes and operating expenses in excess of base period amounts.

13. Fair Value of Financial Instruments

At March 31, 2001, 2000 and 1999, the carrying amounts of cash and cash equivalents, marketable securities, receivables, drafts payable, accounts payable — trade and other liabilities approximate their estimated fair values because of the short maturity of these financial instruments. The estimated fair values of the Company's remaining financial instruments, as determined under SFAS No. 107, "Disclosures about Fair Value of Financial Instruments", were as follows:

	2001		2000		1999	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
			(in millions)			
Long-term debt, including current portion	$1,229.7	$1,231.1	$1,260.0	$1,180.9	$1,134.5	$1,145.8
Interest rate swaps — unrealized gain/(loss)	—	—	—	(11.0)	—	3.7
Foreign currency rate swap	—	17.5	—	5.6	—	12.6

The estimated fair values of these instruments were determined based on quoted market prices or market comparables.

The estimated fair values may not be representative of actual values of the financial instruments that could have been realized as of March 31, 2001, 2000 or 1999 or that will be realized in the future.

14. Stockholders' Equity

Before giving effect to the acquisitions accounted for as poolings of interests (see "Acquisitions, Investments and Divestitures" Financial Note 2), McKesson declared dividends of $0.435 per share and HBOC declared dividends of $0.04 per share, in fiscal year 1999.

At March 31, 2001, 2000, and 1999, the Company was authorized to issue 100,000,000 shares of series preferred stock ($.01 par value) of which none were outstanding and 400,000,000 shares of common stock ($.01 par value) of which approximately 283,983,000 shares, 283,353,000 shares and 280,584,000 shares, respectively, were outstanding net of treasury stock.

In October 1994, the Company's Board of Directors declared a dividend of one right (a "Right") for each then outstanding share of common stock and authorized the issuance of one Right for each share subsequently issued to purchase, upon the occurrence of certain specified triggering events, a unit consisting of one hundredth of a share of Series A Junior Participating Preferred Stock. Triggering events include, without limitation, the acquisition by another entity of 15% or more of the Company's common stock without the prior approval of the Company's Board. The Rights have certain anti-takeover effects and will cause substantial dilution to the ownership interest of a person or group that attempts to acquire the Company on terms not approved by the Board. The Rights expire in 2004 unless redeemed earlier by the Board. As a result of the two-for-one stock split in fiscal 1998, each share of common stock now has attached to it one-half of a Right.

The following is the calculation of the basic and diluted per-share computations for income (loss) from continuing operations:

	Income (Loss)	Shares	Per Share
	(in millions, except per share amounts)		
For the year ended March 31, 2001			
Basic and Diluted EPS			
Loss from continuing operations	$(42.7)	283.1(1)	$(0.15)
For the year ended March 31, 2000			
Basic and Diluted EPS			
Income from continuing operations	$184.6	281.3(1)	$ 0.66
For the year ended March 31, 1999			
Basic and Diluted EPS			
Income from continuing operations	$ 60.6	275.2(1)	$ 0.22

(1) The diluted share base for fiscal years 2001, 2000 and 1999 excludes 4.1 million shares, 2.9 million shares and 8.9 million shares related to options to purchase common stock, respectively, 5.4 million shares related to trust convertible preferred securities in fiscal 2001, 2000 and 1999, and 0.4 million shares and 0.3 million shares related to restricted stock in fiscal 2001 and 1999. Additionally, the income available to common stockholders excludes dividends on convertible preferred securities of $6.2 million in fiscal 2001, 2000 and 1999. These amounts are excluded due to their antidilutive effect.

The Company has six stock option plans as of March 31, 2001. The Company has granted options to employees and non-employee directors of the Company as well as restricted stock awards to employees. The Company has also assumed approximately 35 option plans in connection with acquisitions. No new options are granted from these acquired companies' plans. Under the active plans, the Company was authorized to grant up to 77.2 million shares as of March 31, 2001.

Options are generally granted for the purchase of shares of common stock at an exercise price not less than market value on the date of grant. Under the 1998 Canadian Stock Incentive Plan, the Company granted options at below market value to purchase 20,000 shares, 5,000 shares and 15,000 shares in fiscal 2001, 2000 and 1999, respectively. Most option grants under the 1997 Non-Employee Director's Equity compensation and Deferral Plan vest immediately. Other options generally vest over four years and all options expire ten years after the grant date.

The following is a summary of options outstanding at March 31, 2001:

	Options Outstanding			Options Exercisable	
Range of Exercise Prices	Number of Options Outstanding At Year End	Weighted-Average Remaining Contractual Life (in years)	Weighted-Average Exercise Price	Number of Options Exercisable At Year End	Weighted-Average Exercise Price
$ 0.01 to $ 13.67	3,549,559	2.8	$ 6.43	3,449,241	$ 6.60
$ 13.68 to $ 27.35	13,814,005	7.9	21.40	4,859,252	21.80
$ 27.36 to $ 41.02	24,983,432	8.3	30.46	5,037,046	31.51
$ 41.03 to $ 54.70	2,530,834	6.1	47.73	2,400,459	47.86
$ 54.71 to $ 68.37	1,009,659	6.7	58.51	905,904	57.74
$ 68.38 to $ 82.05	13,577,457	7.6	72.95	7,720,628	72.92
$ 82.06 to $ 95.72	519,350	6.7	90.73	517,574	90.76
$ 95.73 to $109.39	1,341	5.5	101.12	1,341	101.12
$109.40 to $123.07	373,334	7.2	113.50	373,334	113.50
$123.08 to $136.74	373,334	7.2	136.74	373,334	136.74
	60,732,305	7.6	39.36	25,638,113	45.17

Expiration dates range from April 1, 2001 to March 28, 2011.

As a result of the change of control of McKesson at the time of the HBOC Transaction on January 12, 1999, most options granted by McKesson which were outstanding on that date vested.

The following is a summary of changes in the options for the stock option plans:

	2001		2000		1999	
	Shares	Weighted-Average Exercise Price	Shares	Weighted-Average Exercise Price	Shares	Weighted-Average Exercise Price
Outstanding at beginning of year	56,275,715	$42.24	39,472,342	$55.11	24,156,651	$31.34
Granted	11,599,389	28.50	24,650,681	25.68	21,286,922	75.10
Exercised	(1,149,465)	13.11	(1,212,262)	14.92	(3,762,649)	23.79
Canceled	(5,993,334)	50.42	(6,635,046)	63.23	(2,208,582)	41.21
Outstanding at year end	60,732,305	39.36	56,275,715	42.24	39,472,342	55.11

Pursuant to SFAS No. 123, the Company has elected to account for its stock-based compensation plans under Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees." Accordingly, no compensation cost has been recognized in the consolidated financial statements for the stock option plans, except an insignificant amount related to the two Canadian grants noted above. Had compensation cost for the stock option plan been recognized based on the fair value at the grant dates for awards under those plans, consistent with the provision of SFAS No. 123, net income (loss) and earnings (loss) per share would have been as indicated in the table below. Since pro forma compensation cost relates to all periods over which the awards vest, the initial impact on pro forma income (loss) from continuing operations may not be

representative of compensation cost in subsequent years, when the effect of amortization of multiple awards would be reflected.

	Years Ended March 31,		
	2001	2000	1999
	(in millions, except per share amounts)		
Income (loss) from continuing operations			
As reported	$ (42.7)	$184.6	$60.6
Pro forma	(179.4)	82.2	(6.7)
Earnings (loss) per common share — basic and diluted			
As reported	$ (0.15)	$ 0.66	$0.22
Pro forma	(0.63)	0.29	(0.02)

Fair values of the options were estimated at the date of grant using the Black-Scholes option-pricing model with the following weighted-average assumptions:

	Years Ended March 31,		
	2001	2000	1999
Expected stock price volatility	48.5%	46.0%	32.4%
Expected dividend yield	0.75%	1.50%	1.42%
Risk-free interest rate	4.7%	6.1%	4.8%
Expected life (in years)	5.0	5.0	5.0

The weighted average grant date fair values of the options granted during 2001, 2000 and 1999 were $13.17, $11.33 and $24.06 per share, respectively.

Other Capital included in stockholders' equity, includes notes receivable from certain of the Company's current or former officers and senior managers totaling $90.7 million, $94.5 million and $99.0 million at March 31, 2001, 2000 and 1999, respectively, related to purchases of Company common stock. Such notes were issued for amounts equal to the market value of the stock on the date of the purchase and are full recourse to the borrower. As of March 31, 2001, the value of the underlying stock collateral was $44.7 million. The notes bear interest at rates ranging from 4.7% to 8.0% and are due at various dates through February 2005.

15. Income Taxes

The provision for income taxes related to continuing operations consists of the following:

	Years Ended March 31,		
	2001	2000	1999
	(in millions)		
Current			
Federal	$ 52.4	$ 62.9	$112.8
State and local	8.2	19.8	12.8
Foreign	13.1	13.1	8.8
Total current	73.7	95.8	134.4
Deferred			
Federal	(16.2)	30.5	(24.2)
State and local	(6.9)	(5.7)	(7.6)
Foreign	1.7	1.7	(1.2)
Total deferred	(21.4)	26.5	(33.0)
Total provision	$ 52.3	$122.3	$101.4

Foreign pre-tax earnings were $30.8 million, $40.5 million and $24.6 million in fiscal 2001, 2000 and 1999, respectively.

The principal items accounting for the difference in income taxes on income from continuing operations before income taxes computed at the Federal statutory income tax rate and income taxes are as follows:

	Years Ended March 31,		
	2001	2000	1999
		(in millions)	
Income taxes at Federal statutory rate	$ 5.5	$109.6	$ 58.9
State and local income taxes net of federal tax benefit	0.9	14.5	11.9
Nondeductible acquisition costs	—	—	34.8
Nondeductible amortization	57.0	9.3	10.9
Nondeductible meals and entertainment	1.6	1.7	2.0
Nondeductible life insurance policy interest	0.8	—	—
Nontaxable income — life insurance	(2.5)	(2.8)	(2.9)
Tax settlements	(12.9)	—	(8.6)
Dividends paid deduction — ESOP allocated shares	(0.5)	(0.5)	(1.0)
Tax-advantaged debt issuance	(2.5)	(2.5)	(2.5)
Foreign tax (benefit)	4.0	0.7	(1.0)
Dividends received from foreign investment	1.4	1.2	1.0
Foreign tax credit	(0.6)	—	—
Other — net	0.1	(8.9)	(2.1)
Income taxes	$ 52.3	$122.3	$101.4

Income tax payments were $330.5 million, $121.6 million and $175.8 million in fiscal 2001, 2000 and 1999, respectively.

At March 31, 2001, the Company had $51.1 million in cumulative undistributed earnings of certain foreign subsidiaries. The Company's earnings from these foreign subsidiaries are considered to be indefinitely reinvested and, accordingly, no provision for federal and state income taxes has been made for these earnings. These earnings could become subject to income tax if they were remitted to the Company as dividends or if a deemed distribution occurs. Determination of the amount of the unrecognized deferred tax liability on these undistributed earnings is not practicable; however, the Company believes that U.S. foreign tax credits would largely eliminate any U.S. tax and offset any foreign withholding tax.

As of March 31, the deferred tax balances consisted of the following:

	2001	2000	1999
		(in millions)	
Assets			
Receivable allowances	$ 159.3	$ 104.1	$ 63.6
Deferred revenue	40.2	39.9	65.1
Customer related allowances	25.9	76.2	17.2
Compensation and benefit-related accruals	96.4	38.8	46.6
Costs associated with duplicate facility closures and workforce reductions related to acquired businesses	—	15.9	7.5
Tax benefit on unrealized loss	—	23.8	—
Other	28.0	21.8	36.1
Current	349.8	320.5	236.1
Nondeductible accruals for:			
Postretirement and postemployment plans	24.0	87.7	66.5
Deferred compensation	39.2	36.9	33.5
Costs associated with facility closures, surplus properties and asset write-downs	15.4	4.5	10.0
Intangibles	67.2	84.8	65.5
Investment valuation	39.6	0.6	0.7
Loss and credit carryforwards	6.9	7.1	67.0
Other	2.8	11.3	16.6
Noncurrent	195.1	232.9	259.8
Total	$ 544.9	$ 553.4	$ 495.9
Liabilities			
Basis differences for inventory valuation	$(251.0)	$(208.0)	$(192.3)
Other	(10.6)	(0.6)	(1.2)
Current	(261.6)	(208.6)	(193.5)
Accelerated depreciation	(34.3)	(8.3)	(22.9)
Systems development costs	(93.6)	(88.7)	(83.6)
Retirement plan	(28.8)	(30.3)	(17.3)
Other	(4.2)	(11.0)	(8.9)
Noncurrent	(160.9)	(138.3)	(132.7)
Total	$(422.5)	$(346.9)	$(326.2)
Total net current — included in prepaid expenses	$ 88.2	$ 111.9	$ 42.6
Total net noncurrent — included in other assets	$ 34.2	$ 94.6	$ 127.1

16. Postretirement and Postemployment Benefits

Pension Plans

Prior to December 31, 1996, substantially all full-time employees of McKesson were covered under either the Company-sponsored defined benefit retirement plan or by bargaining unit sponsored multi-employer plans. On December 31, 1996, the Company amended the Company-sponsored defined benefit plan to freeze all plan benefits based on each employee's plan compensation and creditable service accrued to that date. Accordingly, employees joining the Company after December 31, 1996, and employees of companies acquired after December 31, 1996, are not eligible for coverage under the Company-sponsored defined benefit retirement

plan. The benefits for such Company-sponsored plans are based primarily on age of employees at date of retirement, years of service and employees' pay during the five years prior to retirement. On January 1, 1997, the Company amended the ESOP to provide future additional benefits in place of a portion of those benefits previously provided by the pension plan.

The following tables provide a reconciliation of the changes in the Company-sponsored defined benefit retirement plan and executive supplemental retirement plans:

	2001	2000	1999
		(in millions)	
Change in benefit obligations:			
Benefit obligation at beginning of year	$317.7	$349.4	$312.0
Service cost	1.6	2.0	0.7
Interest cost	23.8	24.2	21.7
Amendments	10.6	5.4	15.0
Acquisitions	—	—	17.8
Actuarial losses (gains)	8.3	(27.8)	11.0
Benefit payments	(32.0)	(35.5)	(28.8)
Benefit obligation at end of year	$330.0	$317.7	$349.4
Change in plan assets:			
Fair value of plan assets at beginning of year	$395.3	$310.9	$294.0
Actual return on plan assets	12.9	110.0	42.5
Employer contributions	4.9	9.9	5.3
Expenses paid	(4.9)	—	(2.1)
Benefits paid	(32.0)	(35.5)	(28.8)
Fair value of plan assets at end of year	$376.2	$395.3	$310.9
Funded status:			
Funded status at end of year	$ 46.2	$ 77.6	$(38.5)
Unrecognized net actuarial (gain) loss	(25.0)	(66.0)	30.1
Unrecognized prior service cost	6.8	6.1	1.2
Unrecognized prior service cost-plan amendments	—	—	23.0
Prepaid benefit cost	$ 28.0	$ 17.7	$ 15.8

The following table provides the amounts recognized in the Company's consolidated balance sheet:

	2001	2000	1999
		(in millions)	
Prepaid benefit cost	$ 70.7	$ 48.2	$ 38.5
Accrued benefit cost	(42.8)	(30.5)	(22.7)
Intangible asset	6.8	6.0	24.2
Minimum pension liability-net of tax of $5.3, $6.1, and $6.2	(8.2)	(9.3)	(9.6)
Net amount recognized	$ 26.5	$ 14.4	$ 30.4

The following table provides components of the net periodic pension expense (income) for the Company sponsored defined benefit retirement plan and executive supplemental retirement plans:

	2001	2000	1999
		(in millions)	
Service cost — benefits earned during the year	$ 1.6	$ 2.0	$ 0.7
Interest cost on projected benefit obligation	23.9	24.2	21.7
Return on assets	(37.4)	(29.3)	(27.6)
Amortization of unrecognized loss and prior service costs	(3.3)	2.7	1.1
Amortization of unrecognized net transition asset	—	—	(0.3)
Immediate recognition of pension cost(1)	9.1	8.3	—
Net pension expense (income)	$ (6.1)	$ 7.9	$ (4.4)

(1) Primarily associated with changes in executive management, based on the terms of employment contracts.

Assets of the plans are measured on a calendar year basis.

The projected unit credit method is utilized for measuring net periodic pension cost over the employees' service life. Costs are funded based on the recommendations of independent actuaries. The projected benefit obligations for Company-sponsored plans were determined using discount rates of 7.5% at December 31, 2000, 7.75% at December 31, 1999 and 7% at December 31, 1998 and an assumed increase in future compensation levels of 4.0% for all periods presented. The expected long-term rate of return on assets used to determine pension expense was 9.75% for all periods.

The assets of the plan consist primarily of listed common stocks and bonds for which fair value is determined based on quoted market prices.

Profit-Sharing Investment Plan

Retirement benefits for employees not covered by collective bargaining arrangements include a supplementary contributory profit sharing investment plan ("PSIP"). The leveraged ESOP portion of the PSIP has purchased an aggregate of 24.3 million shares of common stock since inception. These purchases have been financed by 10 to 20-year loans from or guaranteed by the Company. The Company's related receivables from the ESOP have been classified as a reduction of stockholders' equity. The loans will be repaid by the ESOP from common dividends on shares not yet allocated to participants, interest earnings on cash balances not yet allocated to participants, common dividends on certain allocated shares and future Company cash contributions. The ESOP loan maturities and rates are identical to the terms of related Company borrowings (see Financial Note 10).

After-tax ESOP expense, including interest expense on ESOP debt, was $10.5 million, $12.4 million and $1.4 million, in fiscal 2001, 2000 and 1999, respectively. The higher ESOP expense in fiscal 2001 and 2000 was required to maintain a desired level of benefits provided to employees despite a decline in the stock price. Additional tax benefits received on dividends paid on unallocated shares of $0.9 million, $1.1 million and $2.2 million in fiscal 2001, 2000 and 1999, respectively, have been credited directly to retained earnings in accordance with SFAS No. 109. Contribution expense for the PSIP in fiscal 2001, 2000 and 1999 was all ESOP related and is reflected in the amounts above. Approximately 1.5 million, 2.6 million and 0.6 million common shares were allocated to plan participants in fiscal 2001, 2000 and 1999, respectively.

Through March 31, 2001, 16.2 million common shares have been allocated to plan participants. At March 31, 2001, 8.1 million common shares in the ESOP Trust had not been allocated to plan participants.

Health Care and Life Insurance

In addition to providing pension benefits, the Company provides health care and life insurance benefits for certain retired employees. The Company's policy is to fund these benefits as claims are paid. In 1989, the Company implemented an ESOP to provide funds at retirement that could be used for medical costs or health care coverage.

Expenses for postretirement health care and life insurance benefits consisted of the following:

	2001	2000	1999
		(in millions)	
Service cost — benefits earned during the period	$ 0.7	$ 1.1	$ 0.9
Interest cost on projected benefit obligation	9.1	8.1	8.4
Amortization of unrecognized gain and prior service costs	(0.9)	(0.9)	(0.9)
Recognized actuarial loss (gain)	4.0	(0.3)	(4.0)
Settlement gain	—	—	(4.0)
Total	$12.9	$ 8.0	$ 0.4

The following table presents a reconciliation of the postretirement health care and life insurance benefits obligation at March 31:

	2001	2000	1999
		(in millions)	
Change in benefit obligation:			
Benefit obligation at beginning of year	$ 123.0	$ 120.7	$ 120.2
Service cost	0.7	1.1	0.9
Interest cost	9.1	8.1	8.4
Actuarial loss	14.5	5.4	7.5
Settlement	—	—	(4.0)
Benefits paid	(14.0)	(12.3)	(12.3)
Benefit obligation at end of year	$ 133.3	$ 123.0	$ 120.7
Funded Status			
Funded status at end of year	$(133.3)	$(123.0)	$(120.7)
Unrecognized actuarial loss	20.6	10.0	4.4
Unrecognized prior service cost	(6.1)	(7.0)	(8.0)
Accrued post-retirement benefit obligation	$(118.8)	$(120.0)	$(124.3)

The assumed health care cost trend rates used in measuring the accumulated postretirement benefit obligation was 5.0% for all periods presented. The health care cost trend rate assumption has a significant effect on the amounts reported. Increasing the trend rate by one percentage point would increase the accumulated postretirement health care and life insurance obligation as of March 31, 2001 by $7.7 million and the related fiscal 2001 aggregate service and interest costs by $0.7 million. Decreasing the trend rate by one percentage point would reduce the accumulated postretirement health care and life insurance obligation as of March 31, 2001 by $7.3 million and the related fiscal 2001 aggregate service and interest cost by $0.6 million. The discount rates used in determining the accumulated postretirement benefit obligation were 7.5%, 7.75% and 7% at March 31, 2001, 2000 and 1999, respectively.

The Company has an employee discount stock purchase plan for eligible employees. Under the plan, participants may authorize payroll deductions of up to 15% of their total cash compensation to purchase the Company's common stock at a 15% discount. The plan has 24-month offering periods with purchases made

every 6 months. Purchases are made at the lesser of the closing stock price on the first day of the offering period or each purchase date.

17. Segments of Business

The Company's operating segments include Health Care Supply Management and Health Care Information Technology. In evaluating financial performance, management focuses on operating profit as a segment's measure of profit or loss. Operating profit is income before interest expense, corporate interest income, taxes on income, and allocation of certain corporate revenues and expenses. The Company's Corporate segment is included in the presentation of reportable segment information since certain revenues and expenses of this division are not allocated separately to the operating segments.

The Health Care Supply Management segment includes the Company's U.S. pharmaceutical, health care products and medical-surgical supplies distribution businesses. U.S. Health Care Supply Management operations also include the manufacture and sale of automated pharmaceutical dispensing systems for hospitals and retail pharmacies, medical management services and tools to payors and providers, marketing and other support services to pharmaceutical manufacturers, consulting and outsourcing services to pharmacies, and distribution of first-aid products to industrial and commercial customers. Health Care Supply Management also includes the Company's international distribution operations (including Canada and an equity interest in a Mexican pharmaceutical distribution business).

The Health Care Information Technology segment delivers enterprise-wide patient care, clinical, financial, supply chain, managed care, payor and strategic management software solutions, as well as networking technologies, including wireless capabilities, electronic commerce, outsourcing and other services to health care organizations throughout the U.S. and certain foreign countries.

The Corporate segment includes expenses associated with corporate functions and projects, certain employee benefits, the investment in Health Nexis and an inter-segment elimination in fiscal 1999.

During fiscal 2001, the Company announced the formation of a new business segment, iMcKesson, to focus on healthcare applications using the Internet and other emerging technologies. iMcKesson included selected net assets from the former e-Health, Health Care Supply Management and Health Care Information Technology segments and fiscal 2001 acquisitions of strategic investments and businesses. Subsequently, in February 2001, the Company announced the restructuring of the iMcKesson business unit by moving responsibility for iMcKesson's medical management business to the Health Care Supply Management segment and the physician services business to the Health Care Information Technology segment.

The accounting policies of the segments are the same as those described in the summary of significant accounting policies.

Financial information relating to the Company's reportable operating segments as of and for the years ended March 31, is presented below:

	2001	2000	1999
		(in millions)	
Revenues			
Health Care Supply Management	$41,077.3	$35,666.5	$28,662.8
Health Care Information Technology	930.4	1,018.4	1,308.2
Corporate	2.3	2.1	(0.1) (1)
Total	$42,010.0	$36,687.0	$29,970.9
Operating profit			
Health Care Supply Management (2)	$ 665.1	$ 536.5	$ 359.8
Health Care Information Technology	(295.1)	(214.1)	(49.8)
Total	370.0	322.4	310.0
Interest — net (3)	(102.7)	(107.3)	(90.4)
Corporate	(251.5)	98.0	(51.4)
Income from continuing operations before taxes on income and dividends on preferred securities of subsidiary trust	$ 15.8	$ 313.1	$ 168.2
Segment assets — at year-end			
Health Care Supply Management	$10,067.4	$ 8,644.8	$ 7,052.8
Health Care Information Technology	558.9	778.8	1,040.4
Total	10,626.3	9,423.6	8,093.2
Corporate			
Cash, cash equivalents and marketable securities	445.6	605.9	261.9
Other	458.0	343.4	664.9
Total	$11,529.9	$10,372.9	$ 9,020.0
Depreciation and amortization (4)			
Health Care Supply Management	$ 139.5	$ 117.4	$ 90.0
Health Care Information Technology	101.7	101.1	84.8
Corporate	4.9	4.1	5.8
Total	$ 246.1	$ 222.6	$ 180.6
Expenditures for long-lived assets			
Health Care Supply Management	$ 90.9	$ 99.0	$ 105.0
Health Care Information Technology	26.5	43.3	71.4
Corporate	41.5	2.8	22.8
Total	$ 158.9	$ 145.1	$ 199.2
Revenues by products and services			
Health Care Supply Management			
Pharmaceutical Distribution and Services	$38,227.8	$32,960.4	$26,371.3
Medical-Surgical Distribution and Services	2,849.5	2,706.1	2,291.5
Health Care Information Technology			
Software	133.6	144.0	267.7
Services	712.2	782.0	832.0
Hardware	84.6	92.4	208.5
Corporate	2.3	2.1	(0.1) (1)
Total	$42,010.0	$36,687.0	$29,970.9

(1) Net of $3.0 million inter-segment elimination related to a Health Care Information Technology segment software sale to the Health Care Supply Management segment for use in that segment's consulting and outsourcing business.

(2) Includes $5.9 million, $16.9 million and $13.3 million of net pre-tax earnings from equity investments in fiscal 2001, 2000 and 1999, respectively.

(3) Interest expense is shown net of corporate interest income.

(4) Includes amortization of intangibles, capitalized software held for sale and capitalized software for internal use.

Revenues, operating profit and long-lived assets by geographic areas:

	2001	2000	1999
		(in millions)	
Revenues			
United States	$39,244.1	$34,324.1	$27,908.4
International(1)	2,765.9	2,362.9	2,062.5
Total	$42,010.0	$36,687.0	$29,970.9
Operating profit			
United States	$ 341.4	$ 274.8	$ 269.2
International(1)	28.6	47.6	40.8
Total	$ 370.0	$ 322.4	$ 310.0
Long-lived assets, at year end			
United States	$ 559.0	$ 515.6	$ 491.1
International(1)	36.3	39.8	38.5
Total	$ 595.3	$ 555.4	$ 529.6

(1) International primarily represents a wholly-owned subsidiary which distributes pharmaceuticals in Canada, an equity investment in a pharmaceutical distributor in Mexico, and an information technology businesses in the United Kingdom and Europe.

18. Other Commitments and Contingent Liabilities

I. Accounting Litigation

Since the Company's announcements in April, May and July of 1999 that the Company had determined that certain software sales transactions in its Information Technology Business Unit, formerly HBOC, were improperly recorded as revenue and reversed, as of April 30, 2001, eighty-five lawsuits have been filed against the Company, certain of the Company's or HBOC's current or former officers or directors, and other defendants including, Bear Stearns & Co., Inc. ("Bear Stearns"), and Arthur Andersen LLP ("Arthur Andersen").

A. Federal Actions

Sixty-five of these actions have been filed in Federal Court (the "Federal Actions"). Of these, fifty-nine were filed in the U.S. District Court for the Northern District of California, one in the Northern District of Illinois (which has been voluntarily dismissed without prejudice), one in the Northern District of Georgia (which has been transferred to the Northern District of California), one in the Eastern District of Pennsylvania (which has been transferred to the Northern District of California), two in the Western District

of Louisiana (which have been transferred to the Northern District of California) and one in the District of Arizona (which has been transferred to the Northern District of California).

On November 2, 1999, the Honorable Ronald M. Whyte of the Northern District of California issued an order consolidating fifty-three of these actions into one action entitled *In re McKesson HBOC, Inc. Securities Litigation* (Case No. C-99-20743 RMW) (the "Consolidated Action"), and by order dated December 22, 1999, appointed the New York State Common Retirement Fund as lead plaintiff ("Lead Plaintiff") and approved Lead Plaintiffs' choice of counsel. Judge Whyte's November 2, 1999 order also provided that related cases transferred to the Northern District of California shall be consolidated with the Consolidated Action. Judge Whyte's December 22 order also consolidated an individual action, *Jacobs v. McKesson HBOC, Inc. et al.* (C-99-21192 RMW), with the Consolidated Action. On September 21, 2000, the plaintiffs in *Jacobs* filed an individual action in the Northern District of California entitled *Jacobs v. HBO & Company* (Case No. C-00-20974 RMW), which is to be consolidated with the Consolidated Action and which purports to state claims under Sections 11 and 12(2) of the Securities Act of 1933 ("Securities Act"), Section 10(b) of the Securities Exchange Act of 1934 ("Exchange Act") and various state law causes of action. By order dated February 7, 2000, Judge Whyte coordinated a class action alleging ERISA claims, *Chang v. McKesson HBOC, Inc. et al.* (Case No. C-00-20030 RMW) and a shareholder derivative action that had been filed in the Northern District under the caption *Cohen v. McCall et. al.* (Case No. C-99-20916 RMW) with the Consolidated Action.

Lead Plaintiff filed an Amended and Consolidated Class Action Complaint (the "ACCAC") on February 25, 2000. The ACCAC generally alleged that defendants violated the federal securities laws in connection with the events leading to the Company's announcements in April, May and July, 1999. On September 28, 2000, Judge Whyte dismissed all of the ACCAC claims against McKesson under Section 11 of the Securities Act with prejudice, dismissed a claim under Section 14(a) of the Exchange Act with leave to amend and declined to dismiss a claim against McKesson under Section 10(b) of the Exchange Act.

On November 14, 2000, Lead Plaintiff filed its Second Amended and Consolidated Class Action Complaint ("SAC"). As with its ACCAC, Lead Plaintiff's SAC generally alleges that the defendants named therein violated the federal securities laws in connection with the events leading to the Company's announcements in April, May and July, 1999. The SAC names the Company, HBOC, certain current or former officers or directors of the Company or HBOC, Arthur Andersen and Bear Stearns as defendants. The SAC purports to state claims against the Company under Sections 10(b) and 14(a) of the Exchange Act.

On January 18, 2001, the Company filed a motion to dismiss the claim under Section 14(a) of the Exchange Act in its entirety, and the claim under Section 10(b) of the Exchange Act to the extent it is based on the statements or conduct of the Company prior to the Merger. HBOC also filed its own motion to dismiss the claim based on Section 14(a) of the Exchange Act insofar as that claim is asserted on behalf of McKesson shareholders. Those motions were heard on March 23, 2001, and Judge Whyte has not yet issued an order.

On January 11, 2001, the Company filed an action in the U.S. District Court for the Northern District of California against the Lead Plaintiff in the Consolidated Action individually, and as a representative of a defendant class of former HBOC shareholders who exchanged HBOC shares for Company shares in the Merger, *McKesson HBOC, Inc. v. New York State Common Retirement Fund, Inc. et al.* (Case No. C01-20021 RMW) (the "Complaint and Counterclaim"). In the Complaint and Counterclaim, the Company alleges that the exchanged HBOC shares were artificially inflated due to undisclosed accounting improprieties, and that the exchange ratio therefore provided more shares to former HBOC shareholders than would have otherwise been the case. In this action, the Company seeks to recover the "unjust enrichment" received by those HBOC shareholders who exchanged more than 20,000 HBOC shares in the Merger. The Company does not allege any wrongdoing by these shareholders. Lead Plaintiff's motion to dismiss the Complaint and Counterclaim was heard on March 23, 2001, and Judge Whyte has not yet issued an order.

Two other individual actions, *Bea v. McKesson HBOC, Inc. et al.* (Case No. C-0020072 RMV), and *Cater v. McKesson Corporation et al.* (Case No. C-00-20327 RMW), have also been filed in the Northern District of California. By stipulation, *Bea* has been consolidated with the Consolidated Action and *Cater* has been stayed pending resolution of the Company's motion to dismiss the Consolidated Complaint. One other individual action, *Baker v. McKesson HBOC, Inc. et al.* (Case No. CV 00-0188) was filed in the U.S. District Court for the Western District of Louisiana. The Company moved to transfer *Baker* to the Northern District of California, together with a parallel state court action, *Baker v. McKesson HBOC, Inc. et al.* (filed as Case No. 199018; Case No. CV-00-0522 after removal), which had been removed to federal court. Both of the *Baker* cases have been transferred to the Northern District of California where they have been consolidated with the Consolidated Action. An additional action, *Rosenberg v. McCall et al.* (Case No. 1:99-CV-1447 JEC) was filed in the Northern District of Georgia and subsequently transferred to the Northern District of California, but that action names only two former officers and does not name the Company. Finally, on July 24, 2000, an action captioned *Hess v. McKesson HBOC, Inc. et al.* was filed in state court in Arizona (Case No. C-20003862) on behalf of former shareholders of Ephrata Diamond Spring Water Company ("Ephrata") who acquired McKesson shares in exchange for their Ephrata stock when McKesson acquired Ephrata in January, 1999. On August 24, 2000, the Company removed the *Hess* action to the United States District Court for the District of Arizona, and on March 28, 2001, the District Court in Arizona granted the Company's motion to transfer the case to the Northern District of California.

B. State Actions

Twenty actions have also been filed in various state courts in California, Colorado, Delaware, Georgia, Louisiana and Pennsylvania (the "State Actions"). Like the Consolidated Action, the State Actions generally allege misconduct by the defendants in connection with the events leading to the Company's need to restate its financial statements.

Two of the State Actions are derivative actions: *Ash, et al. v. McCall, et al.* (Case No. 17132), filed in the Delaware Chancery Court and *Mitchell v. McCall et al.* (Case. No. 304415), filed in California Superior Court, City and County of San Francisco. The Company moved to dismiss both of these actions and to stay the *Mitchell* action in favor of the earlier filed *Ash* and *Cohen* derivative actions. Plaintiffs in *Mitchell* agreed to defer any action by the court on the Company's motions pending resolution of the Company's dismissal motions in *Ash*. On September 15, 2000, the *Ash* court dismissed all causes of action with leave to replead certain of the dismissed claims, and on January 22, 2001, the *Ash* plaintiffs filed a Third Amended Complaint which is presently the subject of the Company's motions to dismiss.

Five of the State Actions are class actions. Three of these were filed in Delaware Chancery Court: *Derdiger v. Tallman et al.* (Case No. 17276), *Carroll v. McKesson HBOC, Inc.* (Case No. 17454), and *Kelly v. McKesson HBOC, Inc., et al.* (Case No. 17282 NC). Two additional actions were filed in Delaware Superior Court: *Edmondson v. McKesson HBOC, Inc.* (Case No. 99-951) and *Caravetta v. McKesson HBOC, Inc.* (Case No. 00C-04-214 WTQ). The *Carroll* and *Kelly* actions have been voluntarily dismissed without prejudice. The Company has removed *Edmondson* to Federal Court in Delaware where plaintiffs have filed a motion to remand, which is pending. The Company's motions to stay the *Derdiger* and *Caravetta* actions in favor of proceedings in the federal Consolidated Action have been granted.

Thirteen of the State Actions are individual actions which have been filed in various state courts. Four of these were filed in the California Superior Court, City and County of San Francisco: *Yurick v. McKesson HBOC, Inc. et al.* (Case No. 303857), *The State of Oregon by and through the Oregon Public Employees Retirement Board v. McKesson HBOC, Inc. et al.* (Case No. 307619), *Utah State Retirement Board v. McKesson HBOC, Inc. et al.* (Case No. 311269), and *Minnesota State Board of Investment v. McKesson HBOC, Inc. et al.* (Case No. 311747). In *Yurick,* the trial court sustained the Company's demurrer to the original complaint without leave to amend with respect to all causes of action, except the claims for common

law fraud and negligent misrepresentation as to which amendment was allowed. The Court also stayed *Yurick* pending the commencement of discovery in the Consolidated Action, but allowed the filing of an amended complaint. The Company's demurrer to that amended pleading was heard on May 23, 2001 and no order has yet been issued. On May 23, 2001, the California Court of Appeals affirmed the *Yurick* trial court's order dismissing claims against certain of the individual defendants in the action without leave to amend. The *Oregon, Utah* and *Minnesota* actions referenced above are individual securities actions filed in the California Superior Court for the City and County of San Francisco by out-of-state pension funds. Plaintiffs in each of those actions are in the process of filing amended complaints, and action on the Company's motions seeking stays of those actions and demurrers to the prior complaints has been suspended pending defendants' responses to those amended pleadings.

Ten individual actions have been filed in various state courts outside of California. Five of these cases have been filed in Georgia state courts: *Moulton v. McKesson HBOC, Inc. et al.* (Case No. 98-13176-9), involving a former HBOC employee's claim for unpaid commissions, claims under Georgia's securities and racketeering laws, as well as various common law causes of action, has been settled and dismissed with prejudice. *Powell v. McKesson HBOC, Inc. et al.* (Case No. 1999CV-15443), involving a former HBOC employee's claims for unpaid commissions, claims under Georgia's securities and racketeering laws, as well as various common law causes of action, was dismissed by plaintiff and refiled as Case No. 2000-CV-27864 and the Company's motions to dismiss or stay that action are presently pending. *In Adler v. McKesson HBOC, Inc.* (Case No. 99-C-7980-3), a former HBOC shareholder asserts a claim for common law fraud. The Georgia Court of Appeals has granted interlocutory review of an order issued in *Adler* and the prior June, 2001, trial date has been vacated. *Suffolk Partners Limited Partnership et al. v. McKesson HBOC, Inc. et al.* (Case No.00 VS 010469A) and *Curran Partners, L.P. v. McKesson HBOC, Inc. et al.* (Case No. 00 VS-010801) are related actions brought on behalf of individual shareholders and are based on Georgia securities, racketeering and common law claims. The Company has moved to stay both the *Suffolk* and *Curran* actions in favor of proceedings in the federal Consolidated Action. Those motions have been heard by the Court and no order has yet been issued.

Three individual state court cases have been filed outside of California. *Grant v. McKesson HBOC, Inc.* (C.A. No. 99-03978) was filed on May 12, 1999 in the Pennsylvania Court of Common Pleas, Chester County. The *Grant* case relates to the Company's acquisition of Keystone/Ozone Pure Water Company ("Keystone"). Plaintiffs are former shareholders of Keystone who received McKesson shares in exchange for their shares in Keystone pursuant to a merger agreement between plaintiffs, McKesson and a McKesson subsidiary. On March 6, 2001, the Court denied the Company's motion to stay and dismissed with prejudice all plaintiffs' claims except for those based on breach of contract and negligent misrepresentation. The Company answered the *Grant* complaint on March 26, 2001. On September 28, 1999, an action was filed in Delaware Superior Court under the caption *Kelly v. McKesson HBOC, Inc. et al.* (C.A. No. 99C-09-265 WCC). Plaintiffs in *Kelly* are former shareholders of KWS&P/SFA, Inc., which merged into the Company after the Merger. Plaintiffs assert claims under the federal securities laws, as well as claims for breach of contract and breach of the duty of good faith and fair dealing. The Company's motion to dismiss and plaintiffs' motion for summary judgment remain pending before the Court. On October 19, 1999, an individual action was filed in Colorado District Court, Boulder County, under the caption *American Healthcare Fund II v. HBO & Company et al.* (Case No. 00-CV-1762). Plaintiffs in *American Healthcare* are former shareholders of Access Health, Inc., a company acquired by HBOC prior to the Merger, and assert claims for breach of the merger contract and related claims. The Company has answered an amended complaint and filed a counterclaim against the plaintiffs alleging that, as HBOC shareholders exchanging HBOC shares for McKesson shares in the Merger, plaintiffs were unjustly enriched. Discovery has commenced and trial is currently set for September 10, 2001.

The previously reported investigations by the United States Attorney's Office and the Securities and Exchange Commission are continuing. On May 15, 2000, the United States Attorney's Office filed a one-

count information against former HBOC officer, Dominick DeRosa, charging Mr. DeRosa with aiding and abetting securities fraud, and on May 15, 2000, Mr. DeRosa entered a guilty plea to that charge. On September 28, 2000, an indictment was unsealed in the Northern District of California against former HBOC officer, Jay P. Gilbertson, and former Company and HBOC Officer, Albert J. Bergonzi (*United States v. Bergonzi, et al.,* Case No. CR-00-0505). On that same date, a civil complaint was filed by the Securities and Exchange Commission against Mr. Gilbertson, Mr. Bergonzi and Mr. DeRosa (*Securities and Exchange Commission v. Gilbertson, et al.,* Case No. C-00-3570.) Mr. DeRosa has settled with the Securities Exchange Commission without admitting or denying the substantive allegations of the complaint. On January 10, 2001, the grand jury returned a superseding indictment in the Northern District of California against Messrs. Gilbertson and Bergonzi (*United States v. Bergonzi, et al.*, Case No. CR-00-0505).

The Company does not believe it is feasible to predict or determine the outcome or resolution of the Accounting Litigation proceedings, or to estimate the amounts of, or potential range of, loss with respect to these proceedings. In addition, the timing of the final resolution of these proceedings is uncertain. The range of possible resolutions of these proceedings could include judgments against the Company or settlements that could require substantial payments by the Company, which could have a material adverse impact on the Company's financial position, results of operations and cash flows.

II. Other Litigation and Claims:

In addition to commitments and obligations in the ordinary course of business, the Company is subject to various claims, other pending and potential legal actions for product liability and other damages, investigations relating to governmental laws and regulations and other matters arising out of the normal conduct of the Company's business. These include:

A. Antitrust Matters

The Company currently is a defendant in numerous civil antitrust actions filed since 1993 in federal and state courts by retail pharmacies. The federal cases have been coordinated for pretrial purposes in the United States District Court in the Northern District of Illinois and are known as MDL 997. MDL 997 consists of a consolidated class action (the "Federal Class Action") as well as approximately 109 additional actions brought by approximately 3,500 individual retail, chain and supermarket pharmacies (the "Individual Actions"). There are numerous other defendants in these actions including several pharmaceutical manufacturers and several other wholesale distributors. These cases allege, in essence, that the defendants have violated the Sherman Act by conspiring to fix the prices of brand name pharmaceuticals sold to plaintiffs at artificially high, and non-competitive levels, especially as compared with the prices charged to mail order pharmacies, managed care organizations and other institutional buyers. On January 19, 1999, the District Court entered its written opinion and judgment granting defendants' motion for a judgment as a matter of law. On July 13, 1999, the Seventh Circuit affirmed the District Court's judgment as to the dismissal of the claims against the wholesalers. The wholesalers' motion for summary judgment in the Individual Actions has been granted. Plaintiffs have appealed to the Seventh Circuit. Most of the individual cases brought by chain stores have been settled.

State court antitrust cases against the Company are currently pending in California and Mississippi. The state cases are based on essentially the same facts alleged in the Federal Class Action and Individual Actions and assert violations of state antitrust and/or unfair competition laws. The case in Superior Court for the State of California, City and County of San Francisco is referred to as Coordinated Special Proceeding, Pharmaceutical Cases I, II & III. The case is trailing MDL 997. A case filed in Santa Clara County (*Paradise Drugs, et al. v. Abbott Laboratories, et al.*, Case No. CV793852) was coordinated with the case pending in San Francisco. The case in Mississippi *(Montgomery Drug Co., et al. v. The Upjohn Co., et al.)* is pending in the

Chancery Court of Prentiss County Mississippi. The Chancery Court has held that the case may not be maintained as a class action.

In each of the cases, plaintiffs seek remedies in the form of injunctive relief and unquantified monetary damages, attorneys' fees and costs. Plaintiffs in the California cases also seek restitution. In addition, treble damages are sought in the Federal Class Action, the Individual Actions and the California case, and statutory penalties of $500 per violation are sought in the Mississippi case. The Company has entered into a judgment sharing agreement with certain pharmaceutical manufacturer defendants, which provides generally that the Company (together with the other wholesale distributor defendants) will be held harmless by such pharmaceutical manufacturer defendants and will be indemnified against the costs of adverse judgments, if any, against the wholesaler and manufacturers in these or similar actions, in excess of $1 million in the aggregate per wholesale distributor defendant.

B. FoxMeyer Litigation

In January 1997, the Company and twelve pharmaceutical manufacturers (the "Manufacturer Defendants") were named as defendants in the matter of *FoxMeyer Health Corporation vs. McKesson, et al.* (Case No. 97 00311) filed in the District Court in Dallas County, Texas ("the Texas Action"). Plaintiff (the parent corporation of FoxMeyer Drug Company and FoxMeyer Corporation, collectively "FoxMeyer Corporation") has alleged that, among other things, the Company (i) defrauded Plaintiff, (ii) competed unfairly and tortiously interfered with FoxMeyer Corporation's business operations, and (iii) conspired with the Manufacturer Defendants, all in order to destroy FoxMeyer Corporation's business, restrain trade and monopolize the marketplace, and allow the Company to purchase that business at a distressed price. Plaintiff seeks relief against all defendants in the form of compensatory damages of at least $400 million, punitive damages, attorneys' fees and costs. The Company answered the complaint, denying the allegations and removed the case to federal bankruptcy court in Dallas.

In March 1997, the Company and the Manufacturer Defendants filed a complaint in intervention against FoxMeyer Health (now known as Avatex Corporation) in the action filed against Avatex by the FoxMeyer Unsecured Creditors Committee in the United States Bankruptcy Court for the District of Delaware. The complaint in intervention seeks declaratory relief and an order enjoining Avatex from pursuing the Texas Action.

In November 1998, the Delaware court granted the Company's motion for summary judgment as to the first three counts asserted in the Texas Action on the ground of judicial estoppel. The Company filed a renewed motion for summary judgment on the four remaining counts of Avatex's complaint in the Texas Action which was denied without prejudice by the Delaware court on August 9, 1999. In addition, the Company filed cross-claims against the Trustee and debtors seeking the same relief as sought in the Company's complaint against Avatex. Based on the order granting summary judgment as to the first three counts, the Texas bankruptcy court dismissed those counts with prejudice and ordered the Texas Action remanded to state court. On November 30, 1998, the Company and the other Defendants filed a notice of appeal to the District Court from the remand ruling as well as the August 1997 ruling denying defendants' motion to transfer the Texas Action to Delaware. In addition, the Company has filed a counter-claim and cross-claim against Avatex and Messrs. Estrin, Butler and Massman in the Texas Action, asserting various claims of misrepresentation and breach of contract. The District Court upheld the remand order and denied as moot the appeal from the order denying transfer. A cross-appeal by Avatex from the order dismissing the first three counts with prejudice failed, as the District Court affirmed the Bankruptcy Court's dismissal by order dated March 28, 2001. The Company and several of the other defendants appealed to the Court of Appeals the ruling upholding the order denying transfer but subsequently moved to dismiss the appeal with prejudice, which motion was granted and the appeal was dismissed on October 4, 1999. As a result, the Texas Action is

now pending in Texas state court, and the parties presently are engaged in discovery on the merits of the various claims asserted in the Texas Action.

C. Product Liability Litigation

The Company has been named as a defendant, or has received from customers tenders of defense, in fifteen pending cases alleging injury due to the diet drug combination of fenfluramine or dexfenfluramine and phentermine. All of the cases are pending in the state courts of California, Nebraska and New Jersey. The Company's tender of the cases to the manufacturers of the drugs has been accepted and the manufacturer is paying for counsel and fully indemnifying the Company for judgments or settlements arising from its distribution of the manufacturer's products.

Certain subsidiaries of the Company (i.e. MGM and RedLine, collectively the "Subsidiaries") are two of the defendants in approximately ninety cases in which plaintiffs claim that they were injured due to exposure, over many years, to the latex proteins in gloves manufactured by numerous manufacturers and distributed by a number of distributors, including the Subsidiaries. Efforts to resolve tenders of defense to their suppliers are continuing and a tentative final agreement has been reached with one major supplier. The Subsidiaries' insurers are providing coverage for these cases, subject to the applicable deductibles.

There is one remaining state court class action in South Carolina filed against MGM on behalf of all health care workers in that state who suffered accidental needle sticks that exposed them to potentially contaminated bodily fluids, arising from MGM's distribution of allegedly defective syringes. MGM's suppliers of the syringes are also named defendants in this action. The tender of all cases has been accepted by the two major suppliers. By this acceptance, these suppliers are paying for separate distributors' counsel and have agreed to fully indemnify the Company for any judgments in these cases arising from its distribution of their products.

The Company, along with 134 other companies, has been named in a lawsuit brought by the Lemelson Medical, Educational & Research Foundation ("the Foundation") alleging that the Company and its subsidiaries are infringing seven (7) U.S. patents relating to common bar code scanning technology and its use for the automated management and control of product inventory, warehousing, distribution and point-of-sale transactions. The Foundation seeks to enter into a license agreement with the Company, the lump sum fee for which would be based upon a fraction of a percent of the Company's overall revenues over the past ten years. Due to the pendency of earlier litigation brought against the Foundation attacking the validity of the patents at issue, the court has stayed the action until the conclusion of the earlier case. The Company is assessing its potential exposure and evaluating the Foundations' claim with the assistance of expert patent counsel, after which it will determine an appropriate course of action.

D. Environmental Matters

Primarily as a result of the operation of its former chemical businesses, which were divested in fiscal 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 action purportedly required to address environmental conditions alleged to exist at five sites where the Company (or entities acquired by the Company) 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.

The current estimate (determined by the Company's environmental staff, in consultation with outside environmental specialists and counsel) of the upper limit of the Company's range of reasonably possible remediation costs for these five sites is approximately $13 million, net of approximately $1.5 million which third parties have agreed to pay in settlement or which the Company expects, based either on agreements or

nonrefundable contributions which are ongoing, to be contributed by third parties. The $13 million is expected to be paid out between April 2001 and March 2029 and is included in the Company's recorded environmental liabilities at March 31, 2001.

In addition, the Company has been designated as a potentially responsible party (PRP) under the Comprehensive Environmental Response Compensation and Liability Act of 1980 (as amended, the "Superfund" law or its state law equivalent) for environmental assessment and cleanup costs as the result of the Company's alleged disposal of hazardous substances at 21 sites. With respect to each of 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 liability at those 21 PRP sites is approximately $1.5 million. The aggregate settlements and costs paid by the Company in Superfund matters to date has not been significant. The $1.5 million is included in the Company's recorded environmental liabilities at March 31, 2001.

The potential costs to the Company related to environmental matters is uncertain due to such factors as: the unknown magnitude of possible pollution and cleanup costs; the complexity and evolving nature of governmental laws and regulations and their interpretations; the timing, varying costs and effectiveness of alternative cleanup technologies; the determination of the Company's liability in proportion to other PRPs; and the extent, if any, to which such costs are recoverable from insurance or other parties.

Except as specifically stated above with respect to the litigation matters summarized in "Accounting Litigation" (section I, above), management believes, based on current knowledge and the advice of the Company's counsel, that the outcome of the litigation and governmental proceedings discussed above will not have a material adverse effect on the Company's financial position, results of operations or cash flows.

19. Quarterly Financial Information (unaudited)

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Fiscal Year
	(in millions except per share amounts)				
Fiscal 2001					
Revenues	$9,717.6	$9,865.5	$11,017.8	$11,409.1	$42,010.0
Gross profit	566.9	571.4	601.7	691.0	2,431.0
Income (loss) after taxes					
Continuing operations	63.6	61.9(1)	7.3(2)	(175.5)(3)	(42.7)
Discontinued operations	—	—	(5.6)	—	(5.6)
Total	$ 63.6	$ 61.9	$ 1.7	$ (175.5)	$ (48.3)
Earnings (loss) per common share					
Diluted					
Continuing operations	$ 0.22	$ 0.22	$ 0.03	$ (0.62)	$ (0.15)
Discontinued operations	—	—	(0.02)	—	(0.02)
Total	$ 0.22	$ 0.22	$ 0.01	$ (0.62)	$ (0.17)
Basic					
Continuing operations	$ 0.23	$ 0.22	$ 0.03	$ (0.62)	$ (0.15)
Discontinued operations	—	—	(0.02)	—	(0.02)
Total	$ 0.23	$ 0.22	$ 0.01	$ (0.62)	$ (0.17)
Cash dividends per common share	$ 0.06	$ 0.06	$ 0.06	$ 0.06	$ 0.24
Market prices per common share					
High	$ 22.63	$ 31.44	$ 37.00	$ 35.91	$ 37.00
Low	16.00	20.69	23.88	23.40	16.00
Fiscal 2000					
Revenues	$8,590.0	$8,928.7	$ 9,876.9	$ 9,291.4	$36,687.0
Gross profit	556.4	546.7	538.0	583.8	2,224.9
Income (loss) after taxes					
Continuing operations	62.9(4)	49.3(5)	160.6(6)	(88.2)(7)	184.6
Discontinued operations	7.2	10.0	6.2	(0.2)	23.2
Discontinued operations — Gain on sale of McKesson Water Products Company	—	—	—	515.9	515.9
Total	$ 70.1	$ 59.3	$ 166.8	$ 427.5	$ 723.7
Earnings (loss) per common share					
Diluted					
Continuing operations	$ 0.22	$ 0.18	$ 0.56	$ (0.31)	$ 0.66
Discontinued operations	0.03	0.03	0.02	—	0.08
Discontinued operations — Gain on sale of McKesson Water Products Company	—	—	—	1.83	1.83
Total	$ 0.25	$ 0.21	$ 0.58	$ 1.52	$ 2.57
Basic					
Continuing operations	$ 0.22	$ 0.18	$ 0.57	$ (0.31)	$ 0.66
Discontinued operations	0.03	0.03	0.02	—	0.08
Discontinued operations — Gain on sale of McKesson Water Products Company	—	—	—	1.83	1.83
Total	$ 0.25	$ 0.21	$ 0.59	$ 1.52	$ 2.57
Cash dividends per common share	$ 0.06	$ 0.06	$ 0.06	$ 0.06	$ 0.24
Market prices per common share					
High	$ 69.25	$ 34.94	$ 28.81	$ 28.06	$ 69.25
Low	30.75	27.19	18.56	18.19	18.19

(1) Includes pre-tax charges of $0.5 million for severance associated with staff reductions in the pharmacy management business, and $0.7 million for legal costs incurred in connection with the pending litigation resulting from the restatement of prior years' financial statements. Also includes a pre-tax gain of $7.8 million on the liquidation of an investment, a charge of $2.1 million for write-off of in-process technology related to the July 2000 acquisition of MediVation, Inc. and $2.3 million for severance and facility closing costs associated with staff reductions in the medical management business. These items aggregate to $0.5 million in after-tax income.

(2) Includes pre-tax charges of $0.7 million for asset impairments, $0.5 million for severance and $0.5 million for facility closing costs associated with the closure of a pharmaceutical distribution center. Also includes charges of $98.9 million for impairments of certain equity investments and $1.1 million for legal costs incurred in connection with the pending securities litigation. These costs aggregate to $62.0 million, after-tax.

(3) Includes pre-tax charges of $6.2 million related to closure of facilities in the pharmaceutical services business and consolidation of customer service centers, staff reductions and adjustments to prior year restructuring reserves in the medical/surgical business. Also includes charges related to the restructuring of the former iMcKesson business, including the write-off of goodwill and intangibles totaling $116.2 million, asset impairments of $29.8 million, severance of $29.0 million and exit costs of $9.1 million. In addition, includes charges for reserves of $161.1 million for Information Technology estimated customer settlements (forgiveness of accounts receivable, customer credits and refunds), a $6.7 million loss on investments and a $0.7 million charge for legal costs incurred in connection with the pending securities litigation. The costs aggregate to $264.2 million after-tax.

(4) Includes pre-tax charges of $6.3 million incurred in the quarter in connection with the restatement of prior years' financial results and resulting litigation. Also includes $18.5 million in severance and benefit costs resulting from the change in executive management and $1.7 million in retention benefits incurred in the quarter, $16.3 million in the aggregate after-tax.

(5) Includes pre-tax charges of $8.7 million incurred in connection with the restatement of prior years' financial statements and resulting litigation, $12.1 million in severance and other costs associated with former employees and $2.9 million in acquisition-related costs, $14.6 million in the aggregate after-tax.

(6) Includes pre-tax charges for asset impairments, accounts receivable reserves and customer settlements in the Health Care Supply Management segment totaling $37.0 million related primarily to a prior year implementation of a contract system, partially offset by a $5.7 million reduction in prior year restructuring reserves. Also includes charges of $61.8 million for a change in estimate of the Health Care Information Technology segment's requirements for accounts receivable reserves and $1.5 million for the write-off of purchased in-process technology related to the Company's November 1999 acquisition of Abaton.com, partially offset by a $2.7 million reduction in prior year accruals for acquisition-related activities. In addition, includes net gains of $253.3 million primarily from the exchange and subsequent sale of equity investments. These gains are offset in part, by charges of $2.4 million for accounting and legal fees and other costs incurred in connection with the Company's earlier restatement of prior years' financial results and resulting litigation and $0.7 million in acquisition-related costs. These aggregate to $100.1 million in after-tax income.

(7) Includes pre-tax charges totaling $239.8 million for Health Care Information Technology segment charges for asset impairments, customer accounts receivable and severance primarily associated with product streamlining and reorganization. These charges are offset in part, by a $4.3 million reduction in prior year accruals for acquisition-related activities. In addition, includes pre-tax charges of $1.5 million for asset impairments in the Health Care Supply Management segment related primarily to a prior year implementation of a contract system. Also includes a pre-tax charge of $2.9 million for severance and exit-related charges primarily associated with segment staff reductions and a $0.9 million reduction in prior year restructuring reserves. Also includes Corporate segment pre-tax net gains on the sale of equity investments of $5.9 million, partially offset by charges of $2.5 million for accounting and legal fees and other costs incurred in connection with the Company's earlier restatement of prior years' financial results and resulting litigation, costs associated with former employees and other acquisition-related costs. These items total $149.6 million, after-tax.

(8) After-tax amounts associated with the items discussed in Notes 1-7 above amounted to $(325.7) million, $(1.15) per share, and $(80.4) million, $(0.29) per share, in fiscal 2001 and 2000, respectively.

DIRECTORS AND OFFICERS

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President and Chief Executive Officer,
McKesson HBOC, Inc.

Alfred C. Eckert III
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GSC Partners

Tully M. Friedman
Chairman and Chief Executive Officer,
Friedman Fleischer & Lowe, LLC.

Alton F. Irby III
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Cobalt Media Group

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

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Gerald E. Mayo
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David S. Pottruck
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The Charles Schwab Corporation

Carl E. Reichardt
Chairman, Retired
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Aerogen, Inc.

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Officer

William A. Armstrong
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Paul C. Julian
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Nicholas A. Loiacono
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Ivan D. Meyerson
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Nigel A. Rees
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Carmine J. Villani
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Heidi E. Yodowitz
Senior Vice President and
Chief Financial Officer,
Supply Management Business

CORPORATE INFORMATION

Common Stock

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

Stockholder Information

First Chicago Trust Co. of New York, a division of EquiServe, P.O. Box 2500, Jersey City, N.J. 07303 acts as transfer agent, registrar, dividend-paying agent and dividend reinvestment plan agent for McKesson HBOC, Inc., stock and maintains all registered stockholder records for the Company. For information about McKesson HBOC, Inc. stock or to request replacement of lost dividend checks, stock certificates or 1099's, stockholders may call First Chicago's telephone response center at (800) 756-8200, weekdays 8:30 a.m. to 7:00 p.m., ET. For the hearing impaired call TDD: (201) 222-4955. First Chicago also has a Web site: http://www.equiserve.com — 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 to stockholders of record on the first day of the preceding month. You may have your dividend check deposited directly into your checking or savings account. For more information, or to request an enrollment form, call First Chicago at (800) 756-8200, Monday through Friday, 8:00 a.m. – 10:00 p.m., ET, or Saturday, 8:00 a.m. – 3:30 p.m., ET. McKesson HBOC, Inc. Dividend Reinvestment Plan offers stockholders the opportunity to reinvest dividends in common stock and to purchase additional common stock without paying brokerage commissions or other service fees, and to have their stock certificates held in safekeeping. For more information, or to request an enrollment form, call First Chicago's telephone response center at (800) 414-6280.

Annual Meeting

The Company's Annual Meeting of Stockholders will be held at 10:00 a.m., PDT, on Wednesday July 25, 2001, at the Fairmont Hotel, 950 Mason Street, San Francisco, California.

EXHIBIT 3.3

RESTATED

BY-LAWS

OF

MCKESSON HBOC, INC.

A DELAWARE CORPORATION

AS AMENDED THROUGH MARCH 31, 2001

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RESTATED

BY-LAWS

OF

MCKESSON HBOC, INC.

A DELAWARE CORPORATION

ARTICLE I

OFFICES

SECTION 1. REGISTERED OFFICE. The address of the registered office of McKesson HBOC, Inc. (the "Corporation") within the State of Delaware is 1013 Centre Road, City of Wilmington 19805-1297, County of New Castle. The name of the registered agent of the Corporation at such address is The Prentice-Hall Corporation System, Inc.

SECTION 2. OTHER OFFICES. The Corporation shall also have and maintain an office or principal place of business at One Post Street, San Francisco, California and may also have offices at such other places, both within and without the State of Delaware, as the Board of Directors may from time to time determine or the business of the Corporation may require.

ARTICLE II

STOCKHOLDERS' MEETINGS

SECTION 1. PLACE OF MEETINGS. Meetings of the stockholders of the Corporation shall be held at such place, either within or without the State of Delaware, as may be designated from time to time by the Board of Directors, or, if not so designated, then at the office of the Corporation required to be maintained pursuant to Section 2 of ARTICLE I hereof.

SECTION 2. ANNUAL MEETINGS. The annual meetings of stockholders of the Corporation for the purpose of election of directors and for such other business as may lawfully come before it, shall be held on such date and at such time as may be designated from time to time by the Board of Directors, or, if not so designated, then at 10:00 a.m. on the last Wednesday in July in each year if not a legal holiday, and, if a legal holiday, at the same hour and place on the next succeeding day not a holiday.

SECTION 3. SPECIAL MEETINGS. Special Meetings of the stockholders of the Corporation may be called, for any purpose or purposes, by the Chairman of the Board or the President or the Board of Directors at any time. Stockholders may not call Special Meetings of the stockholders of the Corporation.

SECTION 4. NOTICE OF MEETINGS.

(a) Except as otherwise provided by law or the Certificate of Incorporation, written notice of each meeting of stockholders, specifying the place, date and hour and purpose or purposes of the meeting, shall be given not less than 10 nor more than 60 days before the date of the meeting to each stockholder entitled to vote thereat, directed to his address as it appears upon the books of the Corporation; except that where the matter to be acted on is a merger or consolidation of the Corporation or a sale, lease or exchange of all or substantially all of its assets, such notice shall be given not less than 20 nor more than 60 days prior to such meeting.

(b) If at any meeting action is proposed to be taken which, if taken, would entitle stockholders fulfilling the requirements of Section 262(d) of the Delaware General Corporation Law to an appraisal of the fair value of their shares, the notice of such meeting shall contain a statement of that purpose and to that effect and shall be accompanied by a copy of that statutory section.

(c) When a meeting is adjourned to another time or place, notice need not be given of the adjourned meeting if the time and place thereof are announced at the meeting at which the adjournment is taken unless the adjournment is for more than thirty days, or unless after the adjournment a new record date is fixed for the adjourned meeting, in which event a notice of the adjourned meeting shall be given to each stockholder of record entitled to vote at the meeting.

(d) Notice of the time, place and purpose of any meeting of stockholders may be waived in writing, either before or after such meeting, and to the extent permitted by law, will be waived by any stockholder by his attendance thereat, in person or by proxy. Any stockholder so waiving notice of such meeting shall be bound by the proceedings of any such meeting in all respects as if due notice thereof had been given.

(e) Unless and until voted, every proxy shall be revocable at the pleasure of the person who executed it or of his legal representatives or assigns, except in those cases where an irrevocable proxy permitted by statute has been given.

SECTION 5. QUORUM. At all meetings of stockholders, except where otherwise provided by law, the Certificate of Incorporation, or these By-Laws, the presence, in person or by proxy duly authorized, of the holders of a majority of the outstanding shares of stock entitled to vote shall constitute a quorum for the transaction of business. Shares, the voting of which at said meeting has been enjoined, or which for any reason cannot be lawfully voted at such meeting, shall not be counted to determine a quorum at said meeting.

In the absence of a quorum any meeting of stockholders may be adjourned, from time to time, by vote of the holders of a majority of the shares represented thereat, but no other business shall be transacted at such meeting. At such adjourned meeting at which a quorum is present or represented any business may be transacted which might have been transacted at the original meeting. The stockholders present at a duly called or convened meeting, at which a quorum is present, may continue to transact business until adjournment, notwithstanding the withdrawal of enough stockholders to leave less than a quorum. Except as otherwise provided by law, the Certificate of Incorporation or these By-Laws, all action taken by the holders of a majority of the voting power represented at any meeting at which a quorum is present shall be valid and binding upon the Corporation.

In the event that at any meeting at which the holders of more than one class or series of the Corporation’s capital stock are entitled to vote as a class, a quorum of any such class or series is lacking, the holders of any class or series represented by a quorum may proceed with the transaction of the business to be

transacted by that class or series, and if such business is the election of directors, the director whose successors shall not have been elected shall continue in office until their successors shall have been duly elected and shall have qualified.

SECTION 6. VOTING RIGHTS.

(a) Except as otherwise provided by law, only persons in whose names shares entitled to vote stand on the stock records of the Corporation on the record date for determining the stockholders entitled to vote at said meeting shall be entitled to vote at such meeting. Shares standing in the names of two or more persons shall be voted or represented in accordance with the determination of the majority of such persons, or, if only one of such persons is present in person or represented by proxy, such person shall have the right to vote such shares and such shares shall be deemed to be represented for the purpose of determining a quorum.

(b) Every person entitled to vote or execute consents shall have the right to do so either in person or by an agent or agents authorized by a written proxy executed by such person or his duly authorized agent, which proxy shall be filed with the Secretary of the Corporation at or before the meeting at which it is to be used. Said proxy so appointed need not be a stockholder. No proxy shall be voted on after three years from its date unless the proxy provides for a longer period.

(c) Without limiting the manner in which a stockholder may authorize another person or persons to act for him as proxy pursuant to subsection (b) of this Section, the following shall constitute a valid means by which a stockholder may grant such authority:

(1) A stockholder may execute a writing authorizing another person or persons to act for him as proxy. Execution may be accomplished by the stockholder or his authorized officer, director, employee or agent signing such writing or causing his or her signature to be affixed to such writing by any reasonable means including, but not limited to, by facsimile signature.

(2) A stockholder may authorize another person or persons to act for him as proxy by transmitting or authorizing the transmission of a telegram, cablegram, or other means of electronic transmission to the person who will be the holder of the proxy or to a proxy solicitation firm, proxy support service organization or like agent duly authorized by the person who will be the holder of the proxy to receive such transmission, provided that any such telegram, cablegram or other means of electronic transmission must either set forth or be submitted with information from which it can be determined that the telegram, cablegram or other electronic transmission was authorized by the stockholder. If it is determined that such telegrams, cablegrams or other electronic transmissions are valid, the inspectors or, if there are no inspectors, such other persons making that determination shall specify the information upon which they relied.

(d) Any copy, facsimile telecommunication or other reliable reproduction of the writing or transmission created pursuant to subsection (c) of this Section may be substituted or used in lieu of the original writing or transmission for any and all purposes for which the original writing or transmission could be used, provided that such copy, facsimile telecommunication or other reproduction shall be a complete reproduction of the entire original writing or transmission.

SECTION 7. VOTING PROCEDURES AND INSPECTORS OF ELECTIONS.

(a) The Corporation shall, in advance of any meeting of stockholders, appoint one or more inspectors to act at the meeting and make a written report thereof. The Corporation may designate one or more persons as alternate inspectors to replace any inspector who fails to act. If no inspector or alternate is

able to act at a meeting of stockholders, the person presiding at the meeting shall appoint one or more inspectors to act at the meeting. Each inspector, before entering upon the discharge of his duties, shall take and sign an oath faithfully to execute the duties of inspector with strict impartiality and according to the best of his ability.

(b) The inspectors shall (i) ascertain the number of shares outstanding and the voting power of each, (ii) determine the shares represented at a meeting and the validity of proxies and ballots, (iii) count all votes and ballots, (iv) determine and retain for a reasonable period a record of the disposition of any challenges made to any determination by the inspectors, and (v) certify their determination of the number of shares represented at the meeting, and their count of all votes and ballots. The inspectors may appoint or retain other persons or entities to assist the inspectors in the performance of the duties of the inspectors.

(c) The date and time of the opening and the closing of the polls for each matter upon which the stockholders will vote at a meeting shall be announced at the meeting. No ballot, proxies or votes, nor any revocations thereof or changes thereto, shall be accepted by the inspectors after the closing of the polls unless the Court of Chancery upon application by a stockholder shall determine otherwise.

(d) In determining the validity and counting of proxies and ballots, the inspectors shall be limited to an examination of the proxies, any envelopes submitted with those proxies, any information provided in accordance with Section 212(c)(2) of the Delaware General Corporation Law, ballots and the regular books and records of the Corporation, except that the inspectors may consider other reliable information for the limited purpose of reconciling proxies and ballots submitted by or on behalf of banks, brokers, their nominees or similar persons which represent more votes than the holder of a proxy is authorized by the record owner to cast or more votes than the stockholder holds of record. If the inspectors consider other reliable information for the limited purpose permitted herein, the inspectors at the time they make their certification pursuant to subsection (b)(v) of this Section shall specify the precise information considered by them including the person or persons from whom they obtained the information, when the information was obtained, the means by which the information was obtained and the basis for the inspectors' belief that such information is accurate and reliable.

(e) The provisions of this Section 7 shall not apply to any annual meeting of stockholders held prior to the annual meeting of stockholders to be held in 1995.

SECTION 8. LIST OF STOCKHOLDERS. The officer who has charge of the stock ledger of the Corporation shall prepare and make, at least 10 days before every meeting of stockholders, a complete list of the stockholders entitled to vote at said meeting, arranged in alphabetical order, showing the address of and the number of shares registered in the name of each stockholder. Such list shall be open to the examination of any stockholder, for any purpose germane to the meeting, during ordinary business hours, for a period of at least 10 days prior to the meeting, either at a place within the city where the meeting is to be held and which place shall be specified in the notice of the meeting, or, if not specified, at the place where said meeting is to be held, and the list shall be produced and kept at the time and place of meeting during the whole time thereof, and may be inspected by any stockholder who is present.

SECTION 9. STOCKHOLDER PROPOSALS AT ANNUAL MEETINGS. At an annual meeting of the stockholders, only such business shall be conducted as shall have been properly brought before the meeting. To be properly brought before an annual meeting, business must be specified in the notice of meeting (or any supplement thereto) given by or at the direction of the Board of Directors, otherwise properly brought before the meeting by or at the direction of the Board of Directors or otherwise properly

brought before the meeting by a stockholder of the Corporation (i) who is a stockholder of record on the date of the giving of the notice provided for in this Section 9 and on the record date for the determination of stockholders entitled to vote at such annual meeting and (ii) who complies with the notice procedures set forth in this Section 9. In addition to any other applicable requirements, for business to be properly brought before an annual meeting by a stockholder, the stockholder must have given timely notice thereof in writing to the Secretary of the Corporation. To be timely, a stockholder's notice to the Secretary must be delivered to or mailed and received at the principal executive offices of the Corporation, not less than 90 days nor more than 120 days prior to the anniversary date of the immediately preceding annual meeting of stockholders; provided, however, that in the event that the annual meeting is called for a date that is not within 30 days before or after such anniversary date, notice by the stockholder in order to be timely must be so received not later than the close of business on the 10th day following the day on which such notice of the date of the annual meeting was mailed or such public disclosure of the date of the annual meeting was made, whichever first occurs. A stockholder's notice to the Secretary shall set forth as to each matter the stockholder proposes to bring before the annual meeting, (i) a brief description of the business desired to be brought before the annual meeting and the reasons for conducting such business at the annual meeting, (ii) the name and record address of the stockholder proposing such business, (iii) the class or series and number of shares of capital stock of the Corporation which are owned beneficially or of record by the stockholder, (iv) a description of all arrangements or understandings between the stockholder and any other person or persons (including their names) in connection with the proposal of such business by the stockholder and any material interest of the stockholder in such business, and (v) a representation that the stockholder intends to appear in person or by proxy at the annual meeting to bring such business before the meeting.

Notwithstanding anything in the By-Laws to the contrary, no business shall be conducted at the annual meeting except in accordance with the procedures set forth in this Section 9, provided, however, that nothing in this Section 9 shall be deemed to preclude discussion by any stockholder of any business properly brought before the annual meeting in accordance with said procedure.

The Chairman of an annual meeting shall, if the facts warrant, determine and declare to the meeting that business was not properly brought before the meeting in accordance with the provisions of this Section 9, and if he should so determine, he shall so declare to the meeting and any such business not properly brought before the meeting shall not be transacted.

SECTION 10. NOMINATIONS OF PERSONS FOR ELECTION TO THE BOARD OF DIRECTORS. In addition to any other applicable requirements, only persons who are nominated in accordance with the following procedures shall be eligible for election as directors. Nominations of persons for election to the Board of Directors of the Corporation may be made at a meeting of stockholders by or at the direction of the Board of Directors, by any nominating committee or person appointed by the Board of Directors or by any stockholder of the Corporation (i) who is a stockholder of record on the date of the giving of the notice provided for in this Section 10 and on the record date for the determination of stockholders entitled to vote at such annual meeting and (ii) who complies with the notice procedures set forth in this Section 10. Such nominations, other than those made by or at the direction of the Board of Directors, shall be made pursuant to timely notice in writing to the Secretary of the Corporation. To be timely, a stockholder's notice to the Secretary must be delivered to or mailed and received at the principal executive offices of the Corporation not less than 90 days nor more than 120 days prior to the anniversary date of the immediately preceding annual meeting of stockholders; provided, however, that in the event that the annual meeting is called for a date that is not within 30 days before or after such anniversary date, notice by the stockholder in order to be timely must be so received not later than the close of business on the 10th day following the day on which such notice of the date of the annual meeting was mailed or such public disclosure of the date of the annual meeting was made, whichever first occurs. Such stockholder's notice shall set forth (a)

as to each person whom the stockholder proposes to nominate for election or re-election as a director, (i) the name, age, business address and residence address of the person, (ii) the principal occupation or employment of the person, (iii) the class and number of shares of the Corporation which are beneficially owned by the person and (iv) any other information relating to the person that is required to be disclosed in solicitations for proxies for election of directors pursuant to Section 14 of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and the rules and regulations promulgated thereunder; and (b) as to the stockholder giving the notice, (i) the name and record address of the stockholder, (ii) the class or series and number of shares of capital stock of the Corporation which are owned beneficially or of record by the stockholder, (iii) a description of all arrangements or understandings between the stockholder and each proposed nominee and any other person or persons (including their names) pursuant to which the nomination(s) are to be made by the stockholder, (iv) a representation that such stockholder intends to appear in person or by proxy at the meeting to nominate the persons named in such notice and (v) any other information relating to the stockholder that would be required to be disclosed in a proxy statement or other filings required to be made in connection with solicitations of proxies for the election of directors pursuant to Section 14 of the Exchange Act and the rules and regulations promulgated thereunder. Such notice must be accompanied by a written consent of each proposed nominee being named as a nominee and to serve as a director if elected. The Corporation may require any proposed nominee to furnish such other information as may reasonably be required by the Corporation to determine the eligibility of such proposed nominee to serve as a director of the Corporation. No person shall be eligible for election as a director of the Corporation unless nominated in accordance with the procedures set forth herein. These provisions shall not apply to nomination of any persons entitled to be separately elected by holders of preferred stock.

The Chairman of the meeting shall, if the facts warrant, determine and declare to the meeting that a nomination was not made in accordance with the foregoing procedure, and if he should so determine, he shall so declare to the meeting and the defective nomination shall be disregarded.

ARTICLE III

DIRECTORS

SECTION 1. GENERAL POWERS. The property, affairs and business of the Corporation shall be managed under the direction of its Board of Directors, which may exercise all of the powers of the Corporation, except such as are by law or by the Certificate of Incorporation or by these By-Laws expressly conferred upon or reserved to the stockholders.

SECTION 2. NUMBER AND TERM OF OFFICE; REMOVAL. The number of directors of the Corporation shall be fixed from time to time by these By-Laws but in no event shall be less than three (3). Until these By-Laws are further amended, the number of directors shall be twelve (12). The directors shall be divided into three classes. Each such class shall consist, as nearly as may be possible, of one-third of the total number of directors, and any remaining directors shall be included within such group or groups as the Board of Directors shall designate. At the initial annual meeting of stockholders in 1994, a class of directors shall be elected for a one-year term, a class of directors for a two-year term and a class of directors for a three-year term. At each succeeding annual meeting of stockholders, beginning in 1995, successors to the class of directors whose term expires at that annual meeting shall be elected for a three-year term. If the number of directors is changed, any increase or decrease shall be apportioned among the classes so as to maintain the number of directors in each class as nearly equal as possible, but in no case shall a decrease in the number of directors shorten the term of any incumbent director. A director may be removed from office for cause only and, subject to such removal, death, resignation,

retirement or disqualification, shall hold office until the annual meeting for the year in which his term expires and until his successor shall be elected and qualify. No alteration, amendment or repeal of these By-Laws shall be effective to shorten the term of any director holding office at the time of such alteration, amendment or repeal, to permit any such director to be removed without cause, or to increase the number of directors in any class or in the aggregate from that existing at the time of such alteration, amendment or repeal until the expiration of the terms of office of all directors then holding office, unless such alteration, amendment or repeal has been approved by either the holders of all shares of stock entitled to vote thereon or by a vote of a majority of the entire Board of Directors. The provisions of this Section 2 shall not apply to directors governed by Section 15 of this ARTICLE III.

SECTION 3. ELECTION OF DIRECTORS. At each meeting of the stockholders for the election of directors, the directors to be elected at such meeting shall be elected by a plurality of votes given at such election.

SECTION 4. VACANCIES. Any vacancy occurring in the Board of Directors for any cause other than by reason of an increase in the number of directors may be filled by a majority of the remaining members of the Board of Directors, although such majority is less than a quorum, or by the stockholders. Any vacancy occurring by reason of an increase in the number of directors may be filled by action of a majority of the entire Board of Directors or by the stockholders. A director elected by the Board of Directors to fill a vacancy shall be elected to hold office until the expiration of the term for which he was elected and until his successor shall have been elected and shall have qualified. A director elected by the stockholders to fill a vacancy shall be elected to hold office until the expiration of the term for which he was elected and until his successor shall have been elected and shall have qualified. The provisions of this Section 4 shall not apply to directors governed by Section 15 of this ARTICLE III.

SECTION 5. RESIGNATIONS. A director may resign at any time by giving written notice to the Board of Directors or to the Secretary. Such resignation shall take effect at the time specified therein and, unless otherwise specified therein, the acceptance of such resignation shall not be necessary to make it effective.

SECTION 6. ANNUAL MEETINGS. The Board of Directors, as constituted following the vote of stockholders at any meeting of the stockholders for the election of directors, may hold its first meeting for the purpose of organization and the transaction of business, if a quorum be present, immediately after such meeting and at the same place, and notice of such meeting need not be given. Such first meeting may be held at any other time and place specified in a notice given as hereinafter provided for special meetings of the Board of Directors or in a consent and waiver of notice thereof signed by all the directors.

SECTION 7. REGULAR MEETINGS. Regular meetings of the Board of Directors may be held without notice at such places and times as may be fixed from time to time by resolution of the Board.

SECTION 8. SPECIAL MEETINGS; NOTICE. Special meetings of the Board of Directors may be called at any time by the Chairman of the Board or the President and shall be called by the Secretary upon the written request of any three directors and each special meeting shall be held at such place and time as shall be specified in the notice thereof. At least twenty-four (24) hours' notice of each such special meeting shall be given to each director personally or sent to him addressed to his residence or usual place

of business by telephone, telegram or facsimile transmission, or at least 120 hours' notice of each such special meeting shall be given to each director by letter sent to him addressed as aforesaid or on such shorter notice and by such means as the person or persons calling such meeting may deem reasonably necessary or appropriate in light of the circumstances. Any notice by letter or telegram shall be deemed to be given when deposited in the United States mail so addressed or when duly deposited at an appropriate office for transmission by telegram, as the case may be. Such notice need not state the business to be transacted at or the purpose or purposes of such special meeting. No notice of any such special meeting of the Board of Directors need be given to any director who attends in person or who, in writing executed and filed with the records of the meeting, either before or after the holding thereof, waives such notice. No notice need be given of an adjourned meeting of the Board of Directors.

SECTION 9. QUORUM AND MANNER OF ACTING. A majority of the total number of directors, but in no event less than two directors, shall constitute a quorum for the transaction of business at any annual, regular or special meeting of the Board of Directors. Except as otherwise provided by law, by the Certificate of Incorporation or by these By-Laws, the act of a majority of the directors present at any meeting, at which a quorum is present, shall be the act of the Board of Directors. In the absence of a quorum, a majority of the directors present may adjourn the meeting from time to time until a quorum be had.

SECTION 10. CONSENT IN WRITING. Any action required or permitted to be taken at any meeting of the Board of Directors or any committee thereof may be taken without a meeting, if a written consent to such action is signed by all members of the Board or of such committee, as the case may be, and such written consent is filed with the minutes of proceedings of the Board or such committee.

SECTION 11. COMMITTEES.

(a) Executive Committee. The Board of Directors may, by resolution passed by a majority of a quorum of the Board, appoint an Executive Committee of not less than three members, each of whom shall be a director. The Executive Committee, to the extent permitted by law, shall have and may exercise when the Board of Directors is not in session all powers of the Board in the management of the business and affairs of the Corporation, including, without limitation, the power and authority to declare a dividend or to authorize the issuance of stock, except such Committee shall not have the power or authority (i) to approve, adopt, or recommend to stockholders any action or matter required by the Delaware General Corporation Law to be submitted for stockholder approval; or (ii) to adopt, amend, or repeal any By-Law of the Corporation.

(b) Other Committees. The Board of Directors may, by resolution passed by a majority of a quorum of the Board, from time to time appoint such other committees as may be permitted by law. Such other committees appointed by the Board of Directors shall have such powers and perform such duties as may be prescribed by the resolution or resolutions creating such committee, but in no event shall any such committee have the powers denied to the Executive Committee in these By-Laws.

(c) Term. The members of all committees of the Board of Directors shall serve a term coexistent with that of the Board of Directors which shall have appointed such committee. The Board, subject to the provisions of subsections (a) or (b) of this Section 11, may at any time increase or decrease the number of members of a committee or terminate the existence of a committee; provided, that no committee shall consist of less than one member. The membership of a committee member shall terminate on the date of his death or voluntary resignation, but the Board may at any time for any reason remove any individual

committee member and the Board may fill any committee vacancy created by death, resignation, removal or increase in the number of members of the committee. The Board of Directors may designate one or more directors as alternate members of any committee, who may replace any absent or disqualified member at any meeting of the committee, and, in addition, in the absence or disqualification of any member of a committee, the member or members thereof present at any meeting and not disqualified from voting, whether or not he or they constitute a quorum, may unanimously appoint another member of the Board of Directors to act at the meeting in the place of any such absent or disqualified member.

(d) Meetings. Unless the Board of Directors shall otherwise provide, regular meetings of the Executive Committee or any other committee appointed pursuant to this Section 11 shall be held at such times and places as are determined by the Board of Directors, or by any such committee, and when notice thereof has been given to each member of such committee, no further notice of such regular meetings need be given thereafter; special meetings of any such committee may be held at the principal office of the Corporation required to be maintained pursuant to Section 2 of ARTICLE I hereof; or at any place which has been designated from time to time by resolution of such committee or by written consent of all members thereof, and may be called by any director who is a member of such committee, upon written notice to the members of such committee of the time and place of such special meeting given in the manner provided for the giving of written notice to members of the Board of Directors of the time and place of special meetings of the Board of Directors. Notice of any special meeting of any committee may be waived in writing at any time after the meeting and will be waived by any director by attendance thereat. A majority of the authorized number of members of any such committee shall constitute a quorum for the transaction of business, and the act of a majority of those present at any meeting at which a quorum is present shall be the act of such committee.

SECTION 12. TELEPHONE MEETINGS. The Board of Directors or any committee thereof may participate in a meeting by means of a conference telephone or similar communications equipment if all members of the Board or of such committee, as the case may be, participating in the meeting can hear each other at the same time. Participation in a meeting by these means shall constitute presence in person at the meeting.

SECTION 13. COMPENSATION. The directors may be paid their expenses, if any, of attendance at each meeting of the Board of Directors and may be paid a fixed sum for attendance at each meeting of the Board of Directors and/or a stated salary as director. No such payment shall preclude any director from serving the Corporation in any other capacity and receiving compensation therefor. Members of special or standing committees may be allowed like compensation for attending committee meetings.

SECTION 14. INTERESTED DIRECTORS. No contract or transaction between the Corporation and one or more of its directors or officers, or between the Corporation and any other corporation, partnership, association, or other organization in which one or more of its directors or officers are directors or officers, or have a financial interest, shall be void or voidable solely for this reason, or solely because the director or officer is present at or participates in the meeting of the Board of Directors or committee thereof which authorizes the contract or transaction, or solely because his or their votes are counted for such purpose if (i) the material facts as to his or their relationship or interest and as to the contract or transaction are disclosed or are known to the Board of Directors or committee, and the Board of Directors or committee in good faith authorizes the contract or transaction by the affirmative votes of a majority of the disinterested directors, even though the disinterested directors be less than a quorum; or (ii) the material facts as to his or their relationship or interest and as to the contract or transaction are disclosed or are known to the stockholders entitled to vote thereon, and the contract or transaction is specifically approved in good faith by vote of the stockholders; or (iii) the contract or transaction is fair as to the Corporation as of the time it is authorized, approved or ratified, by the Board of Directors, a committee thereof or the stockholders. Common or interested directors may be counted in determining the presence of a quorum at a meeting of the Board of Directors or of a committee which authorizes the contract or transaction.

SECTION 15. DIRECTORS ELECTED BY SPECIAL CLASS OR SERIES. To the extent that any holders of any class or series of stock other than Common Stock issued by the Corporation shall have the separate right, voting as a class or series, to elect directors, the directors elected by such class or series shall be deemed to constitute an additional class of directors and shall have a term of office for one year or such other period as may be designated by the provisions of such class or series providing such separate voting right to the holders of such class or series of stock, and any such class of directors shall be in addition to the classes referred to in Section 2 of this ARTICLE III. Any directors so elected shall be subject to removal in such manner as may be provided by law or by the Certificate of Incorporation of this Corporation. The provisions of Sections 2 and 4 of this ARTICLE III do not apply to directors governed by this Section 15.

ARTICLE IV

OFFICERS

SECTION 1. DESIGNATION OF OFFICERS. The officers of the Corporation, who shall be chosen by the Board of Directors at its first meeting after each annual meeting of stockholders, shall be a Chairman of the Board, a President, one or more Vice Presidents, a Treasurer, a Secretary and a Controller. The Board of Directors from time to time may choose such other officers as it shall deem appropriate. Any one person may hold any number of offices of the Corporation at any one time unless specifically prohibited therefrom by law. The Chairman of the Board and the President shall be chosen from among the directors; the other officers need not be directors.

SECTION 2. TERM OF OFFICE; RESIGNATION; REMOVAL. The term of office of each officer shall be until the first meeting of the Board of Directors following the next annual meeting of stockholders and until his successor is elected and shall have qualified, or until his death, resignation or removal, whichever is sooner. Any officer may resign at any time by giving written notice to the Board of Directors or to the Secretary. Such resignation shall take effect at the time specified therein and, unless otherwise specified therein, the acceptance of such resignation shall not be necessary to make it effective. Any officer may be removed at any time either with or without cause by the Board of Directors. Notwithstanding anything in these By-Laws to the contrary, for a period of one year following January 12, 1999, the requisite vote or approval of the Board of Directors necessary to terminate or replace, or fill a vacancy in respect of, Charles W. McCall as Chairman of the Board or Mark A. Pulido as President and Chief Executive Officer shall be no less than seventy-five percent (75%) of the members of the Board of Directors.

SECTION 3. VACANCIES. A vacancy in any office because of death, resignation, removal, disqualification or any other cause, may be filled for the unexpired portion of the term by the Board of Directors.

SECTION 4. AUTHORITY OF OFFICERS. Subject to the power of the Board of Directors in its discretion to change and redefine the duties of the officers of the Corporation by resolution in such manner as it may from time to time determine, the duties of the officers of the Corporation shall be as follows:

(a) Chairman of the Board. The Chairman of the Board shall preside at meetings of the stockholders and the Board of Directors. Subject to the direction of the Board of Directors, he shall generally manage the affairs of the Board and perform such other duties as are assigned by the Board.

(b) President. The President shall be the Chief Executive Officer of the Corporation, and shall execute all the powers and perform all the duties usual to such office. Subject to the direction of the Board of Directors, he shall have the responsibility for the general management of the affairs of the Corporation. The President shall perform such other duties as may be prescribed or assigned to him from time to time by the Board of Directors.

(c) Other Officers. The other officers of the Corporation shall have such powers and shall perform such duties as generally pertain to their respective offices, as well as such powers and duties as the Board of Directors, the Executive Committee or the Chief Executive Officer may prescribe.

SECTION 5. DIVISIONAL TITLES. Any one of the Chief Executive Officer, President, or Vice President Human Resources and Administration (each one an "Appointing Person"), may from time to time confer upon any employee of a division of the Corporation the title of President, Vice President, Treasurer or Secretary of such division or any other divisional title or titles deemed appropriate. Any such titles so conferred may be discontinued and withdrawn at any time by any one Appointing Person. Any employee of a division designated by such a divisional title shall have the powers and duties with respect to such division as shall be prescribed by the Appointing Person. The conferring, withdrawal or discontinuance of divisional titles shall be in writing and shall be filed with the Secretary of the Corporation.

SECTION 6. SALARIES. The salaries and other compensation of the principal officers of the Corporation shall be fixed from time to time by the Board of Directors.

ARTICLE V

EXECUTION OF CORPORATE INSTRUMENTS AND VOTING OF SECURITIES OWNED BY THE CORPORATION

SECTION 1. EXECUTION OF INSTRUMENTS. The Board of Directors may in its discretion determine the method and designate the signatory officer or officers or other person or persons, to execute any corporate instrument or document, or to sign the corporate name without limitation, except where otherwise provided by law, and such execution or signature shall be binding upon the Corporation. All checks and drafts drawn on banks or other depositories on funds to the credit of the Corporation or in special accounts of the Corporation, shall be signed by such person or persons as the Treasurer or such other person designated by the Board of Directors for that purpose shall authorize so to do.

SECTION 2. VOTING OF SECURITIES OWNED BY THE CORPORATION. All stock and other securities of other corporations and business entities owned or held by the Corporation for itself, or for other parties in any capacity, shall be voted, and all proxies with respect thereto shall be executed, by the person authorized to do so by resolution of the Board of Directors.

ARTICLE VI

SHARES OF STOCK AND OTHER SECURITIES

SECTION 1. FORM AND EXECUTION OF CERTIFICATES. Certificates for the shares of stock of the Corporation shall be in such form as is consistent with the Certificate of Incorporation and applicable law. Every holder of stock in the Corporation shall be entitled to have a certificate signed by, or in the name of the Corporation by, the Chairman of the Board (if there be such an officer appointed), or by the President or any Vice President and by the Treasurer or Assistant Treasurer or the Secretary or Assistant Secretary, certifying the number of shares owned by him in the Corporation. Any or all of the signatures on the certificate may be a facsimile. In case any officer, transfer agent, or registrar who has signed or whose facsimile signature has been placed upon a certificate shall have ceased to be such officer, transfer agent, or registrar before such certificate is issued, it may be issued with the same effect as if he were such officer, transfer agent, or registrar at the date of issue. If the Corporation shall be authorized to issue more than one class of stock or more than one series of any class, the powers, designations, preferences and relative, participating, optional or other special rights of each class of stock or series thereof and the qualifications, limitations or restrictions of such preferences and/or rights shall be set forth in full or summarized on the face or back of the certificate which the Corporation shall issue to represent such class or series of stock, provided that, except as otherwise provided in Section 202 of the General Corporation Law of Delaware, in lieu of the foregoing requirements, there may be set forth on the face or back of the certificate which the Corporation shall issue to represent such class or series of stock, a statement that the Corporation will furnish without charge to each stockholder who so requests the powers, designations, preferences and relative, participating, optional or other special rights of each class of stock or series thereof and the qualifications, limitations or restrictions of such preferences and/or rights.

SECTION 2. LOST CERTIFICATES. The Board of Directors may direct a new certificate or certificates to be issued in place of any certificate or certificates theretofore issued by the Corporation alleged to have been lost or destroyed, upon the making of an affidavit of that fact by the person claiming the certificate of stock to be lost or destroyed. When authorizing such issue of a new certificate or certificates, the Board of Directors may, in its discretion and as a condition precedent to the issuance thereof, require the owner of such lost or destroyed certificate or certificates, or his legal representative, to indemnify the Corporation in such manner as it shall require and/or to give the Corporation a surety bond in such form and amount as it may direct as indemnity against any claim that may be made against the Corporation with respect to the certificate alleged to have been lost or destroyed.

SECTION 3. TRANSFERS. Transfers of record of shares of stock of the Corporation shall be made only upon its books by the holders thereof, in person or by attorney duly authorized, and upon the surrender of a certificate or certificates for a like number of shares, properly endorsed.

SECTION 4. FIXING RECORD DATES. In order that the Corporation may determine the stockholders entitled to notice of or to vote at any meeting of stockholders or any adjournment thereof, or to express consent to corporate action in writing without a meeting, or entitled to receive payment of any dividend or other distribution or allotment of any rights, or entitled to exercise any rights in respect of any change,

conversion or exchange of stock or for the purpose of any other lawful action, the Board of Directors may fix, in advance, a record date, which shall not be more than 60 nor less than 10 days before the date of such meeting, nor more than 60 days prior to any other action. If no record date is fixed: (1) the record date for determining stockholders entitled to notice of or to vote at a meeting of stockholders shall be at the close of business on the day next preceding the day on which notice is given, or, if notice is waived, at the close of business on the day next preceding the day on which the meeting is held; (2) the record date for determining stockholders entitled to express consent to corporate action in writing without a meeting, when no prior action by the Board of Directors is necessary, shall be the day on which the first written consent is expressed; (3) the record date for determining stockholders for any other purpose shall be at the close of business on the day on which the Board of Directors adopts the resolution relating thereto. A determination of stockholders of record entitled to notice of or to vote at a meeting of stockholders shall apply to any adjournment of the meeting; provided, however, that the Board of Directors may fix a new record date for the adjourned meeting.

SECTION 5. REGISTERED STOCKHOLDERS. The Corporation shall be entitled to recognize the exclusive right of a person registered on its books as the owner of shares to receive dividends, and to vote as such owner, and shall not be bound to recognize any equitable or other claim to or interest in such share or shares on the part of any other person, whether or not it shall have express or other notice thereof, except as otherwise provided by the laws of Delaware.

SECTION 6. REGULATIONS. The Board of Directors may make such rules and regulations as it may deem expedient concerning the issue, transfer and registration of certificates for shares of the stock and other securities of the Corporation, and may appoint transfer agents and registrars of any class of stock or other securities of the Corporation.

SECTION 7. OTHER SECURITIES OF THE CORPORATION. All bonds, debentures and other corporate securities of the Corporation, other than stock certificates, may be signed by the Chairman of the Board (if there be such an officer appointed), or the President or any Vice President or such other person as may be authorized by the Board of Directors and the corporate seal impressed thereon or a facsimile of such seal imprinted thereon and attested by the signature of the Secretary or an Assistant Secretary, or the Treasurer or an Assistant Treasurer; provided, however, that where any such bond, debenture or other corporate security shall be authenticated by the manual signature of a trustee under an indenture pursuant to which such bond, debenture or other corporate security shall be issued, the signature of the persons signing and attesting the corporate seal on such bond, debenture or other corporate security may be the imprinted facsimile of the signatures of such persons. Interest coupons appertaining to any such bond, debenture or other corporate security, authenticated by a trustee as aforesaid, shall be signed by the Treasurer or an Assistant Treasurer of the Corporation, or such other person as may be authorized by the Board of Directors, or bear imprinted thereon the facsimile signature of such person. In case any officer who shall have signed or attested any bond, debenture or other corporate security or whose facsimile signature shall appear thereon shall have ceased to be such officer before the bond, debenture or other corporate security so signed or attested shall have been delivered, such bond, debenture or other corporate security nevertheless may be adopted by the Corporation and issued and delivered as though the person who signed the same or whose facsimile signature shall have been used thereon had not ceased to be such officer of the Corporation.

ARTICLE VII

CORPORATE SEAL

The corporate seal shall consist of a die bearing the name of the Corporation and the state and date of its incorporation. Said seal may be used by causing it or a facsimile thereof to be impressed or affixed or reproduced or otherwise.

ARTICLE VIII

INDEMNIFICATION OF OFFICERS, DIRECTORS, EMPLOYEES AND AGENTS

SECTION 1. POWER TO INDEMNIFY IN ACTIONS, SUITS OR PROCEEDINGS OTHER THAN THOSE BY OR IN THE RIGHT OF THE CORPORATION. Subject to Section 3 of this ARTICLE VIII, the Corporation shall indemnify any person who was or is a party or is threatened to be made a party to any threatened, pending or completed action, suit or proceeding, whether civil, criminal, administrative or investigative (other than an action by or in the right of the Corporation) by reason of the fact that he is or was a director or officer of the Corporation, or is or was a director or officer of the Corporation serving at the request of the Corporation as a director or officer, employee or agent of another corporation, partnership, joint venture, trust, employee benefit plan or other enterprise, against expenses (including attorneys’ fees), judgments, fines and amounts paid in settlement actually and reasonably incurred by him in connection with such action, suit or proceeding if he acted in good faith and in a manner he reasonably believed to be in or not opposed to the best interests of the Corporation, and, with respect to any criminal action or proceeding, had no reasonable cause to believe his conduct was unlawful. The termination of any action, suit or proceeding by judgment, order, settlement, conviction, or upon a plea of nolo contendere or its equivalent, shall not, of itself, create a presumption that the person did not act in good faith and in a manner which he reasonably believed to be in or not opposed to the best interests of the Corporation, and, with respect to any criminal action or proceeding, had reasonable cause to believe that his conduct was unlawful. The right to indemnification conferred in this ARTICLE VIII shall be a contract right.

SECTION 2. POWER TO INDEMNIFY IN ACTIONS, SUITS OR PROCEEDINGS BY OR IN THE RIGHT OF THE CORPORATION. Subject to Section 3 of this ARTICLE VIII, the Corporation shall indemnify any person who was or is a party or is threatened to be made a party to any threatened, pending or completed action or suit by or in the right of the Corporation to procure a judgment in its favor by reason of the fact that he is or was a director or officer of the Corporation, or is or was a director or officer of the Corporation serving at the request of the Corporation as a director, officer, employee or agent of another corporation, partnership, joint venture, trust, employee benefit plan or other enterprise against expenses (including attorneys’ fees) actually and reasonably incurred by him in connection with the defense or settlement of such action or suit if he acted in good faith and in a manner he reasonably believed to be in or not opposed to the best interests of the Corporation; except that no indemnification shall be made in respect of any claim, issue or matter as to which such person shall have been adjudged to be liable to the Corporation unless and only to the extent that the Court of Chancery or the court in which such action or suit was brought shall determine upon application that, despite the adjudication of liability but in view of all the circumstances of the case, such person is fairly and reasonably entitled to indemnity for such expenses which the Court of Chancery or such other court shall deem proper.

SECTION 3. AUTHORIZATION OF INDEMNIFICATION. Any indemnification under this ARTICLE VIII (unless ordered by a court) shall be made by the Corporation only as authorized in the specific case upon a determination that indemnification of the director or officer is proper in the circumstances because he has met the applicable standard of conduct set forth in Section 1 or Section 2 of this ARTICLE VIII, as the case may be. Such determination shall be made (i) by the Board of Directors by a majority vote of a quorum consisting of directors who were not parties to such action, suit or proceeding, or (ii) if such a quorum is not obtainable, or, even if obtainable a quorum of disinterested directors so directs, by independent legal counsel in a written opinion, or (iii) by the stockholders. To the extent, however, that a director or officer of the Corporation has been successful on the merits or otherwise in defense of any action, suit or proceeding described above, or in defense of any claim, issue or matter therein, he shall be indemnified against expenses (including attorneys' fees) actually and reasonably incurred by him in connection therewith, without the necessity of authorization in the specific case.

SECTION 4. GOOD FAITH DEFINED. For purposes of any determination under Section 3 of this ARTICLE VIII, a person shall be deemed to have acted in good faith and in a manner he reasonably believed to be in or not opposed to the best interests of the Corporation, or, with respect to any criminal action or proceeding, to have had no reasonable cause to believe his conduct was unlawful, if his action is based on the records or books of account of the Corporation or another enterprise, or on information supplied to him by the officers of the Corporation or another enterprise in the course of their duties, or on the advice of legal counsel for the Corporation or another enterprise or on information or records given or reports made to the Corporation or another enterprise by an independent certified public accountant or by an appraiser or other expert selected with reasonable care by the Corporation or another enterprise. The term "another enterprise" as used in this Section 4 shall mean any other corporation or any partnership, joint venture, trust, employee benefit plan or other enterprise of which such person is or was serving at the request of the Corporation as a director, officer, employee or agent. The provisions of this Section 4 shall not be deemed to be exclusive or to limit in any way the circumstances in which a person may be deemed to have met the applicable standard of conduct set forth in Sections 1 or 2 of this ARTICLE VIII, as the case may be.

SECTION 5. INDEMNIFICATION BY A COURT. Notwithstanding any contrary determination in the specific case under Section 3 of this ARTICLE VIII, and notwithstanding the absence of any determination thereunder, any director or officer may apply to any court of competent jurisdiction in the State of Delaware for indemnification to the extent otherwise permissible under Sections 1 and 2 of this ARTICLE VIII. The basis of such indemnification by a court shall be a determination by such court that indemnification of the director or officer is proper in the circumstances because he has met the applicable standards of conduct set forth in Sections 1 or 2 of this ARTICLE VIII, as the case may be. Neither a contrary determination in the specific case under Section 3 of this ARTICLE VIII nor the absence of any determination thereunder shall be a defense to such application or create a presumption that the director or officer seeking indemnification has not met any applicable standard of conduct. Notice of any application for indemnification pursuant to this Section 5 shall be given to the Corporation promptly upon the filing of such application. If successful, in whole or in part, the director or officer seeking indemnification shall also be entitled to be paid the expense of prosecuting such application.

SECTION 6. EXPENSES PAYABLE IN ADVANCE. Expenses incurred by a director or officer in defending or investigating a threatened or pending action, suit or proceeding shall be paid by the Corporation in advance of the final disposition of such action, suit or proceeding upon receipt of an undertaking by or on behalf of such director or officer to repay such amount if it shall ultimately be determined that he is not entitled to be indemnified by the Corporation as authorized in this ARTICLE VIII.

SECTION 7. NONEXCLUSIVITY OF INDEMNIFICATION AND ADVANCEMENT OF EXPENSES. The indemnification and advancement of expenses provided by or granted pursuant to this ARTICLE VIII shall not be deemed exclusive of any other rights to which those seeking indemnification or advancement of expenses may be entitled under any By-Law, agreement, contract, vote of stockholders or disinterested directors or pursuant to the direction (howsoever embodied) of any court of competent jurisdiction or otherwise, both as to action in his official capacity and as to action in another capacity while holding such office, it being the policy of the Corporation that indemnification of the persons specified in Sections 1 and 2 of this ARTICLE VIII shall be made to the fullest extent permitted by law. The provisions of this ARTICLE VIII shall not be deemed to preclude the indemnification of any person who is not specified in Sections 1 or 2 of this ARTICLE VIII but whom the Corporation has the power or obligation to indemnify under the provisions of the General Corporation Law of the State of Delaware, or otherwise.

SECTION 8. INSURANCE. The Corporation may purchase and maintain insurance on behalf of any person who is or was a director or officer of the Corporation, or is or was a director or officer of the Corporation serving at the request of the Corporation as a director, officer, employee or agent of another corporation, partnership, joint venture, trust, employee benefit plan or other enterprise against any liability asserted against him and incurred by him in any such capacity, or arising out of his status as such, whether or not the Corporation would have the power or the obligation to indemnify him against such liability under the provisions of this ARTICLE VIII.

SECTION 9. CERTAIN DEFINITIONS. For purposes of this ARTICLE VIII, references to "the Corporation" shall include, in addition to the resulting corporation, any constituent corporation (including any constituent of a constituent) absorbed in a consolidation or merger which, if its separate existence had continued, would have had power and authority to indemnify its directors or officers, so that any person who is or was a director or officer of such constituent corporation, or is or was a director or officer of such constituent corporation serving at the request of such constituent corporation as a director, officer, employee or agent of another corporation, partnership, joint venture, trust, employee benefit plan or other enterprise, shall stand in the same position under the provisions of this ARTICLE VIII with respect to the resulting or surviving corporation as he would have with respect to such constituent corporation if its separate existence had continued. For purposes of this ARTICLE VIII, references to "fines" shall include any excise taxes assessed on a person with respect to an employee benefit plan; and references to "serving at the request of the Corporation" shall include any service as a director, officer, employee or agent of the Corporation which imposes duties on, or involves services by, such director or officer with respect to an employee benefit plan, its participants or beneficiaries; and a person who acted in good faith and in a manner he reasonably believed to be in the interest of the participants and beneficiaries of an employee benefit plan shall be deemed to have acted in a manner "not opposed to the best interests of the Corporation" as referred to in this ARTICLE VIII.

SECTION 10. SURVIVAL OF INDEMNIFICATION AND ADVANCEMENT OF EXPENSES. The indemnification and advancement of expenses provided by, or granted pursuant to, this ARTICLE VIII shall, unless otherwise provided when authorized or ratified, continue as to a person who has ceased to be a director or officer and shall inure to the benefit of the heirs, executors and administrators of such a person.

SECTION 11. LIMITATION ON INDEMNIFICATION. Notwithstanding anything contained in this ARTICLE VIII to the contrary, except for proceedings to enforce rights to indemnification (which shall be governed by Section 5 hereof), the Corporation shall not be obligated to indemnify any director or officer in connection with a proceeding (or part thereof) initiated by such person unless such proceeding (or part thereof) was authorized or consented to by the Board of Directors of the Corporation.

SECTION 12. INDEMNIFICATION OF EMPLOYEES AND AGENTS. The Corporation may, to the extent authorized from time to time by the Board of Directors, provide rights to indemnification and to the advancement of expenses to employees and agents of the Corporation similar to those conferred in this ARTICLE VIII to directors and officers of the Corporation.

SECTION 13. EFFECT OF AMENDMENT. Any amendment, repeal or modification of this ARTICLE VIII shall not (a) adversely affect any right or protection of any director or officer existing at the time of such amendment, repeal or modification, or (b) apply to the indemnification of any such person for liability, expense, or loss stemming from actions or omissions occurring prior to such amendment, repeal, or modification.

SECTION 14. AUTHORITY TO ENTER INTO INDEMNIFICATION AGREEMENTS. The Corporation may enter into indemnification agreements with the directors and officers of the Corporation, including, without limitation, any indemnification agreement in substantially the form set forth in Exhibit 1 attached to these By-Laws.

ARTICLE IX

NOTICES

Whenever, under any provisions of these By-Laws, notice is required to be given to any stockholder, the same shall be given in writing, timely and duly deposited in the United States Mail, postage prepaid, and addressed to his last known post office address as shown by the stock record of the Corporation or its transfer agent. Any notice required to be given to any director may be given by any of the methods stated in Section 8 of ARTICLE III hereof, except that such notice other than one which is delivered personally, shall be sent to such address or (in the case of facsimile telecommunication) facsimile telephone number as such director shall have disclosed in writing to the Secretary of the Corporation, or, in the absence of such filing, to the last known post office address of such director. If no address of a stockholder or director be known, such notice may be sent to the office of the Corporation required to be maintained pursuant to Section 2 of ARTICLE I hereof. An affidavit of mailing, executed by a duly authorized and competent employee of the Corporation or its transfer agent appointed with respect to the class of stock affected, specifying the name and address or the names and addresses of the stockholder or stockholders, director or directors, to whom any such notice or notices was or were given, and the time and method of giving the same, shall be conclusive evidence of the statements therein contained. All notices given by mail, as above provided, shall be deemed to have been given as at the time of mailing and all notices given by telegram or other means of electronic transmission shall be deemed to have been given as at the sending time recorded by the telegraph company or other electronic transmission equipment operator transmitting the same. It shall not be necessary that the same method of giving be employed in respect of all directors, but one permissible method may be employed in respect of any one or more, and any other permissible method or methods may be employed in respect of any other or others. The period or limitation of time within which any stockholder may exercise any option or right, or enjoy any privilege or benefit, or be required to act, or within which any director may exercise any power or right, or enjoy any privilege, pursuant to any notice sent him in the manner above provided, shall not be

affected or extended in any manner by the failure of such a stockholder or such director to receive such notice. Whenever any notice is required to be given under the provisions of this statutes or of the Certificate of Incorporation, or of these By-Laws, a waiver thereof in writing signed by the person or persons entitled to said notice, whether before or after the time stated therein, shall be deemed equivalent thereto. Whenever notice is required to be given, under any provision of law or of the Certificate of Incorporation or By-Laws of the Corporation, to any person with whom communication is unlawful, the giving of such notice to such person shall not be required and there shall be no duty to apply to any governmental authority or agency for a license or permit to give such notice to such person. Any action or meeting which shall be taken or held without notice to any such person with whom communication is unlawful shall have the same force and effect as if such notice had been duly given. In the event that the action taken by the Corporation is such as to require the filing of a certificate under any provision of the Delaware General Corporation Law, the certificate shall state, if such is the fact and if notice is required, that notice was given to all persons entitled to receive notice except such persons with whom communication is unlawful.

ARTICLE X

AMENDMENTS

The Board of Directors is expressly authorized to adopt, alter and repeal the By-Laws of the Corporation in whole or in part at any regular or special meeting of the Board of Directors, by vote of a majority of the entire Board of Directors. Except where ARTICLE V of the Certificate of Incorporation of the Corporation requires a higher vote, the By-Laws may also be adopted, altered or repealed in whole or in part at any annual or special meeting of the stockholders by the affirmative vote of three fourths of the shares of the Corporation outstanding and entitled to vote thereon.

CERTIFICATE OF SECRETARY

The undersigned, Senior Vice President, General Counsel and Secretary of McKesson HBOC, Inc., a Delaware corporation, hereby certifies that the foregoing is a full, true and correct copy of the By-Laws of said Corporation, with all amendments to date of this Certificate.

WITNESS the signature of the undersigned and the seal of the Corporation this 31st day of March, 2001.

/s/ Ivan D. Meyerson

Ivan D. Meyerson
Senior Vice President, General Counsel and Secretary

INDEMNIFICATION AGREEMENT

AGREEMENT, effective as of ______, 19__, between McKesson HBOC, Inc., a Delaware corporation (the "Company"), and ______________ (the "Indemnitee").

WHEREAS, it is essential to the Company to retain and attract as directors and officers the most capable persons available.

WHEREAS, Indemnitee is a director/officer of the Company;

WHEREAS, both the Company and Indemnitee recognize the increased risk of litigation and other claims being asserted against directors of public companies in today's environment;

WHEREAS, the Certificate of Incorporation and the By-laws of the Company require the Company to indemnify and advance expenses to its directors to the fullest extent permitted by law and the Indemnitee has been serving and continues to serve as a director or officer of the Company in part in reliance on such Certificate of Incorporation and By-laws;

WHEREAS, in recognition of Indemnitee's need for substantial protection against personal liability in order to enhance Indemnitee's continued service to the Company in an effective manner and Indemnitee's reliance on the aforesaid Certificate of Incorporation and By-laws, and in part to provide Indemnitee with specific contractual assurance that the protection promised by such Certificate of Incorporation and By-laws will be available to Indemnitee (regardless of, among other things, any amendment to or revocation of such Certificate of Incorporation and By-laws or any change in the composition of the Company's Board of Directors or acquisition transaction relating to the Company), and in order to induce Indemnitee to continue to provide services to the Company as a director or officer thereof, the Company wishes to provide in this Agreement for the indemnification of and the advancing of expenses to Indemnitee to the fullest extent (whether partial or complete) permitted by law and as set forth in this Agreement, and, to the extent insurance is maintained, for the continued coverage of Indemnitee under the Company's directors' and officers' liability insurance policies.

NOW, THEREFORE, in consideration of the premises and of Indemnitee continuing to serve the Company directly or, at its request, with another enterprise, and intending to be legally bound hereby, the parties hereto agree as follows:

1. CERTAIN DEFINITIONS.

(a) Change in Control: shall be deemed to have occurred if (i) any "person" (as such term is used in Sections 13(d) and 14(d) of the Securities Exchange Act of 1934, as amended), other than a trustee or other fiduciary holding securities under an employee benefit plan of the Company or a corporation owned directly or indirectly by the stockholders of the Company in substantially the same proportions as their ownership of stock of the Company, is or becomes the "beneficial owner" (as defined in Rule 13d-3 under said Act), directly or indirectly, of securities of the Company representing 20% or more of the total voting power represented by the Company's then outstanding Voting Securities, or (ii) during any period of two consecutive years, individuals who at the beginning of such period constitute the Board of Directors of the Company and any new director whose election by the Board of Directors or nomination for election by the Company's stockholders was approved by a vote of at least two-thirds (2/3) of the directors then still in office who either were directors at the beginning of the period or whose election or nomination for election

was previously so approved, cease for any reason to constitute a majority thereof, or (iii) the stockholders of the Company approve a merger or consolidation of the Company with any other corporation, other than a merger or consolidation which would result in the Voting Securities of the Company outstanding immediately prior thereto continuing to represent (either by remaining outstanding or by being converted into Voting Securities of the surviving entity) at least 80% of the total voting power represented by the Voting Securities of the Company or such surviving entity outstanding immediately after such merger or consolidation, or the stockholders of the Company approve a plan of complete liquidation of the Company or an agreement for the sale or disposition by the Company (in one transaction or a series of transactions) of all or substantially all of the Company's assets.

(b) Expense: include attorneys' fees and all other costs, expenses and obligations paid or incurred in connection with investigating, defending, being a witness in or participating in (including on appeal), or preparing to defend, be a witness in or participate in any Proceeding relating to any Indemnifiable Event.

(c) Indemnifiable Event: any event or occurrence that takes place either prior to or after the execution of this Agreement, related to the fact that Indemnitee is or was a director or an officer of the Company, or while a director or officer is or was serving at the request of the Company as a director, officer, employee, trustee, agent or fiduciary of another corporation, partnership, joint venture, employee benefit plan, trust or other enterprise, or by reason of anything done or not done by Indemnitee in any such capacity.

(d) Potential Change in Control: shall be deemed to have occurred if (i) the Company enters into an agreement or arrangement, the consummation of which would result in the occurrence of Change in Control; (ii) any person (including the Company) publicly announces an intention to take or to consider taking actions which if consummated would constitute Change in Control; (iii) any person, other than a trustee or other fiduciary holding securities under an employee benefit plan of the Company acting in such capacity or a corporation owned, directly or indirectly, by the stockholders of the Company in substantially the same proportions as their ownership of stock of the Company, who is or becomes the beneficial owner, directly or indirectly, of securities of the Company representing 10% or more of the combined voting power of the Company's then outstanding Voting Securities, increases his beneficial ownership of such securities by 5% or more over the percentage so owned by such person on the date hereof; or (iv) the Board adopts a resolution to the effect that, for purposes of this Agreement, a Potential Change in Control has occurred.

(e) Proceeding: any threatened, pending or completed action, suit or proceeding, or any inquiry, hearing or investigation, whether conducted by the Company or any other party, that Indemnitee in good faith believes might lead to the institution of any such action, suit or proceeding, whether civil, criminal, administrative, investigative or other.

(f) Reviewing Party: any appropriate person or body consisting of a member or members of the Company's Board of Directors or any other person or body appointed by the Board (including the special, independent counsel referred to in Section 3) who is not a party to the particular Proceeding with respect to which Indemnitee is seeking indemnification.

(g) Voting Securities: any securities of the Company which vote generally in the election of directors.

2. AGREEMENT TO INDEMNIFY.

(a) In the event Indemnitee was, is or becomes a party to or witness or other participant in, or is threatened to be made a party to or witness or other participant in, a Proceeding by reason of (or arising in part out of) an Indemnifiable Event, the Company shall indemnify Indemnitee to the fullest extent permitted by law, as soon as practicable but in any event no later than thirty days after written demand is presented to the Company, against any and all Expenses, judgments, fines, penalties and amounts paid in settlement (including all interest, assessments and other charges paid or payable in connection with or in respect of such Expenses, judgments, fines, penalties or amounts paid in settlement) of such Proceeding and any federal, state, local or foreign taxes imposed on the Indemnitee as a result of the actual or deemed receipt of any payments under this Agreement (including the creation of the Trust). Notwithstanding anything in this Agreement to the contrary and except as provided in Section 5, prior to a Change in Control Indemnitee shall not be entitled to indemnification pursuant to this Agreement in connection with any Proceeding initiated by Indemnitee against the Company or any director or officer of the Company unless the Company has joined in or consented to the initiation of such Proceeding. If so requested by Indemnitee, the Company shall advance (within ten business days of such request) any and all Expenses to Indemnitee (an "Expense Advance").

(b) Notwithstanding the foregoing, (i) the obligations of the Company under Section 2(a) shall be subject to the condition that the Reviewing Party shall not have determined (in a written opinion, in any case in which the special, independent counsel referred to in Section 3 hereof is involved) that Indemnitee would not be permitted to be indemnified under applicable law, and (ii) the obligation of the Company to make an Expense Advance pursuant to Section 2(a) shall be subject to the condition that, if, when and to the extent that the Reviewing Party determines that Indemnitee would not be permitted to be so indemnified under applicable law, the Company shall be entitled to be reimbursed by Indemnitee (who hereby agrees to reimburse the Company) for all such amounts theretofore paid; provided, however, that if Indemnitee has commenced legal proceedings in a court of competent jurisdiction to secure a determination that Indemnitee should be indemnified under applicable law, any determination made by the Reviewing Party that Indemnitee would not be permitted to be indemnified under applicable law shall not be binding and Indemnitee shall not be required to reimburse the Company for any Expense Advance until a final judicial determination is made with respect thereto (as to which all rights of appeal therefrom have been exhausted or lapsed). Indemnitee’s obligation to reimburse the Company for Expense Advances shall be unsecured and no interest shall be charged thereon. If there has not been a Change in Control the Reviewing Party shall be selected by the Board of Directors, and if there has been such a Change in Control (other than a Change in Control which has been approved by a majority of the Company’s Board of Directors who were directors immediately prior to such Change in Control), the Reviewing Party shall be the special, independent counsel referred to in Section 3 hereof. If there has been no determination by the Reviewing Party or if the Reviewing Party determines that Indemnitee substantively would not be permitted to be indemnified in whole or in part under applicable law, Indemnitee shall have the right to commence litigation in any court in the States of California or Delaware having subject matter jurisdiction thereof and in which venue is proper seeking an initial determination by the court or challenging any such determination by the Reviewing Party or any aspect thereof, and the Company hereby consents to service of process and to appear in any such proceeding. Any determination by the Reviewing Party otherwise shall be conclusive and binding on the Company and Indemnitee.

3. CHANGE IN CONTROL. The Company agrees that if there is a Change in Control of the Company (other than a Change in Control which has been approved by a majority of the Company’s Board of Directors who were directors immediately prior to such Change in Control) then with respect to all matters thereafter arising concerning the rights of Indemnitee to indemnity payments and Expense Advances under this Agreement or any other agreement or under applicable law or the Company’s Certificate of Incorporation

or By-Laws now or hereafter in effect relating to indemnification for Indemnifiable Events, the Company shall seek legal advice only from special, independent counsel selected by Indemnitee and approved by the Company (which approval shall not be unreasonably withheld), and who has not otherwise performed services for the Company or the Indemnitee (other than in connection with such matters) within the last five years. Such independent counsel shall not include any person who, under the applicable standards of professional conduct then prevailing, would have a conflict of interest in representing either the Company or Indemnitee in an action to determine Indemnitee's rights under this Agreement. Such counsel, among other things, shall render its written opinion to the Company and Indemnitee as to whether and to what extent the Indemnitee would be permitted to be indemnified under applicable law. The Company agrees to pay the reasonable fees of the special, independent counsel referred to above and to indemnify fully such counsel against any and all expenses (including attorneys' fees), claims, liabilities and damages arising out of or relating to this Agreement or the engagement of special, independent counsel pursuant hereto.

4. ESTABLISHMENT OF TRUST. In the event of a Potential Change in Control, the Company shall, upon written request by Indemnitee, create a Trust for the benefit of the Indemnitee and from time to time upon written request of Indemnitee shall fund such Trust in an amount sufficient to satisfy any and all Expenses reasonably anticipated at the time of each such request to be incurred in connection with investigating, preparing for and defending any Proceeding relating to an Indemnifiable event, and any and all judgments, fines, penalties and settlement amounts of any and all Proceedings relating to an Indemnifiable Event from time to time actually paid or claimed, reasonably anticipated or proposed to be paid. The amount or amounts to be deposited in the Trust pursuant to the foregoing funding obligation shall be determined by the Reviewing Party, in any case in which the special, independent counsel referred to above is involved. The terms of the Trust shall provide that upon a Change in Control (i) the Trust shall not be revoked or the principal thereof invaded, without the written consent of the Indemnitee, (ii) the Trustee shall advance, within ten business days of a request by the Indemnitee, any and all Expenses to the Indemnitee (and the Indemnitee hereby agrees to reimburse the Trust under the circumstances under which the Indemnitee would be required to reimburse the Company under Section 2(b) of this Agreement), (iii) the Trust shall continue to be funded by the Company in accordance with the funding obligation set forth above, (iv) the Trustee shall promptly pay to the Indemnitee all amounts for which the Indemnitee shall be entitled to indemnification pursuant to this Agreement or otherwise, and (v) all unexpended funds in such Trust shall revert to the Company upon a final determination by the Reviewing Party or a court of competent jurisdiction, as the case may be, that the Indemnitee has been fully indemnified under the terms of this Agreement. The Trustee shall be chosen by the Indemnitee. Nothing in this Section 4 shall relieve the Company of any of its obligations under this Agreement. All income earned on the assets held in the Trust shall be reported as income by the Company for federal, state, local and foreign tax purposes.

5. INDEMNIFICATION FOR EXPENSES INCURRED IN ENFORCING THIS AGREEMENT. The Company shall indemnify Indemnitee against any and all expenses (including attorneys' fees), and, if requested by Indemnitee, shall (within ten business days of such request) advance such expenses to Indemnitee, which are incurred by Indemnitee in connection with any claim asserted against or action brought by Indemnitee for (i) indemnification or advance payment of Expenses by the Company under this Agreement or any other agreement or under applicable law or the Company's Certificate of Incorporation or By-laws now or hereafter in effect relating to indemnification for Indemnifiable Events and/or (ii) recovery under any directors' and officers' liability insurance policies maintained by the Company, regardless of whether Indemnitee ultimately is determined to be entitled to such indemnification, advance expense payment or insurance recovery, as the case may be.

6. PARTIAL INDEMNITY. If Indemnitee is entitled under any provision of this Agreement to indemnification by the Company for some or a portion of the Expenses, judgments, fines, penalties and amounts paid in settlement of a Proceeding but not, however, for all of the total amount thereof, the Company shall nevertheless indemnify Indemnitee for the portion thereof to which Indemnitee is entitled. Moreover, notwithstanding any other provision of this Agreement, to the extent that Indemnitee has been successful on the merits or otherwise in defense of any or all Proceedings relating in whole or in part to an Indemnifiable Event or in defense of any issue or matter therein, including dismissal without prejudice, Indemnitee shall be indemnified against all Expenses incurred in connection therewith.

7. DEFENSE TO INDEMNIFICATION, BURDEN OF PROOF AND PRESUMPTIONS. It shall be a defense to any action brought by the Indemnitee against the Company to enforce this Agreement (other than an action brought to enforce a claim for expenses incurred in defending a Proceeding in advance of its final disposition where the required undertaking has been tendered to the Company) that the Indemnitee has not met the standards of conduct that make it permissible under the Delaware General Corporation Law for the Company to indemnify the Indemnitee for the amount claimed. In connection with any determination by the Reviewing Party or otherwise as to whether the Indemnitee is entitled to be indemnified hereunder, the burden of proving such a defense shall be on the Company. Neither the failure of the Company (including its Board of Directors, independent legal counsel, or its stockholders) to have made a determination prior to the commencement of such action by the Indemnitee that indemnification of the claimant is proper under the circumstances because he or she has met the applicable standard of conduct set forth in the Delaware General Corporation Law, nor an actual determination by the Company (including its Board of Directors, independent legal counsel, or its stockholders) that the Indemnitee had not met such applicable standard of conduct, shall be a defense to the action or create a presumption that the Indemnitee has not met the applicable standard of conduct. For purposes of this Agreement, the termination of any claim, action, suit or proceeding, by judgment, order, settlement (whether with or without court approval) or conviction, or upon a plea of nolo contendere, or its equivalent, shall not create a presumption that Indemnitee did not meet any particular standard of conduct or have any particular belief or that a court has determined that indemnification is not permitted by applicable law.

8. NON-EXCLUSIVITY. The rights of the Indemnitee hereunder shall be in addition to any other rights Indemnitee may have under the Company’s Certificate of Incorporation or By-laws or the Delaware General Corporation Law or otherwise. To the extent that a change in the Delaware General Corporation Law (whether by statute or judicial decision) permits greater indemnification by agreement than would be afforded currently under the Company’s Certificate of Incorporation and By-laws and this Agreement, it is the intent of the parties hereto that Indemnitee shall enjoy by this Agreement the greater benefits so afforded by such change.

9. LIABILITY INSURANCE. To the extent the Company maintains an insurance policy or policies providing directors’ and officers’ liability insurance, Indemnitee shall be covered by such policy or policies, in accordance with its or their terms, to the maximum extent of the coverage available for any Company director or officer.

10. PERIOD OF LIMITATIONS. No legal action shall be brought and no cause of action shall be asserted by or on behalf of the Company or any affiliate of the Company against Indemnitee, Indemnitee’s spouse, heirs, executors or personal or legal representatives after the expiration of two years from the date of accrual of such cause of action, or such longer period as may be required by state law under the circumstances, and any claim or cause of action of the Company or its affiliate shall be extinguished and deemed released unless asserted by the timely filing of a legal action within such period; provided,

however, that if any shorter period of limitations is otherwise applicable to any such cause of action such shorter period shall govern.

11. AMENDMENT OF THIS AGREEMENT. No supplement, modification or amendment of this Agreement shall be binding unless executed in writing by both of the parties hereto. No waiver of any of the provisions of this Agreement shall be deemed or shall constitute a waiver of any other provisions hereof (whether or not similar) nor shall such waiver constitute a continuing waiver.

12. SUBROGATION. In the event of payment under this Agreement, the Company shall be subrogated to the extent of such payment to all of the rights of recovery of Indemnitee, who shall execute all papers required and shall do everything that may be necessary to secure such rights, including the execution of such documents necessary to enable the Company effectively to bring suit to enforce such rights.

13. NO DUPLICATION OF PAYMENTS. The Company shall not be liable under this Agreement to make any payment in connection with any claim made against Indemnitee to the extent Indemnitee has otherwise actually received payment (under any insurance policy, By-law or otherwise) of the amounts otherwise indemnifiable hereunder.

14. SETTLEMENT OF CLAIMS. The Company shall not be liable to indemnify Indemnitee under this Agreement for any amounts paid in settlement of any action or claim effected without the Company's written consent. The Company shall not settle any action or claim in any manner which would impose any penalty or limitation on Indemnitee without Indemnitee's written consent. Neither the Company nor the Indemnitee will unreasonably withhold their consent to any proposed settlement. The Company shall not be liable to indemnify the Indemnitee under this Agreement with regard to any judicial award if the Company was not given a reasonable and timely opportunity, at its expense, to participate in the defense of such action.

15. BINDING EFFECT. This Agreement shall be binding upon and inure to the benefit of and be enforceable by the parties hereto and their respective successors, assigns, including any direct or indirect successor by purchase, merger, consolidation or otherwise to all or substantially all of the business and/or assets of the Company, spouses, heirs, and personal and legal representatives. The Company shall require and cause any successor (whether direct or indirect by purchase, merger, consolidation or otherwise) to all, substantially all, or a substantial part, of the business and/or assets of the Company, by written agreement in form and substance satisfactory to the Indemnitee, expressly to assume and agree to perform this Agreement in the same manner and to the same extent that the Company would be required to perform if no such succession had taken place. This Agreement shall continue in effect regardless of whether Indemnitee continues to serve as a director or officer of the Company or of any other enterprise at the Company's request.

16. SEVERABILITY. The provisions of this Agreement shall be severable in the event that any of the provisions hereof (including any provision within a single section, paragraph or sentence) is held by a court of competent jurisdiction to be invalid, void or otherwise unenforceable, and the remaining provisions shall remain enforceable to the fullest extent permitted by law. Furthermore, to the fullest extent possible, the provisions of this Agreement (including, without limitation, each portion of this Agreement containing any provision held to be invalid, void or otherwise unenforceable, that is not itself invalid, void or unenforceable) shall be construed so as to give effect to the intent manifested by the provision held invalid, illegal or unenforceable.

17. GOVERNING LAW. This Agreement shall be governed by and construed and enforced in accordance with the laws of the State of Delaware applicable to contracts made and to be performed in such State without giving effect to the principles of conflicts of laws.

IN WITNESS WHEREOF, the parties hereto have duly executed and delivered this Agreement as of the _______________ day of __________________, 19___.

McKESSON HBOC, INC.

By: ________________________________
Name:
Title:

____
[Indemnitee]

EXHIBIT 10.23

MCKESSON HBOC, INC.
FIRST AMENDMENT
TO CREDIT AGREEMENT

(364 DAY FACILITY)

This FIRST AMENDMENT TO CREDIT AGREEMENT (this "AMENDMENT") is dated as of October 10, 2000 and entered into by and among McKesson HBOC, Inc., a Delaware corporation (the "COMPANY"), the financial institutions listed on the signature pages hereof (the "BANKS"), The Chase Manhattan Bank, as a documentation agent for the Banks, First Union National Bank, as a documentation agent for the Banks, Bank One, N.A., as a documentation agent for the Banks, Morgan Guaranty Trust Company, as a documentation agent for the Banks and Bank of America, N.A. as administrative agent for the Banks (the "ADMINISTRATIVE AGENT"), and is made with reference to that certain Credit Agreement dated as of October 22, 1999 (the "CREDIT AGREEMENT"), by and among the parties thereto. Capitalized terms used herein without definition shall have the same meanings herein as set forth in the Credit Agreement.

RECITALS

WHEREAS, the Company and the Banks desire to amend the Credit Agreement (a) to extend the Revolving Facility Termination Date for an additional 364 day period, (b) to provide for a term loan option, and (c) to modify certain other provisions;

NOW, THEREFORE, in consideration of the premises and the agreements, provisions and covenants herein contained, the parties hereto agree as follows:

SECTION 1. AMENDMENTS TO THE CREDIT AGREEMENT

1.1 AMENDMENTS TO ARTICLE I: DEFINITIONS

A. Section 1.1 of the Credit Agreement is hereby amended by adding thereto the following definitions, which shall be inserted in proper alphabetical order:

"Term Loans" has the meaning specified in Section 2.16.

"Term Loan Maturity Date" means October 8, 2002.

B. Section 1.1 of the Credit Agreement is hereby further amended by deleting in the definition of the term "Applicable Margin", the paragraph below the table which begins "The margin set forth...." and substituting in place of such paragraph the following:

"The margin set forth above for any Applicable Rating Level on a given date shall be increased by fifteen (15.0) basis points if, on such date, either (a) the sum of (x) the Total Utilization of Facility A Commitments (as such term is defined in the November 1998 Credit Agreement) existing on such date and (y) the principal amount of Loans (as defined herein) made pursuant to Section 2.1 outstanding on such date, exceeds 30% of the sum of (A) the aggregate of the Facility A Commitments (as such term is defined in the November 1998 Credit Agreement) existing on such date and (B) the aggregate of the Commitments (as defined herein) existing on such date, or (b) any Term Loans are outstanding."

C. Section 1.1 of the Credit Agreement is hereby further amended by adding, in the definition of "Commitment," the following phrase immediately before the period at the end thereof: "provided that if the Term Loans are made, "Commitments" means the aggregate principal amount of Term Loans outstanding on such date".

D. Section 1.1 of the Credit Agreement is hereby further amended by deleting, in the definition of "Interest Period," clause (3) in its entirety and substituting in lieu thereof the following:

"(3) no Interest Period for any Loan shall extend beyond (i) in the case of Loans made pursuant to Section 2.1, until a Notice of Borrowing has been received by the Agent in accordance with subsection 2.16(b), the Revolving Facility Termination Date; provided that once such Notice of Borrowing has been received by the Agent in accordance with subsection 2.16(b), the limitation in subpart (ii) of this paragraph shall apply to Loans made pursuant to Section 2.1 and (ii) the Term Loan Maturity Date, in the case of the Term Loans."

E. Section 1.1 of the Credit Agreement is hereby further amended by deleting, in the definition of "Revolving Facility Termination Date," the date "October 19, 2000" and substituting in lieu thereof the date "October 9, 2001".

1.2 AMENDMENT TO ARTICLE II: THE CREDITS

A. Section 2.1 of the Credit Agreement is hereby amended by deleting the reference to "$850,000,000" and substituting in lieu thereof the amount "$825,000,000."

B. Section 2.7(a) of the Credit Agreement is hereby amended by adding the phrase "Except as provided in Section 2.16," to the beginning of the sentence.

C. Section 2.9(a) of the Credit Agreement is hereby amended by deleting the date "September 17, 1999" and substituting in lieu thereof the date "September 8, 2000".

D. Section 2.9(b) of the Credit Agreement is hereby amended by deleting in the first sentence of the second paragraph thereof the portion of such sentence preceding the semicolon and substituting in lieu thereof the following:

"Such facility fee shall accrue from the Closing Date to the Revolving Facility Termination Date or, if the Term Loans are made, the Term Loan Maturity Date, and shall be due and payable quarterly in arrears on each date specified above following the end of each calendar quarter through such termination date or maturity date, as applicable, with the final payment to be made on such termination date or maturity date, as applicable"

E. Article II of the Credit Agreement is hereby further amended by adding a new Section 2.16 at the end thereof to read as follows:

"2.16 Conversion of Loans to Term Loans.

(a) Each Bank severally agrees on the terms and conditions set forth in this Agreement to advance to the Company (upon request of the Company pursuant to this Agreement) on the Revolving Facility Termination Date an amount up to the sum of (i) the outstanding principal amount of the Loans made by such Bank pursuant to Section 2.1 and outstanding as of the opening of business on the Revolving Facility Termination Date plus (ii) the amount available to be borrowed from such Bank as of the opening of business on the Revolving Facility Termination Date. The aggregate of such advances is collectively called the "Term Loans" and shall be made by each Bank in accordance with its Pro Rata Share. The Term Loans will mature and are due and payable on the Term Loan Maturity Date. Amounts borrowed under this Section 2.16 and subsequently repaid or prepaid may not be reborrowed.

(b) The Term Loans shall be made upon the irrevocable written notice (including notice via facsimile confirmed immediately by a telephone call) of the Company in the form of a Notice of Borrowing (which notice must be received by the Agent not later than 12:00 noon (San Francisco time) not less than three Business Days prior to the Revolving Facility Termination Date), specifying: (A) the amount of the Term Loans which shall be in a principal amount not more than the sum of (i) the aggregate principal amount of the Loans which will be outstanding as of the opening of business on the Revolving Facility Termination Date, plus (ii) the amount available to be borrowed from the Banks as of the opening of business on the Revolving Facility Termination Date; (B) whether the Term Loans shall be comprised of Base Rate Loans or Offshore Rate Loans; and (C) the Interest Period applicable to any Offshore Rate Loans included in such notice.

(c) The proceeds of the Term Loans will first be used to pay the principal amount of the Loans made pursuant to Section 2.1 which are outstanding at the time the Term Loans are made and then in accordance with Sections 6.9 and 7.3."

1.3 AMENDMENT TO ARTICLE V: REPRESENTATION AND WARRANTIES

A. Article V of the Credit Agreement is hereby amended by deleting Section 5.12, entitled "Year 2000 Compliance", in its entirety.

1.4 SUBSTITUTION OF SCHEDULE

A. Schedule 2.1 to the Credit Agreement is hereby amended by deleting said Schedule 2.1 in its entirety and substituting in place thereof a new Schedule 2.1 in the form of Annex I to this Amendment.

SECTION 2. CONDITIONS TO EFFECTIVENESS

This Amendment shall become effective upon receipt by the Administrative Agent of all of the following, in form and substance satisfactory to the Administrative Agent and each Bank (the date of satisfaction of such condition being referred to herein as the "FIRST AMENDMENT EFFECTIVE DATE"):

A. Amendment. This Amendment executed by each party hereto;

B. Resolutions; Incumbency.

(i) Copies of the resolutions of the board of directors of the Company authorizing the transactions contemplated hereby, certified as of the First Amendment Effective Date by the Secretary or an Assistant Secretary of the Company; and

(ii) A certificate of the Secretary or Assistant Secretary of the Company, certifying the names and true signatures of the officers of the Company authorized to execute, deliver and perform, as applicable, this Amendment, and all other Loan Documents to be delivered by it hereunder;

C. Legal Opinion. An opinion of Ivan D. Meyerson, Senior Vice President, General Counsel and Secretary of the Company, addressed to the Administrative Agent and the Banks, substantially in the form of Exhibit A;

D. Payment of Fees. Evidence of payment by the Company of all accrued and unpaid fees, costs and expenses to the extent then due and payable on the First Amendment Effective Date, together with Attorney Costs of Bank of America to the extent invoiced prior to or on the First Amendment Effective Date, including any such costs, fees and expenses arising under or referenced in Sections 2.9 and 10.4 of the Credit Agreement; provided that, notwithstanding the above, such payment by the Company shall include all accrued and unpaid facility fees through the First Amendment Effective Date;

E. Company Certificate. A certificate signed by a Responsible Officer of the Company, dated as of the First Amendment Effective Date, stating that:

(i) the representations and warranties contained in Section 3 hereof and in Article V of the Credit Agreement are true and correct on and as of such date, as though made on and as of such date;

(ii) no Default or Event of Default exists;

(iii) there has occurred since March 31, 2000, no event or circumstance that has resulted or could reasonably be expected to result in a Material Adverse Effect.

SECTION 3. COMPANY'S REPRESENTATIONS AND WARRANTIES

In order to induce the Banks to enter into this Amendment and to amend the Credit Agreement in the manner provided herein, the Company represents and warrants to each Bank that the following statements are true, correct and complete:

A. DUE INCORPORATION, VALID EXISTENCE AND GOOD STANDING; CORPORATE POWER AND AUTHORITY. The Company is a corporation duly incorporated, validly existing and in good standing under the laws of the State of Delaware. The Company has all requisite corporate power and authority to enter into this Amendment and to carry out the transactions contemplated by, and perform its obligations under, the Credit Agreement as amended by this Amendment (the "AMENDED AGREEMENT").

B. AUTHORIZATION OF AGREEMENTS. The execution and delivery of this Amendment and the performance of the Amended Agreement have been duly authorized by all necessary corporate action on the part of the Company.

C. NO CONFLICT. The execution and delivery by the Company of this Amendment and the performance by the Company of the Amended Agreement do not and will not (i) violate any provision of any law or any governmental rule or regulation applicable to the Company or any of its Subsidiaries, the Certificate or Articles of Incorporation or Bylaws of the Company or any of its Subsidiaries or any order, judgment or decree of any court or other agency of government binding on the Company or any of its Subsidiaries (ii) conflict with, result in a breach of or constitute (with due notice or lapse of time or both) a default under any Contractual Obligation of the Company or any of its Subsidiaries, (iii) result in or require the creation or imposition of any Lien upon any of the properties or assets of the Company or any of its Subsidiaries (other than Liens created under any of the Loan Documents in favor of Administrative Agent on behalf of Banks), or (iv) require any approval of stockholders or any approval or consent of any Person under any Contractual Obligation of the Company or any of its Subsidiaries.

D. GOVERNMENTAL CONSENTS. The execution and delivery by the Company of this Amendment and the performance by the Company of the Amended Agreement do not and will not require any registration with; consent or approval of, or notice to, or other action to, with or by, any federal, state or other governmental authority or regulatory body.

E. BINDING OBLIGATION. This Amendment has been duly executed and delivered by the Company and this Amendment and the Amended Agreement are the legally valid and binding obligations of the Company, enforceable against the Company in accordance with their respective terms, except as may be limited by bankruptcy, insolvency, reorganization, moratorium or similar laws relating to or limiting creditors' rights generally or by equitable principles relating to enforceability.

F. ABSENCE OF DEFAULT. No event has occurred and is continuing or will result from the consummation of the transactions contemplated by this Amendment that would constitute an Event of Default or a Default.

SECTION 4. MISCELLANEOUS

A. REFERENCE TO AND EFFECT ON THE CREDIT AGREEMENT AND THE OTHER LOAN DOCUMENTS.

(i) On and after the First Amendment Effective Date, each reference in the Credit Agreement to "this Agreement", "hereunder", "hereof", "herein or words of like import referring to the Credit Agreement, and each reference in the other Loan Documents to the "Credit Agreement", "thereunder", "thereof" or words of like import referring to the Credit Agreement shall mean and be a reference to the Amended Agreement.

(ii) Except as specifically amended by this Amendment, the Credit Agreement and the other Loan Documents shall remain in full force and effect and are hereby ratified and confirmed.

(iii) The execution, delivery and performance of this Amendment shall not, except as expressly provided herein, constitute a waiver of any provision of, or operate as a waiver of any right, power or remedy of the Administrative Agent or any Bank under, the Credit Agreement or any of the other Loan Documents.

B. FEES AND EXPENSES. The Company acknowledges that all costs, fees and expenses as described in Section 10.4 of the Credit Agreement incurred by the Administrative Agent and its counsel with respect to this Amendment and the documents and transactions contemplated hereby shall be for the account of the Company.

C. HEADINGS. Section and subsection headings in this Amendment are included herein for convenience of reference only and shall not constitute a part of this Amendment for any other purpose or be given any substantive effect.

D. APPLICABLE LAW. THIS AMENDMENT AND THE RIGHTS AND OBLIGATIONS OF THE PARTIES HEREUNDER SHALL BE GOVERNED BY, AND SHALL BE CONSTRUED AND ENFORCED IN ACCORDANCE WITH, THE INTERNAL LAWS OF THE STATE OF CALIFORNIA (INCLUDING WITHOUT LIMITATION SECTION 1646.5 OF THE CIVIL CODE OF THE STATE OF CALIFORNIA), WITHOUT REGARD TO CONFLICTS OF LAWS PRINCIPLES.

E. COUNTERPARTS. This Amendment may be executed in any number of counterparts and by different parties hereto in separate counterparts, each of which when so executed and delivered shall be deemed an original, but all such counterparts together shall constitute but one and the same instrument; signature pages may be detached from multiple separate counterparts and attached to a single counterpart so that all signature pages are physically attached to the same document.

IN WITNESS WHEREOF, the parties hereto have caused this Amendment to be duly executed and delivered by their respective officers thereunto duly authorized as of the date first written above.

MCKESSON HBOC, INC.

By: ________________________________
Name: William R. Graber
Title: Senior Vice President and Chief Financial Officer

By: ________________________________
Name: Nicholas A. Loiacono
Title: Vice President, Finance and Treasurer

BANK OF AMERICA, N.A., as Administrative Agent

By: ________________________________
Name: Jonathan H. Hudson
Title: Associate

BANK OF AMERICA, N.A., as a Bank

By: ________________________________
Name: Jonathan H. Hudson
Title: Associate

MORGAN GUARANTY TRUST COMPANY, as a documentation agent and as a Bank

By: ________________________________
Name: Robert Bottamedi
Title: Vice President

THE CHASE MANHATTAN BANK, as
documentation agent and as a Bank

By: ________________________________
Name: William P. Rindfuss
Title: Vice President

BANK ONE, NA, as documentation agent and as a Bank

By: ________________________________
Name: Joseph Perdenza
Title: Assistant Vice President

FIRST UNION NATIONAL BANK, as documentation
agent and as a Bank

By: ________________________________
Name: Joyce L. Barry
Title: Senior Vice President & Managing Director

MELLON BANK, N.A.

By: ________________________________
Name: Lawrence C. Ivey
Title: First Vice President

TORONTO DOMINION (TEXAS), INC.

By: ________________________________
Name: Alva J. Jones
Title: Vice President

WACHOVIA BANK, N.A.

By: ______________________________
Name: Jillian Richardson
Title: Assistant Vice President

WELLS FARGO BANK, N.A.

By: ______________________________
Name: Catherine M. Wallace
Title: Vice President

By: ______________________________
Name: J. Gregory Seibly
Title: Senior Vice President

THE BANK OF NEW YORK

By: ______________________________
Name: Rebecca K. Levine
Title: Vice President

U.S. BANK NATIONAL ASSOCIATION

By: ______________________________
Name: Aaron J. Gordon
Title: Vice President

THE BANK OF NOVA SCOTIA

By: ______________________________
Name: R. P. Reynolds
Title: Director

PNC BANK, NATIONAL ASSOCIATION

By: ________________________________
Name: Douglas S. King
Title: Vice President

ALLFIRST BANK

By: ________________________________
Name: Jennifer G. Erickson
Title: Vice President

FIFTH THIRD BANK

By: ________________________________
Name: Megan S. Heisel
Title: Corporate Banking Officer

EXHIBIT 10.26

THIRD AMENDMENT AND SECOND WAIVER TO RECEIVABLES PURCHASE AGREEMENT

THIS THIRD AMENDMENT AND SECOND WAIVER TO RECEIVABLES PURCHASE AGREEMENT ("Amendment"), dated as of June 16, 2000, is among CGSF Funding Corporation, a Delaware corporation ("Seller"), McKesson HBOC, Inc., a Delaware corporation (the "Servicer"; the Servicer together with the Seller, the "Seller Parties" and each a "Seller Party"), the funding entities parties hereto (the "Financial Institutions"), Preferred Receivables Funding Corporation ("PREFCO"), Falcon Asset Securitization Corporation ("Falcon"), Blue Ridge Asset Funding Corporation ("Blue Ridge") and Liberty Street Funding Corp. ("Liberty Street"), (PREFCO, Falcon, Blue Ridge and Liberty Street being referred to collectively as the "Conduits", and together with the Financial Institutions, the "Purchasers"), Bank One, NA (formerly known as The First National Bank of Chicago, "Bank One"), Wachovia Bank, N.A. and The Bank of Nova Scotia (collectively, the "Managing Agents") and Bank One, as the collateral agent (the "Collateral Agent"). Defined terms used herein and not otherwise defined herein shall have the meaning given to them in the "Receivables Purchase Agreement" (as hereinafter defined).

WHEREAS, the Seller, the Servicer, the Financial Institutions, the Conduits, the Managing Agents and the Collateral Agent are parties to the Receivables Purchase Agreement dated as of June 25, 1999, as amended by the First Amendment thereto dated as of September 29, 1999 and the Second Amended thereto dated as of December 6, 1999 (the "Receivables Purchase Agreement");

WHEREAS, the Seller and the Servicer have requested that the Financial Institutions, the Conduits, the Managing Agents and the Collateral Agent waive the "Specified Default" (as defined below) under the Receivables Purchase Agreement; and

WHEREAS, the parties hereto have agreed to amend the Receivables Purchase Agreement and waive the Specified Default on the terms and conditions set forth herein;

NOW, THEREFORE, in consideration of the premises set forth above, and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto agree as follows:

1. Amendment to the Receivables Purchase Agreement. Effective as of the date first above written and subject to the execution of this Amendment by the parties hereto and the satisfaction of the conditions precedent set forth in Section 3 below, the Receivables Purchase Agreement shall be and hereby is amended as follows:

a. Section 4.1 of the Receivables Purchase Agreement is hereby amended to add, at the conclusion of the first sentence thereof, the following: "provided, however, that each Purchaser Interest of a Conduit which is funded through Pooled Commercial Paper shall accrue

Yield at the applicable CP Rate for each day during each Accrual Period that any Capital in respect of such Purchaser Interest is outstanding."

b. Section 4.3(a) of the Receivables Purchase Agreement is hereby amended to delete the first sentence thereof in its entirety and to substitute therefor the following: "With consultation from each related Managing Agent, Seller shall from time to time request Tranche Periods for the Purchaser Interests (other than Purchaser Interests which are funded through Pooled Commercial Paper, the Tranche Periods for which shall be the same as the Accrual Period); provided, however, that no more than fifteen (15) Tranche Periods shall be outstanding at any one time.

c. Exhibit I of the Receivables Purchase Agreement is hereby amended to add the following new definition in the appropriate alphabetical locations:

"Pooled Commercial Paper" means Commercial Paper notes of a Conduit subject to any particular pooling arrangement by such Conduit but excluding Commercial Paper issued by a Conduit for a tenor and in an amount specifically requested by any Person in connection with any agreement effected by such Conduit; provided, however, that if and to the extent that the Seller requests a Conduit to issue Commercial Paper notes with particular tranche periods and the related Managing Agent agrees to such request, such Commercial Paper notes shall not constitute Pooled Commercial Paper."

d. The definition of "Broken Funding Costs" in Exhibit I of the Receivables Purchase Agreement is hereby amended to insert, after the phrase "remainder of the Tranche Periods", the following parenthetical: "(or, in the case of Purchaser Interests funded through Pooled Commercial Paper, the tranche periods for such Pooled Commercial Paper)".

e. The definition of "CP Tranche Period" in Exhibit I of the Receivables Purchase Agreement is hereby amended to provide, at the conclusion thereof, the following: "provided, however, that the CP Tranche Period for any Purchaser Interest funded through Pooled Commercial Paper shall be (i) the date from which such Purchaser Interest ceases to be allocated to a CP Tranche Period pursuant to Section 1.2 until the last Business Day of the Accrual Period in which such CP Tranche Period ended and (ii) thereafter each Accrual Period."

f. The definition of "CP Rate" in Exhibit I of the Receivables Purchase Agreement is hereby amended by inserting the following at the conclusion thereof:

> "Notwithstanding the foregoing, with respect to Purchaser Interests funded through Pooled Commercial Paper, the CP Rate for any CP Tranche Period means:
>
> (i) in the case of Liberty Street, the per annum rate equivalent to the weighted average cost (as determined by its Managing Agent and which shall include commissions of placement agents and dealers, incremental carrying costs incurred with respect to Pooled Commercial Paper maturing on dates other than those on which corresponding funds are received by Liberty Street, other borrowings by Liberty Street (other than under any commercial paper program support agreement) and any other costs associated with the issuance of Pooled Commercial Paper) of or related to the issuance of Pooled Commercial Paper that are allocated, in whole or in part, by Liberty Street or its

Managing Agent to fund or maintain its Purchaser Interests (and which may be also allocated in part to the funding of other assets of Liberty Street) during such CP Tranche Period; provided, however, that if any component of such rate is a discount rate, in calculating the "CP Rate" for Liberty Street for such Purchaser Interest for such CP Tranche Period, Liberty Street shall for such component use the rate resulting from converting such discount rate to an interest-bearing equivalent rate per annum; and

(ii) in the case of PREFCO and Falcon, for each day during the related CP Tranche Period, the sum of (a) discount accrued on Pooled Commercial Paper of such Conduit on such day, plus (b) any and all accrued commissions in respect of placement agents and Commercial Paper dealers, and issuing and paying agent fees incurred, in respect of such Pooled Commercial Paper for such day, plus (iii) other costs associated with funding small or odd-lot amounts with respect to all receivable purchase facilities which are funded by Pooled Commercial Paper of such Conduit for such day, minus (iv) any accrual of income net of expenses received on such day from investment of collections received under all receivable purchase facilities funded substantially with Pooled Commercial Paper, minus (v) any payment received on such day net of expenses in respect of Broken Funding Costs related to the prepayment of any receivables interest of such Conduit pursuant to the terms of any receivable purchase facilities funded substantially with Pooled Commercial Paper, as calculated by its Managing Agent on the tenth (10th) Business Day immediately preceding each Settlement Date based on the aggregate amount of such costs for the applicable CP Tranche Period and the number of days during which Capital was outstanding during such period and notified to the Seller for each of PREFCO and Falcon, without the need to express such CP Rate as a per annum rate. In addition to the foregoing costs, if Seller shall request any Incremental Purchase during any period of time determined by the Agent in its sole discretion to result in incrementally higher costs of Pooled Commercial Paper applicable to such Incremental Purchase, the Capital of the Purchaser Interest associated with any such Incremental Purchase shall, during such period, be deemed to be funded by PREFCO and/or Falcon, as applicable, in a special pool (which may include capital associated with other receivable purchase facilities) for purposes of determining the CP Rate applicable only to such special pool and charged each day during such period against such Capital; and

(iii) with respect to any other Conduit which elects to fund Purchaser Interests through Pooled Commercial Paper, such rate as may be mutually agreed upon in writing by the Seller, such Conduit and such Conduit's Managing Agent and notified in writing to the other parties hereto."

g. The definition of "Designated Obligor" in Exhibit I of the Receivables Purchase Agreement is hereby deleted in its entirety and the following new definition is substituted therefor:

"Designated Obligor" means Rite Aid or an Obligor indicated by the Collateral Agent to Seller in writing.(1)

h. The definition of "Liquidity Termination Date" in Exhibit I of the Receivables Purchase Agreement is hereby amended to delete the words "June 23, 2000" and to substitute therefor the words "June 15, 2001".

i. The definition of "Special Concentration Limit" in Exhibit I of the Receivables Purchase Agreement is hereby amended to add the following language immediately before the period at the end thereof:

"; provided, further, that notwithstanding the foregoing, the Special Concentration Limit for Albertson's (American Stores and Osco Drug) and for Wal-Mart shall be the lesser of (i) the applicable percentage set forth above multiplied by the aggregate Outstanding Balance of Eligible Receivables (net of all Earned Discounts and quarterly volume rebates) at such time and (ii) $175,000,000."

j. The definition of "Special Obligor" in Exhibit I of the Receivables Purchase Agreement is hereby deleted in its entirety and the following definition is substituted therefor:

"Special Obligor" means Albertson's (American Stores and Osco Drug), CVS Corp., Wal-Mart and such other Special Obligors as may be designated by the managing Agents from time to time.

k. Exhibit IV of the Receivables Purchase Agreement is hereby deleted in its entirety and the Exhibit IV attached as Schedule 1 hereto is substituted therefor.(2)

2. Waiver. Effective as of the date first above written and subject to the execution of this Amendment by the parties hereto and the satisfaction of the conditions precedent set forth in Section 3 below, the parties hereby agree to waive at all times prior to and including July 17, 2000, the Seller's failure to obtain a Collection Account Agreement with respect to the Collection Account at Bank of America, N.A. identified on Schedule 1 to this Amendment, as required by Sections 5.1(l), 7.1(j), 7.2(b) and 8.2(b) of the Receivables Purchase Agreement (the "Specified Default").

3. Conditional Precedent. This Amendment shall become effective as of the date above written if and only if the Managing Agents have received:

a. duly executed originals of this Amendment from each of the parties listed on the signature pages hereto; and

----

(1) Please note that the effect of this change is to remove Receivables of Rite Aid from the definition of "Eligible Receivable" by operation of clause (i)(c) thereof.

(2) Please note that Exhibit IV has been revised to delete the reference to the lock-box at Am South Bank and to include a reference to the new blocked account at Bank of America, N.A.

b. a duly executed Amended and Restated Fee Letter providing an increase to the Administration Fee set forth therein.

4. Representations and Warranties of the Seller Parties. Each of the Seller Parties hereby represents and warrants as follows:

a. This Amendment and the Receivables Purchase Agreement, as amended hereby, constitute legal, valid and binding obligations of such Seller Party and are enforceable against such Seller Party in accordance with their terms.

b. Upon the effectiveness of this Amendment, each Seller Party hereby reaffirms all representations and warranties made in the Receivables Purchase Agreement, and to the extent the same are not amended hereby, agrees that all such representations and warranties shall be deemed to have been remade as of the date of delivery of this Amendment, unless and to the extent that any such representation and warranty is stated to relate solely to an earlier date, in which case such representation and warranty shall be true and correct as of such earlier date.

5. Reference to and Effect on the Receivables Purchase Agreement

a. Upon the effectiveness of Section 1 hereof, on and after the date hereof, each reference in the Receivables Purchase Agreement to "this Receivables Purchase Agreement," "hereunder," "hereof," "herein" or words of like import shall mean and be a reference to the Receivables Purchase Agreement as amended hereby.

b. The Receivables Purchase Agreement, as amended hereby, and all other documents, instruments and agreements executed and/or delivered in connection therewith, shall remain in full force and effect, and are hereby ratified and confirmed.

c. Except as expressly provided herein, the execution, delivery and effectiveness of this Amendment shall not operate as a waiver of any right, power or remedy of the Managing Agents, the Financial Institutions or the Collateral Agent, nor constitute a waiver of any provision of the Receivables Purchase Agreement or any other documents, instruments and agreements executed and/or delivered in connection therewith.

6. Governing Law. This Amendment shall be governed by and construed in accordance with the internal laws (as opposed to the conflict of law provisions) of the State of New York.

7. Headings. Section headings in this Amendment are included herein for convenience of reference only and shall not constitute a part of this Amendment for any other purpose.

8. Counterparts. This Amendment may be executed by one or more of the parties to the Amendment on any number of separate counterparts and all of said counterparts taken together shall be deemed to constitute one and the same instrument.

IN WITNESS WHEREOF, this Amendment has been duly executed and delivered on the date first above written.

CGSF FUNDING CORPORATION, as the Seller

By:______________________________________
Name:
Title:

McKESSON HBOC, INC., as the Servicer

By:______________________________________
Name:
Title:

PREFERRED RECEIVABLES FUNDING CORPORATION, as a Conduit

By:______________________________________
Authorized Signatory

FALCON ASSET SECURITIZATION CORPORATION, as a Conduit

By:______________________________________
Authorized Signatory

BLUE RIDGE ASSET FUNDING CORPORATION, as a Conduit

By: Wachovia Bank, N.A. as Attorney-In-Fact

By:______________________________________
Name:
Title:

LIBERTY STREET FUNDING CORP., as a Conduit

By:______________________________________
Name:
Title:

BANK ONE, NA (Main Office Chicago) (formerly known as The First National Bank of Chicago), as a Committed Purchaser for PREFCO and Falcon, a Financial Institution, a Managing Agent and as Collateral Agent

By:______________________________________
Name:
Title:

WACHOVIA BANK, N.A., as a Committed Purchaser for Blue Ridge, a Financial Institution and a Managing Agent

By:______________________________________
Name:
Title:

THE BANK OF NOVA SCOTIA, as a Committed Purchaser for Liberty Street, a Financial Institution and a Managing Agent

By:______________________________________
Name:
Title:

EXHIBIT 21

SUBSIDIARIES OF THE REGISTRANT

There is no parent of the Company. The following is a listing of the significant subsidiaries of the Company, or if indented, subsidiaries of the Company under which they are listed:

	JURISDICTION OF ORGANIZATION
HBO & Company	Delaware
McKesson Canada Inc.	Canada
Medis Health and Pharmaceutical Services Inc.	Canada
GM Holdings, Inc.	Delaware
McKesson General Medical Corp.	Virginia

EXHIBIT 23.1

INDEPENDENT AUDITORS' CONSENT

We consent to the incorporation by reference in McKesson HBOC, Inc. Registration Statement Nos. 33-86536, 333-00611, 333-02871, 333-21931, 333-30104, 333-30216, 333-30218, 333-30220, 333-30222, 333-20224, 333-30226, 333-32643, 333-32645, 333-43101, 333-43079, 333-48337, 333-43068, 333-48339, 333-48859, 333-50261, 333-70501, 333-71917, 333-85965, 333-39952 and 333-39954, on Form S-8, Registration Statement Nos. 333-26443, and Amendment No. 1 thereto, 333-85973, 333-50985 and 333-66359 on Form S-3 and Registration Statement Nos. 333-49119, and Amendment No. 1 thereto, and 333-56623 on Form S-4 of our report dated April 30, 2001 (which report refers to certain shareholder litigation as discussed in Financial Note 18 to the consolidated financial statements), appearing in this Annual Report on Form 10-K of McKesson HBOC, Inc., for the year ended March 31, 2001.

DELOITTE & TOUCHE LLP

San Francisco, California
May 31, 2001

EXHIBIT 24

POWER OF ATTORNEY

KNOW ALL MEN BY THESE PRESENTS THAT the undersigned directors and officers of McKesson HBOC, Inc., a Delaware corporation (the "Company"), do hereby constitute and appoint Ivan D. Meyerson and Kristina Veaco his or her true and lawful attorney and agent, each with full power and authority (acting alone and without the other) to execute in the name and on behalf of the undersigned as such Director and/or Officer, under the Securities Act of 1934, as amended, an annual report on Form 10-K, and thereafter to execute and file any and all amendments to such Form, whether filed prior or subsequent to the time such Form becomes effective. The undersigned hereby grants unto such attorneys and agents, and each of them, full power of substitution and revocation in the premises and hereby ratifies and confirms all that such attorneys and agents may do or cause to be done by virtue of these presents.

<TABLE>

<S>	<C>
/s/ Alfred C. Eckert III --- Alfred C. Eckert III, Director	/s/ Gerald E. Mayo -- Gerald E. Mayo, Director
/s/ Tully M. Friedman --- Tully M. Friedman, Director	/s/ James V. Napier -- James V. Napier, Director
/s/ William R. Graber --- William R. Graber, Senior Vice President And Chief Financial Officer	/s/ David S. Pottruck -- David S. Pottruck, Director
/s/ John H. Hammergren --- John H. Hammergren, President and Chief Executive Officer and Director	/s/ Carl E. Reichardt -- Carl E. Reichardt, Director
/s/ Alton F. Irby, III --- Alton F. Irby III, Director	/s/ Alan Seelenfreund -- Alan Seelenfreund Chairman of the Board
/s/ M. Christine Jacobs --- M. Christine Jacobs, Director	/s/ Jane E. Shaw -- Jane E. Shaw, Director
/s/ Martin M. Koffel --- Martin M. Koffel, Director	/s/ Nigel A. Rees -- Nigel A. Rees Vice President and Controller

</TABLE>

Dated: May 25, 2001