

MCKESSON CORP
Form DEF 14A
June 15, 2009

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**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
SCHEDULE 14A**

Proxy Statement Pursuant to Section 14(a) of the Securities
Exchange Act of 1934 (Amendment No.)

Filed by the Registrant

Filed by a Party other than the Registrant

Check the appropriate box:

- Preliminary Proxy Statement
- Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**
- Definitive Proxy Statement
- Definitive Additional Materials
- Soliciting Material Pursuant to §240.14a-12

McKesson Corporation

(Name of Registrant as Specified In Its Charter)

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

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- No fee required.
 - Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.
- (1) Title of each class of securities to which transaction applies:

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(4) Date Filed:

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**NOTICE OF ANNUAL MEETING OF STOCKHOLDERS
OF MCKESSON CORPORATION**

The 2009 Annual Meeting of Stockholders of McKesson Corporation will be held on Wednesday, July 22, 2009 at 8:30 a.m. at the A.P. Giannini Auditorium, 555 California Street, San Francisco, California to:

Elect for a one-year term a slate of nine directors as nominated by the Board of Directors;

Approve an amendment to the 2005 Stock Plan to increase the number of shares of common stock reserved for issuance under the plan by 14,500,000;

Ratify the appointment of Deloitte & Touche LLP as the Company's independent registered public accounting firm for the fiscal year ending March 31, 2010;

Vote on two proposals submitted by stockholders, if properly presented; and

Conduct such other business as may properly be brought before the meeting.

Stockholders of record at the close of business on May 29, 2009 are entitled to notice of and to vote at the meeting or any adjournment or postponement of the meeting.

By Order of the Board of Directors

Laureen E. Seeger
*Executive Vice President,
General Counsel and Secretary*

One Post Street
San Francisco, CA 94104-5296
June 15, 2009

YOUR VOTE IS IMPORTANT.

We encourage you to read the proxy statement and vote your shares as soon as possible. A return envelope for your proxy card is enclosed for your convenience. You may also vote by telephone or via the Internet. Specific instructions on how to vote using either of these methods are included on the proxy card.

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PROXY STATEMENT

General Information

Proxies and Voting at the Annual Meeting

The Board of Directors of McKesson Corporation (the Company or we or us), a Delaware corporation, is soliciting proxies to be voted at the Annual Meeting of Stockholders to be held July 22, 2009 (the Annual Meeting), and at any adjournment or postponement of the Annual Meeting. This proxy statement includes information about the matters to be voted upon at the Annual Meeting.

On June 15, 2009, the Company began delivering these proxy materials to all stockholders of record at the close of business on May 29, 2009 (the Record Date). On the Record Date, there were approximately 268,660,174 shares of the Company s common stock outstanding and entitled to vote. As a stockholder, you are entitled to one vote for each share of common stock you held on the Record Date, including shares: (i) held directly in your name as the stockholder of record; (ii) held for you in an account with a broker, bank or other nominee; or (iii) allocated to your account in the Company s Profit-Sharing Investment Plan (PSIP).

You can revoke your proxy at any time before the Annual Meeting by sending a written revocation or a proxy bearing a later date to the Company s Corporate Secretary. Stockholders may also revoke their proxies by attending the Annual Meeting in person and casting a ballot. If you hold your shares through a broker, bank or other nominee and have instructed the broker, bank or other nominee as to how to vote your shares, you must follow directions received from the broker, bank or other nominee in order to change your vote or to vote at the Annual Meeting.

If you are a stockholder of record or a participant in the Company s PSIP, you can give your proxy by calling a toll-free number, by using the Internet, or by mailing your signed proxy card(s). Specific instructions for voting by means of the telephone or Internet are set forth on the enclosed proxy card. The telephone and Internet voting procedures are designed to authenticate each stockholder s identity and to allow each stockholder to vote his or her shares and confirm that his or her voting instructions have been properly recorded. If you do not wish to vote by telephone or via the Internet, please complete, sign and return the proxy card in the self-addressed, postage-paid envelope provided.

If you have shares held by a broker, bank or other nominee, you may instruct your nominee to vote your shares by following your nominee s instructions. Your vote as a stockholder is important. Please vote as soon as possible to ensure that your vote is recorded.

All shares represented by valid proxies will be voted as specified. If you sign and return a proxy card without specific voting instructions, your shares will be voted as recommended by our Board of Directors (the Board or the Board of Directors) on all proposals described in this proxy statement and in the discretion of the proxy holders as to any other matters that may properly come before the Annual Meeting. We currently know of no other matter to be presented at the Annual Meeting, except for the proposals described in this proxy statement.

All votes cast at the Annual Meeting will be tabulated by Broadridge Financial Solutions, Inc. (Broadridge), which has been appointed the independent inspector of election. Broadridge will determine whether or not a quorum is present.

Attendance at the Annual Meeting

If you plan to attend the Annual Meeting, you will need to bring your admission ticket. You will find an admission ticket attached to the proxy card if you are a registered holder or PSIP participant. If your shares are held in the name of a broker, bank or other holder of record and you plan to attend the Annual Meeting in person, you may obtain an admission ticket in advance by sending a request, along with proof of ownership, such as a brokerage or bank account statement, to the Company's Corporate Secretary, One Post Street, 35th Floor, San Francisco, California 94104. Stockholders who do not have an admission ticket will only be admitted upon verification of ownership at the door.

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Dividend Reinvestment Plan

For those stockholders who participate in the Company's Automatic Dividend Reinvestment Plan (DRP), the enclosed proxy card includes all full shares of common stock held in your DRP account on the Record Date for the Annual Meeting, as well as your shares held of record.

Vote Required and Method of Counting Votes

The votes required and the method of calculation for the proposals to be considered at the Annual Meeting are as follows:

Item 1 Election of Directors. Each share of the Company's common stock you own entitles you to one vote. You may vote for or against one or more of the director nominees, or abstain from voting on the election of any nominee. A nominee will be elected as a director if he or she receives a majority of votes cast (that is, the number of votes cast for a director nominee must exceed the number of votes cast against that nominee). Abstentions or broker non-votes (as described below), if any, will not count as votes cast. There is no cumulative voting with respect to the election of directors.

Item 2 Amendment to the 2005 Stock Plan. Approval of the amendment to the Company's 2005 Stock Plan to increase the number of shares available under the plan requires the affirmative vote of a majority of the shares present, in person or by proxy, and entitled to vote on the proposal at the Annual Meeting. You may vote for or against, or abstain from voting on, the proposal to approve the amendment to the Company's 2005 Stock Plan. Abstentions on this proposal, if any, will have the same effect as voting against the proposal; however, broker non-votes, if any, will be disregarded and have no effect on the outcome of such vote.

Item 3 Ratification of the Appointment of Independent Registered Public Accounting Firm. Ratification of the appointment of Deloitte & Touche LLP for the current fiscal year requires the affirmative vote of a majority of the shares present, in person or by proxy, and entitled to vote on the proposal at the Annual Meeting. Our 2010 fiscal year began on April 1, 2009 and will end on March 31, 2010 (FY 2010). You may vote for or against, or abstain from voting on, the proposal to ratify the appointment of Deloitte & Touche LLP as our independent registered public accounting firm for FY 2010. Abstentions on this proposal, if any, will have the same effect as voting against the proposal; broker non-votes, if any, will be disregarded and have no effect on the outcome of such vote.

Item 4 Stockholder Proposal on Executive Stock Retention for Two Years Beyond Retirement. Approval of the proposal requires the affirmative vote of a majority of the shares present, in person or by proxy, and entitled to vote on the proposal at the Annual Meeting. You may vote for or against, or abstain from voting on this stockholder proposal. Abstentions on this proposal, if any, will have the same effect as voting against the proposal; broker non-votes, if any, will be disregarded and have no effect on the outcome of such vote.

Item 5 Stockholder Proposal on Executive Benefits Provided upon Death while in Service. Approval of the proposal requires the affirmative vote of a majority of the shares present, in person or by proxy, and entitled to vote on the proposal at the Annual Meeting. You may vote for or against, or abstain from voting on this stockholder proposal. Abstentions on this proposal, if any, will have the same effect as voting against the proposal; broker non-votes, if any, will be disregarded and have no effect on the outcome of such vote.

**The Board recommends a vote FOR each nominee named in Item 1,
FOR Items 2 and 3, and AGAINST Items 4 and 5.**

Voting Results of the Annual Meeting

The preliminary voting results will be posted on our website at www.mckesson.com in the Investors section shortly after the Annual Meeting, and the final voting results will be published in our quarterly report on Form 10-Q for the fiscal quarter ending on September 30, 2009.

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Quorum Requirement

The presence in person or by proxy of holders of a majority of the outstanding shares of common stock entitled to vote will constitute a quorum for the transaction of business at the Annual Meeting. In the event of abstentions or broker non-votes, as defined below, the shares represented will be considered present for quorum purposes.

Abstentions and Broker Non-Votes

If you submit your proxy or attend the Annual Meeting but choose to abstain from voting on any proposal, you will be considered present and not voting on the proposal. Generally, broker non-votes occur when a broker is not permitted to vote on a proposal without instructions from the beneficial owner, and instructions are not given.

In the election of directors, abstentions and broker non-votes, if any, will be disregarded and have no effect on the outcome of the vote. For the proposed amendment to the 2005 Stock Plan, the ratification of the appointment of Deloitte & Touche LLP and the two stockholder proposals, abstentions from voting will have the same effect as voting against such matters; however, broker non-votes, if any, will be disregarded and have no effect on the outcome of such vote.

Profit-Sharing Investment Plan

Participants in the Company's tax qualified 401(k) plan, the PSIP, have the right to instruct the PSIP Trustee, on a confidential basis, how the shares allocated to their accounts are to be voted, and will receive a voting instruction card for that purpose. In general, the PSIP provides that all shares for which no voting instructions are received from participants and unallocated shares of common stock held in the employee stock ownership plan established as part of the PSIP, will be voted by the Trustee in the same proportion as shares for which voting instructions are received. However, shares that have been allocated to PSIP participants' PAYSOP accounts for which no voting instructions are received will not be voted.

List of Stockholders

The names of stockholders of record entitled to vote at the Annual Meeting will be available at the meeting and for ten days prior to the meeting for any purpose germane to the Annual Meeting, during ordinary business hours, at our principal executive offices at One Post Street, 35th Floor, San Francisco, California, by contacting the Secretary of the Company.

Online Access to Annual Reports on Form 10-K and Proxy Statements

The notice of annual meeting, proxy statement and Annual Report on Form 10-K for our fiscal year ended March 31, 2009 are available at www.proxyvote.com. Instead of receiving future copies of the proxy statement and Annual Report on Form 10-K by mail, you may, by following the applicable procedures described below, elect to receive these documents electronically, in which case you will receive an e-mail with a link to these documents.

Stockholders of Record: You may elect to receive proxy materials electronically next year in place of printed materials by logging on to www.proxyvote.com and entering your control number, which you can locate on the accompanying proxy card. By doing so, you will save the Company printing and mailing expenses, reduce the impact on the environment and obtain immediate access to the Annual Report on Form 10-K, proxy statement and voting form when they become available.

Beneficial Stockholders: If you hold your shares through a broker, bank or other holder of record, you may also have the opportunity to receive copies of the proxy statement and Annual Report on Form 10-K electronically. Please check the information provided in the proxy materials mailed to you by your broker, bank or other holder of record regarding the availability of this service or contact the broker, bank or other holder of record through which you hold your shares and inquire about the availability of such an option for you.

If you elect to receive your materials via the Internet, you can still request paper copies by leaving a message with Investor Relations at (800) 826-9360 or by sending an e-mail to *investors@mckesson.com*.

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Householding of Proxy Materials

In a further effort to reduce printing costs and postage fees, we have adopted a practice approved by the Securities and Exchange Commission (the SEC) called householding. Under this practice, stockholders who have the same address and last name and do not participate in electronic delivery of proxy materials will receive only one copy of our proxy materials, unless any of these stockholders notifies us that he or she wishes to continue receiving individual copies. Stockholders who participate in householding will continue to receive separate proxy cards.

If you share an address with another stockholder and received only one set of proxy materials and would like to request a separate copy of these materials, please contact Broadridge by calling 800-542-1061 or by writing to Broadridge, Householding Department, 51 Mercedes Way, Edgewood, NY 11717. Similarly, you may also contact Broadridge if you received multiple copies of the proxy materials and would prefer to receive a single copy in the future.

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PROPOSALS TO BE VOTED ON

Item 1. *Election of Directors*

There are nine nominees for election to the Board of Directors of the Company. The directors elected at the Annual Meeting will hold office until the 2010 Annual Meeting of Stockholders and until their successors have been elected and qualified, or until their earlier death, resignation or removal. If a nominee is unavailable for election, your proxy authorizes the persons named in the proxy to vote for a replacement nominee if the Board names one. As an alternative, the Board may reduce the number of directors to be elected at the Annual Meeting.

All nominees are existing directors and were elected to the Board at the 2008 Annual Meeting of Stockholders. Each nominee has informed the Board that he or she is willing to serve as a director. If any nominee should decline or become unable to serve as a director for any reason, the persons named in the enclosed proxy will vote for another person as they determine in their best judgment.

As previously announced by the Company on June 2, 2009, Mr. James V. Napier will retire from service as a member of our Board effective as of the commencement of our upcoming Annual Meeting. In view of Mr. Napier's retirement, we anticipate that the Board will reduce its size from ten to nine members shortly following the Annual Meeting.

Majority Voting Standard for Election of Directors. The Company's Amended and Restated Bylaws provide for a majority voting standard for the election of directors in uncontested director elections, such as that being conducted this year. Under this standard, a director nominee will be elected only if the number of votes cast for the nominee exceeds the number of votes cast against that nominee. In the case of contested elections (a situation in which the number of nominees exceeds the number of directors to be elected), the plurality vote standard will apply. This majority voting standard is described further below under the section entitled "Corporate Governance - Majority Voting Standard."

The following is a brief description of the age, principal occupation for at least the past five years and major affiliations of each of the nominees.

Nominees

Your Board recommends a vote FOR each Nominee.

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

Mr. Bryant, age 59, has served as Executive Vice President and Chief Administrative Officer of Intel Corporation since October 2007. He served as Intel's Chief Financial Officer from 1994 to October 2007. Mr. Bryant joined Intel in 1981 and held a number of management positions before becoming Chief Financial Officer. He is also a director of Columbia Sportswear Company and Kryptiq, Inc. Mr. Bryant has been a director of the Company since January 2008. He is a member of the Audit Committee and the Finance Committee.

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Wayne A. Budd
Senior Counsel
Goodwin Procter LLP

Mr. Budd, age 67, joined the law firm of Goodwin Procter LLP as Senior Counsel in October 2004. He had been Senior Executive Vice President and General Counsel and a director of John Hancock since 2000 and a director of John Hancock Life Insurance Company since 1998. From 1996 to 2000, Mr. Budd was Group President-New England for Bell Atlantic Corporation (now Verizon Communications, Inc.). From 1994 to 1997, Mr. Budd was a Commissioner, United States Sentencing Commission and from 1993 to 1996, he was a senior partner at the law firm of Goodwin Procter LLP. From 1992 to 1993, he was the Associate Attorney General of the United States and from 1989 to 1992, he was United States Attorney for the District of Massachusetts. Mr. Budd has been a director of the Company since October 2003. He is a member of the Audit Committee and the Committee on Directors and Corporate Governance.

John H. Hammergren
Chairman of the Board, President and Chief Executive Officer

Mr. Hammergren, age 50, has served as Chairman of the Board since July 2002, and President and Chief Executive Officer of the Company since April 2001. Mr. Hammergren joined the Company in 1996 and held a number of management positions before becoming President and Chief Executive Officer. He is also a director of Nadro, S.A. de C.V. (Mexico), an entity in which the Company holds interests, and a director of the Hewlett-Packard Company. He has been a director of the Company since July 1999.

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

Mr. Irby, age 68, was the founding partner and has been Chairman of London Bay Capital, a privately-held investment firm, since May 2006. He was the founding partner of Tricorn Partners LLP, a privately-held investment bank from May 2003 to May 2006, a partner of Gleacher & Co. Ltd. from January 2001 until April 2003, and Chairman and Chief Executive Officer of HawkPoint Partners, formerly known as National Westminster Global Corporate Advisory, from 1997 until 2000. He was a founding partner of Hambro Magan Irby Holdings from 1988 to 1997. He is the Chairman of ContentFilm plc and also serves as a director of Catlin Group Limited and Thomas Weisel Partners Group, Inc. He is also a director of an indirect wholly-owned subsidiary of the Company, McKesson Information Solutions UK Limited. Mr. Irby has been a director of the Company since January 1999. He is Chair of the Compensation Committee and a member of the Finance Committee.

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

Ms. Jacobs, age 58, is the Chairman, President and Chief Executive Officer of Theragenics Corporation, a manufacturer of prostate cancer treatment devices and surgical products. She has held the position of Chairman since May 2007, and previously from 1998 to 2005. She was Co-Chairman of the Board from 1997 to 1998 and was elected President in 1992 and Chief Executive Officer in 1993. Ms. Jacobs has been a director of the Company since January 1999. She is a member of the Compensation Committee and the Committee on Directors and Corporate Governance.

Marie L. Knowles
Executive Vice President and Chief Financial Officer, Retired
ARCO

Ms. Knowles, age 62, retired from Atlantic Richfield Company (ARCO) in 2000 and was Executive Vice President and Chief Financial Officer from 1996 until 2000 and a director from 1996 until 1998. She joined ARCO in 1972. Ms. Knowles is also a member of the Board of Trustees of the Fidelity Funds. She has been a director of the Company since March 2002. She is the Chair of the Audit Committee and a member of the Finance Committee.

David M. Lawrence, M.D.
Chairman of the Board and Chief Executive Officer, Retired
Kaiser Foundation Health Plan, Inc. and Kaiser Foundation Hospitals

Dr. Lawrence, age 68, retired as Chairman Emeritus of Kaiser Foundation Health Plan, Inc. and Kaiser Foundation Hospitals in December 2002. He served as Chairman of the Board from 1992 to May 2002 and Chief Executive Officer from 1991 to May 2002 of Kaiser Foundation Health Plan, Inc. and Kaiser Foundation Hospitals. He held a number of management positions with these organizations prior to assuming these positions, including Vice Chairman of the Board and Chief Operating Officer. He is also a director of Agilent Technologies Inc., Dynavax Technologies Corporation and Raffles Medical Group, Inc. Dr. Lawrence has been a director of the Company since January 2004. He is a member of the Compensation Committee and the Committee on Directors and Corporate Governance.

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Edward A. Mueller
Chairman of the Board and Chief Executive Officer
Qwest Communications International Inc.

Mr. Mueller, age 62, has served as Chairman and Chief Executive Officer of Qwest Communications International Inc., a provider of voice, data and video services, since August 2007. He served as Chief Executive Officer of Williams-Sonoma, Inc., a provider of specialty products for cooking, from January 2003 until July 2006. Prior to joining Williams-Sonoma, Inc., Mr. Mueller served as President and Chief Executive Officer of Ameritech Corporation, a subsidiary of SBC Communications, Inc., from 2000 to 2002. He is also a director of The Clorox Company. Mr. Mueller has been a director of the Company since April 2008. He is a member of the Compensation Committee and the Committee on Directors and Corporate Governance.

Jane E. Shaw, Ph.D.
Chairman of the Board and Chief Executive Officer, Retired
Aerogen, Inc.

Dr. Shaw, age 70, retired as Chairman of the Board of Aerogen, Inc., a company specializing in the development of products for improving respiratory therapy, in October 2005. She had held that position since 1998. She retired as Chief Executive Officer of that company in June 2005. She is also currently the non-executive Chairman of Intel Corporation, and a director of Talima Therapeutics, Inc. Dr. Shaw has been a director of the Company since April 1992. She is the Chair of the Committee on Directors and Corporate Governance and a member of the Audit Committee.

Table of Contents**The Board, Committees and Meetings**

The Board of Directors is the Company's governing body with responsibility for oversight, counseling and direction of the Company's management to serve the long-term interests of the Company and its stockholders. The Board's goal is to build long-term value for the Company's stockholders and to assure the vitality of the Company for its customers, employees and other individuals and organizations that depend on the Company. To achieve its goals, the Board monitors both the performance of the Company and the performance of the Chief Executive Officer (CEO). The Board currently consists of ten members, all of whom are independent with the exception of the Chairman.

The Board has, and for many years has had, standing committees: currently, the Audit Committee, the Compensation Committee, the Committee on Directors and Corporate Governance, and the Finance Committee. Each of these committees is governed by a written charter approved by the Board in compliance with the applicable requirements of the Securities and Exchange Commission (the SEC) and the New York Stock Exchange (the NYSE) listing requirements (collectively, the Applicable Rules). The charter of each committee requires an annual review by such committee. Each member of our standing committees is independent, as determined by the Board, under the NYSE listing standards and the Company's director independence standards. In addition, each member of the Audit Committee meets the additional, heightened independence criteria applicable to audit committee members, as established by the SEC. The members of each standing committee are appointed by the Board each year for a term of one-year or until their successors are elected. The members of the committees are identified in the table below.

Director	Audit	Compensation	Directors and Corporate Governance	Finance
Andy D. Bryant	X			X
Wayne A. Budd	X		X	
John H. Hammergren				
Alton F. Irby III		Chair		X
M. Christine Jacobs		X	X	
Marie L. Knowles	Chair			X
David M. Lawrence, M.D.		X	X	
Edward A. Mueller		X	X	
James V. Napier		X		Chair
Jane E. Shaw	X		Chair	
Number of meetings held during the fiscal year ended March 31, 2009	7	7	6	5

Board and Meeting Attendance

During the fiscal year ended March 31, 2009 (FY 2009), the Board met eight times. Each director attended at least 75% of the aggregate number of meetings of the Board and of all the committees on which he or she served. Directors meet their responsibilities not only by attending Board and committee meetings, but also through communication with executive management on matters affecting the Company. Directors are also expected to attend the Annual Meeting of Stockholders, and nine directors attended the Annual Meeting of Stockholders held in July 2008.

Audit Committee

The Audit Committee is responsible for, among other things, reviewing with management the annual audited financial statements filed in the Annual Report on Form 10-K, including major issues regarding accounting principles and practices as well as the adequacy and effectiveness of internal control over financial reporting that could significantly affect the Company's financial statements; reviewing with financial management and the independent registered public accounting firm (the independent accountants) the interim financial statements prior to the filing of the Company's quarterly reports on Form 10-Q; the appointment of the independent

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accountants; monitoring the independence and evaluating the performance of the independent accountants; approving the fees to be paid to the independent accountants; reviewing and accepting the annual audit plan, including the scope of the audit activities of the independent accountants; at least annually reassessing the adequacy of the Audit Committee's charter and recommending to the Board any proposed changes; reviewing major changes to the Company's accounting principles and practices; reviewing the appointment, performance, and replacement of the senior internal audit department executive; advising the Board with respect to the Company's policies and procedures regarding compliance with applicable laws and regulations and with the Company's code of conduct; and performing such other activities and considering such other matters, within the scope of its responsibilities, as the Audit Committee or Board deems necessary or appropriate. The composition of the Audit Committee, the attributes of its members, including the requirement that each be financially literate and have other requisite experience, and the responsibilities of the Audit Committee, as reflected in its charter, are in accordance with the Applicable Rules for corporate audit committees.

Audit Committee Financial Expert

The Board has designated Ms. Knowles as the Audit Committee's financial expert and has determined that she meets the qualifications of an audit committee financial expert in accordance with SEC rules, and that she is independent as defined for audit committee members in the listing standards of the NYSE and in accordance with the Company's additional director independence standards.

Compensation Committee

The Compensation Committee has responsibility for, among other things, reviewing all matters relating to CEO compensation, including making and annually reviewing decisions concerning cash and equity compensation, and other terms and conditions of employment for the CEO, incorporating the review of the CEO's performance against pre-established business and individual objectives that is conducted annually by the full Board; reviewing and approving corporate goals and objectives relating to compensation of other executive officers, and making and annually reviewing decisions concerning the cash and equity compensation, and other terms and conditions of employment, for those executive officers; reviewing and making recommendations to the Board with respect to adoption of, or amendments to, all equity-based incentive compensation plans and arrangements for employees and cash-based incentive plans for senior executive officers; approving grants of stock, stock options, stock purchase rights or other equity grants to employees eligible for such grants (unless such responsibility is delegated pursuant to the applicable stock plan); interpreting the Company's stock plans; reviewing its charter annually and recommending to the Board any changes the Compensation Committee determines are appropriate; participating with management in the preparation of the Compensation Discussion and Analysis for the Company's proxy statement; and performing such other activities required by applicable law, rules or regulations, and consistent with its charter, as the Compensation Committee or the Board deems necessary or appropriate. The Compensation Committee may delegate to any officer or officers the authority to grant awards to employees other than directors or executive officers, provided that such grants are within the limits established by the Delaware General Corporation Law and by resolution of the Board. The Compensation Committee determines the structure and amount of all executive officer compensation, including awards of equity, based upon the initial recommendation of management and in consultation with the Compensation Committee's outside compensation consultant. The Compensation Committee directly employs its own independent compensation consultant, Compensation Strategies, Inc., and independent legal counsel, Gunderson Dettmer Stough Villeneuve Franklin & Hachigian, LLP. Compensation Strategies, Inc. also provides consulting services to the Governance Committee in the area of director compensation. These advisors do not provide any other services to the Company. Additional information on the Compensation Committee's process and procedures for consideration of executive compensation is addressed in the Compensation Discussion and Analysis below.

Finance Committee

The Finance Committee has responsibility for, among other things, reviewing the Company's dividend policy; reviewing the adequacy of the Company's insurance programs; reviewing with management the long-range financial policies of the Company; providing advice and counsel to management on the financial aspects of

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significant acquisitions and divestitures, major capital commitments, proposed financings and other significant transactions; making recommendations concerning significant changes in the capital structure of the Company; reviewing tax planning strategies utilized by management; reviewing the funding status and investment policies of the Company's tax-qualified retirement plans; and reviewing and approving the principal terms and conditions of securities that may be issued by the Company.

Committee on Directors and Corporate Governance

The Committee on Directors and Corporate Governance (the Governance Committee) has responsibility for, among other things, recommending guidelines and criteria to be used to select candidates for Board membership; reviewing the size and composition of the Board to assure that proper skills and experience are represented; recommending the slate of nominees to be proposed for election at the annual meeting of stockholders; recommending qualified candidates to fill Board vacancies; evaluating the Board's overall performance; developing and administering the Company's related party transactions policy; advising the Board on matters of corporate governance, including the Corporate Governance Guidelines and composition of committees; and advising the Board regarding director compensation and administering the 2005 Stock Plan with respect to directors' equity awards.

Nominations for Director

To fulfill its responsibility to recruit and recommend to the full Board nominees for election as directors, the Governance Committee considers all qualified candidates who may be identified by any one of the following sources: current or former Board members, a professional search firm, Company executives and stockholders. Stockholders who wish to propose a director candidate for consideration by the Governance Committee may do so by submitting the candidate's name, resume and biographical information and qualifications to the attention of the Secretary of the Company at One Post Street, 35th Floor, San Francisco, CA 94104. All proposals for recommendation or nomination received by the Secretary will be presented to the Governance Committee for its consideration. The Governance Committee and the Company's CEO will interview those candidates who meet the criteria described below, and the Governance Committee will recommend to the Board nominees that best suit the Board's needs. In order for a recommended director candidate to be considered by the Governance Committee for nomination for election at an upcoming annual meeting of stockholders, the recommendation must be received by the Secretary not less than 120 days prior to the anniversary date of the Company's most recent annual meeting of stockholders.

In evaluating candidates for the Board, the Governance Committee reviews each candidate's biographical information and credentials, and assesses each candidate's independence, skills, experience and expertise based on a variety of factors. Members of the Board should have the highest professional and personal ethics, integrity and values consistent with the Company's values. They should have broad experience at the policy-making level in business, technology, healthcare or public interest, or have achieved national prominence in a relevant field as a faculty member or senior government officer. The Governance Committee will consider whether the candidate has had a successful career that demonstrates the ability to make the kind of important and sensitive judgments that the Board is called upon to make, and whether the nominee's skills are complementary to the existing Board members' skills. Board members must take into account and balance the legitimate interests and concerns of all of the Company's stockholders and other stakeholders, and must be able to devote sufficient time and energy to the performance of their duties as a director, as well as have a commitment to diversity.

Director Compensation

The Company believes that compensation for non-employee directors should be competitive and should encourage ownership of the Company's stock. The compensation for each non-employee director of the Company includes an annual cash retainer, an annual restricted stock unit (RSU) award and per-meeting fees. The Presiding Director and

committee chairs also receive an additional annual retainer. Non-employee directors are paid their reasonable expenses for attending Board and committee meetings. Directors who are employees of the Company or its subsidiaries do not receive any compensation for service on the Board. The Governance Committee annually

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reviews the level and form of the Company's director compensation and, if it deems appropriate, recommends to the Board changes in director compensation.

Cash Compensation

Directors may receive their annual retainers and meeting fees in cash or defer their cash compensation into the Company's Deferred Compensation Administration Plan III (DCAP III). Directors may elect in advance to defer up to 100% of their annual retainer (including any committee chair or Presiding Director retainer) and all of their meeting fees earned during any calendar year into the Company's DCAP III. The minimum deferral period for any amounts deferred is five years, and if a director ceases to be a director of the Company for any reason other than death, disability or retirement, the account balance will be paid in January or July, which is at least six months following his or her separation. In the event of death, disability or retirement, the account balance will be paid in accordance with the director's distribution election. To attain retirement, a director must have served on the Board for at least six successive years. The Compensation Committee approves the interest rate to be credited each year to amounts deferred into the DCAP III, and the interest rate for calendar year 2009 was set at 8.0% per annum.

The following table summarizes the cash compensation provided to non-employee directors:

Non-Employee Director Cash Compensation

Annual cash retainer	\$ 75,000
Additional retainer for Presiding Director	\$ 10,000
Additional retainer for Chairperson of the Audit Committee	\$ 20,000
Additional retainer for Chairperson of the Compensation Committee	\$ 20,000
Additional retainer for Chairperson of all other committees	\$ 10,000
Meeting fee for each Audit Committee meeting attended	\$ 2,000
Meeting fee for each Board or other committee meeting attended	\$ 1,500

Equity Compensation

Each July, non-employee directors receive an automatic annual grant of RSUs with an approximate value as of the grant date equal to \$150,000. The actual number of RSUs under the grant is determined by dividing \$150,000 by the closing price of the Company's common stock on the grant date (with any fractional unit rounded up to the nearest whole unit); provided, however, that the number of units granted in any annual grant will in no event exceed 5,000 units, in accordance with the requirements of our 2005 Stock Plan.

The RSUs granted to non-employee directors vest immediately. If a director meets the director stock ownership guidelines (currently \$300,000 in shares and share equivalents), then the director will, on the grant date, receive the shares underlying the RSU grant, unless the director elects to defer receipt of the shares. The determination of whether a director meets the director stock ownership guidelines is made as of the last day of the deferral election period preceding the applicable RSU grant. If a non-employee director has not met the stock ownership guidelines as of the last day of such deferral election period, then the shares underlying the RSU grant will be automatically deferred until after the director's separation from service.

Recipients of RSUs are entitled to dividend equivalents at the same dividend rate applicable to the Company's common stockholders, which is currently set at \$0.12 per share each quarter. For our directors, dividend equivalents on the RSUs are credited quarterly to an interest bearing cash account and are not distributed until the shares underlying the RSU award are released to the director. Interest accrues on directors' credited dividend equivalents at

the same rate used for the Company's DCAP III, which for calendar year 2009 was set at 8.0% per annum.

All Other Compensation and Benefits

Non-employee directors are eligible to participate in the McKesson Foundation's Matching Gifts Program. Under this program, directors' gifts to schools, educational associations or funds, and other public charitable organizations are eligible for a match by the Foundation up to \$5,000 per director for each fiscal year.

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The following table sets forth information concerning the compensation paid or earned by each non-employee director for the fiscal year ended March 31, 2009. Mr. Hammergren, our Chairman, President and Chief Executive Officer, is not included in this table as he is an employee of the Company and thus receives no compensation for his service as a director. The compensation received by Mr. Hammergren as an officer of the Company is shown in the 2009 Summary Compensation Table.

Name	Fees Earned or Paid in Cash (\$) ⁽¹⁾	Stock Awards (\$) ⁽²⁾	Change in Pension Value and Nonqualified Deferred Compensation Earnings (\$) ⁽³⁾	All Other Compensation (\$) ⁽⁴⁾	Total (\$)
Andy D. Bryant	96,000	150,009	3,214	1,109	250,332
Wayne A. Budd	111,500	150,009	17,374	4,770	283,653
Alton F. Irby III	123,500	150,009	18,015	4,708	296,232
M. Christine Jacobs	106,500	150,009	1,890	5,827	264,226
Marie L. Knowles	127,000	150,009	14,181	7,424	298,614
David M. Lawrence, M.D.	103,500	150,009	6,486	9,918	269,913
Edward A. Mueller ⁽⁵⁾	91,467	187,542	1,940	865	281,814
James V. Napier	120,000	150,009	11,023	7,623	288,655
Jane E. Shaw	123,000	150,009	13,259	10,053	296,321

- (1) Consists of the director annual retainer and meeting fees and, if applicable, the annual chair and Presiding Director retainers (whether paid or deferred).
- (2) Amounts shown in this column reflect the dollar amount recognized for financial reporting purposes with respect to the fiscal year in accordance with Statement of Financial Accounting Standards No. 123(R), Share-Based Payment (SFAS 123(R)) and do not reflect whether the recipient has actually realized a financial benefit from the award. Due to the fact that these awards are fully vested at grant (whether paid or deferred), this column also represents the full grant date fair value of the director s RSU awards as computed pursuant to SFAS 123(R). For additional information on the assumptions used to calculate the value of such awards, refer to Financial Note 3 of the Company s consolidated financial statements in the Annual Report on Form 10-K for the fiscal year ended March 31, 2009, as filed with the SEC on May 5, 2009.
- (3) Represents the amount of above-market interest earned under the Company s Deferred Compensation Administration Plans, and above-market interest credited on undelivered dividend equivalents. A discussion of the Company s Deferred Compensation Administration Plans is provided below in the subsection entitled Narrative Disclosure to the 2009 Nonqualified Deferred Compensation Table.
- (4) For Messrs. Bryant, Budd, Irby and Mueller and Mss. Jacobs and Shaw, represents the amount of dividend equivalents credited on RSUs granted under the Company s 2005 Stock Plan and 1997 Non-Employee Directors

Equity Compensation and Deferral Plan. Recipients of RSUs are entitled to dividend equivalents at the same dividend rate applicable to the Company's common stockholders, which is currently set at \$0.12 per share each quarter. For directors, dividend equivalents on the RSUs are credited quarterly to an interest bearing cash account and are not distributed until the shares underlying the RSU award are released to the director, at which time these amounts are also credited with an 8.0% annual return.

For Messrs. Lawrence and Napier and Ms. Knowles, represents: (i) the amount of dividend equivalents on RSUs and related interest, as described above; and (ii) the amount of matching charitable contributions provided by the McKesson Foundation. Under the Foundation's Matching Gifts Program, directors' gifts to schools, educational associations or funds, and other public charitable organizations are eligible for matching by the Foundation up to \$5,000 per director for each fiscal year.

- (5) Mr. Mueller was elected to the Board on April 23, 2008, and he therefore received a pro-rata annual grant of RSUs on his election date (in addition to the full automatic annual grant in July 2008). His director annual retainer was also prorated to correspond to his April 23, 2008 election date.

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Corporate Governance

The Board is committed to, and for many years has adhered to, sound and effective corporate governance practices. The Board is also committed to diligently exercising its oversight responsibilities with respect to the Company's business and affairs consistent with the highest principles of business ethics, and to meeting the corporate governance requirements of both federal law and the NYSE. In addition to its routine monitoring of best practices, each year the Board and its committees review the Company's current corporate governance practices, the corporate governance environment and current trends, and update their written charters and guidelines as necessary. The Board has adopted independence standards for its members, Corporate Governance Guidelines, as well as the charters for the Audit, Compensation, Finance and Governance Committees, all of which can be found on the Company's website at www.mckesson.com under the caption "Investors Corporate Governance" and are described more fully below. Printed copies of these documents may be obtained by any stockholder from the Corporate Secretary upon request, One Post Street, 35th Floor, San Francisco, California 94104.

Majority Voting Standard

The Company's Amended and Restated By-Laws (the "By-Laws") provide for a majority voting standard for the election of directors. This standard states that in uncontested director elections, a director nominee will be elected only if the number of votes cast for the nominee exceeds the number of votes cast against that nominee. To address the holdover director situation in which, under Delaware law a director remains on the Board until his or her successor is elected and qualified, the By-Laws require each director nominee to submit an irrevocable resignation in advance of the stockholder vote. The resignation would be contingent upon both the nominee not receiving the required vote for reelection and acceptance of the resignation by the Board pursuant to its policies.

If a director nominee receives more against votes for his or her election, the Board's Governance Committee, composed entirely of independent directors, will evaluate and make a recommendation to the Board with respect to the proffered resignation. In its review, the Governance Committee will consider, by way of example, the following factors: the impact of the acceptance of the resignation on stock exchange listing or other regulatory requirements; the financial impact of the acceptance of the resignation; the unique qualifications of the director whose resignation has been tendered; the reasons the Governance Committee believes that stockholders cast votes against the election of such director (such as a vote no campaign on an illegitimate or wrongful basis); and any alternatives for addressing the against votes.

The Board must take action on the Governance Committee's recommendation within 90 days following certification of the stockholders' vote. Absent a determination by the Board that it is in the best interests of the Company for an unsuccessful incumbent to remain on the Board, the Board shall accept the resignation. The majority vote standard states that the Board expects an unsuccessful incumbent to exercise voluntary recusal from deliberations of the Governance Committee or the Board with respect to the tendered resignation. In addition, the standard requires the Company to file a current report on Form 8-K with the SEC within four business days after the Board's acceptance or rejection of the resignation, explaining the reasons for any rejection of the tendered resignation. Finally, the standard also provides procedures to address the situation in which a majority of the members of the Governance Committee are unsuccessful incumbents or all directors are unsuccessful incumbents.

If the Board accepts the resignation of an unsuccessful incumbent director, or if in an uncontested election a nominee for director who is not an incumbent director does not receive a majority vote, the Board may fill the resulting vacancy or decrease the size of the Board. In contested elections, the plurality vote standard will apply. A contested election is an election in which a stockholder has duly nominated a person to the Board and has not withdrawn that

nomination at least five days prior to the first mailing of the notice of the meeting of stockholders.

Codes of Business Conduct and Ethics

The Company is committed to the highest standards of ethical and professional conduct and has adopted a Code of Business Conduct and Ethics that applies to all directors, officers and employees, and provides guidance for conducting the Company's business in a legal, ethical and responsible manner. In addition, the Company has adopted a Code of Ethics applicable to the Chief Executive Officer, Chief Financial Officer, Controller and Financial Managers (Senior Financial Managers Code) that supplements the Code of Business Conduct and

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Ethics by providing more specific requirements and guidance on certain topics. Both of the Codes are available on the Company's website at www.mckesson.com under the caption "Investors' Corporate Governance," or a printed copy may be obtained by any stockholder from the Corporate Secretary upon request, One Post Street, 35th Floor, San Francisco, California 94104. The Company intends to post any amendments to, or waivers from, its Senior Financial Managers' Code on its website within four business days after such amendment or waiver.

Related Party Transactions Policy

The Company has a written Related Party Transactions Policy requiring approval or ratification of certain transactions involving executive officers, directors and nominees for director, beneficial owners of more than five percent of the Company's common stock, and immediate family members of any such persons where the amount involved exceeds \$100,000. Under the policy, the Company's General Counsel initially determines if a transaction or relationship constitutes a transaction that requires compliance with the policy or disclosure. If so, the matter will be referred to the Chief Executive Officer for consideration with the General Counsel as to approval or ratification in the case of other executive officers and/or their immediate family members, or to the Governance Committee in the case of transactions involving directors, nominees for director, the General Counsel, the Chief Executive Officer or holders of more than five percent of the Company's common stock. Annually directors, nominees and executive officers are asked to identify any transactions that might fall under the policy as well as identify immediate family members. Additionally, they are required to promptly notify the General Counsel of any proposed related party transaction. The policy is administered by the Governance Committee. The transaction may be ratified or approved if it is fair and reasonable to the Company and consistent with its best interests. Factors that may be taken into account in making that determination include: (i) the business purpose of the transaction; (ii) whether it is entered into on an arms-length basis; (iii) whether it would impair the independence of a director; and (iv) whether it would violate the provisions of the Company's Code of Business Conduct and Ethics.

The Company and its subsidiaries may, in the ordinary course of business, have transactions involving more than \$100,000 with unaffiliated companies of which certain of the Company's directors are directors and/or executive officers. Therefore, under the policy, the Governance Committee reviews such transactions. However, the Company does not consider the amounts involved in such transactions to be material in relation to its businesses, the businesses of such other companies or the interests of the directors involved. In addition, the Company believes that such transactions are on the same terms generally offered by such other companies to other entities in comparable transactions.

Corporate Governance Guidelines

The Board for many years has had directorship practices reflecting sound corporate governance practices and, in response to the NYSE listing requirements, in 2003 adopted Corporate Governance Guidelines which address matters including, among others: director qualification standards and the director nomination process; stockholder communications with directors; director responsibilities; selection and role of the Presiding Director; director access to management and, as necessary and appropriate, independent advisors; director compensation; director stock ownership guidelines; director orientation and continuing education; management succession; and an annual performance evaluation of the Board. The Governance Committee is responsible for overseeing the guidelines and annually assessing its adequacy. The Board most recently approved revised Corporate Governance Guidelines on April 23, 2008, which can be found on the Company's website at www.mckesson.com under the caption "Investors' Corporate Governance," or a printed copy may be obtained by any stockholder from the Corporate Secretary upon request.

Director Stock Ownership Guidelines

Prior to July 25, 2007, pursuant to the Company's Director Stock Ownership Guidelines, directors were expected to own shares or share equivalents of the Company's common stock equal to three times the annual board retainer within three years of joining the Board. At its July 25, 2007 meeting, the Board amended the Company's Director Stock Ownership Guidelines such that directors are now expected to own shares or share equivalents of the Company's common stock equal to four times the annual board retainer within three years of joining the Board. As of May 29, 2009, all of our directors were in compliance with the Company's amended Director Stock Ownership Guidelines. In accordance with the terms of our Director Stock Ownership Guidelines, due to their recent election to

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the Board, Messrs. Bryant and Mueller have until 2011 to accumulate shares or share equivalents of the Company's common stock equal to four times the annual board retainer.

Director Independence

Under the Company's Corporate Governance Guidelines, the Board must have a substantial majority of directors who meet the applicable criteria for independence required by the NYSE. The Board must determine, based on all relevant facts and circumstances, whether in its business judgment, each director satisfies the criteria for independence, including the absence of a material relationship with the Company, either directly or indirectly. Consistent with the continued listing requirements of the NYSE, the Board has established standards to assist it in making a determination of director independence. A director will not be considered independent if:

- a) The director is, or has been within the last three years, an employee of the Company, or an immediate family member is, or has been within the last three years, an executive officer, of the Company.
- b) The director has received, or has an immediate family member who has received, during any twelve-month period within the last three years, more than \$120,000 in direct compensation from the Company, other than director and committee fees and pension or other forms of deferred compensation for prior service (provided such compensation is not contingent in any way on continued service).
- c) (A) The director is a current partner or employee of a firm that is the Company's internal or external auditor; (B) the director has an immediate family member who is a current partner of such a firm; (C) the director has an immediate family member who is a current employee of such a firm and personally works on the Company's audit; or (D) the director or an immediate family member was within the last three years a partner or employee of such a firm and personally worked on the Company's audit within that time.
- d) The director or an immediate family member is, or has been within the last three years, employed as an executive officer of another company where any of the Company's present executive officers at the same time serves or served on that company's compensation committee.
- e) The director is an executive officer or an employee, or whose immediate family member is an executive officer, of another company (A) which in any of the last three years accounted for at least 2.0% of the Company's consolidated gross revenues, or (B) for which in any such year the Company accounted for at least 2.0% or \$1,000,000, whichever is greater, of such other company's consolidated gross revenues.
- f) The director is, or has been within the last three years, an executive officer of another company that is indebted to the Company, or to which the Company is indebted, and the total amount of either company's indebtedness to the other is more than 2.0% of the respective company's total assets measured as of the last completed fiscal year.
- g) The director serves, or served within the last three years, as an executive officer, director or trustee of a charitable organization, and the Company's discretionary charitable contributions in any single fiscal year exceeded the greater of \$1,000,000 or 2.0% of that organization's total annual charitable receipts. (The Company's matching of employee charitable contributions will not be included in the amount of the Company's contributions for this purpose.)
- h) For relationships not covered by the guidelines above, or for relationships that are covered, but as to which the Board believes a director may nonetheless be independent, the determination of independence shall be made by the directors who satisfy the NYSE independence rules and the guidelines set forth above. However, any determination of independence for a director who does not meet these standards must be specifically explained in the Company's proxy statement.

These standards can also be found on the Company's website at www.mckesson.com under the caption Investors Corporate Governance. Provided that no relationship or transaction exists that would disqualify a director under these standards, and no other relationship or transaction exists of a type not specifically mentioned in these standards that, in the Board's opinion, taking into account all relevant facts and circumstances, would impair a director's ability to exercise his or her independent judgment, the Board will deem such person to be independent. Applying these standards, and all applicable laws, rules or regulations, the Board has determined that, with the exception of John H. Hammergren, all of the

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current directors, namely Andy D. Bryant, Wayne A. Budd, Alton F. Irby III, M. Christine Jacobs, Marie L. Knowles, David M. Lawrence, M.D., Edward A. Mueller, James V. Napier and Jane E. Shaw, are independent.

Executive Sessions of the Board

The independent directors of the Board meet in executive session without management present on a regularly scheduled basis. The members of the Board designate a Presiding Director to preside at such executive sessions and the position rotates annually each July among the committee chairs. The Presiding Director establishes the agenda for each executive session meeting and also determines which, if any, other individuals, including members of management and independent advisors, should attend each such meeting. The Presiding Director also, in collaboration with the Chairman and the Corporate Secretary, reviews the agenda in advance of the Board of Directors meetings. James V. Napier, Chair of the Finance Committee, is the current Presiding Director until his successor is chosen by the other independent directors at the Board's meeting in July 2009.

Communications with Directors

Stockholders and other interested parties may communicate with the Presiding Director, the non-management directors, or any of the directors by addressing their correspondence to the Board member or members, c/o the Corporate Secretary's Department, McKesson Corporation, One Post Street, 35th Floor, San Francisco, CA 94104, or via e-mail to presidingdirector@mckesson.com or to nonmanagementdirectors@mckesson.com. The Board has instructed the Corporate Secretary, prior to forwarding any correspondence, to review such correspondence and, in her discretion, not to forward certain items if they are irrelevant to or inconsistent with the Company's operations, policies and philosophies, are deemed of a commercial or frivolous nature or are otherwise deemed inappropriate for the Board's consideration. The Corporate Secretary's Department maintains a log of all correspondence received by the Company that is addressed to members of the Board. Members of the Board may review the log at any time, and request copies of any correspondence received.

Indemnity Agreements

The Company has entered into separate indemnity agreements with its directors and executive officers that provide for defense and indemnification against any judgment or costs assessed against them in the course of their service. Such agreements do not, however, permit indemnification for acts or omissions for which indemnification is not permitted under Delaware law.

Item 2. *Proposal to Amend our 2005 Stock Plan*

Your Board recommends a vote FOR amending the 2005 Stock Plan.

At the annual meeting, our stockholders will be asked to approve an amendment to the Company's 2005 Stock Plan (the 2005 Stock Plan) to increase the number of shares of common stock reserved for issuance under the plan by 14,500,000 shares.

The Board approved the adoption of our 2005 Stock Plan on May 25, 2005, subject to stockholder approval. The Company's stockholders approved the 2005 Stock Plan at their annual meeting held on July 25, 2005, which is the effective date of the 2005 Stock Plan. On October 27, 2006, the Board amended and restated the 2005 Stock Plan to comply with proposed regulations issued under Section 409A of the U.S. Internal Revenue Code of 1986, as amended (the Code). On July 25, 2007, the Company's stockholders approved an increase in the number of shares of common stock reserved for issuance under the 2005 Stock Plan by 15,000,000 shares. On July 23, 2008, the Board amended and restated the 2005 Stock Plan to comply with the final regulations issued under Code Section 409A, and to modify

the timing of the distribution of shares underlying grants of RSU awards to non-employee directors. On May 26, 2009, the Compensation Committee of the Board approved an amendment of the 2005 Stock Plan regarding the circumstances under which a merger or consolidation involving the Company would constitute a change-in-control.

As of April 30, 2009, an aggregate of 11,486,209 shares of our common stock remained available for grant under the 2005 Stock Plan. The Board believes it is important to the continued success of the Company that we have available an adequate reserve of shares under the 2005 Stock Plan for use in attracting, motivating and retaining qualified

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individuals. Accordingly, stockholders are being asked to approve an amendment to the 2005 Stock Plan to increase the number of shares of the Company's common stock reserved for issuance by 14,500,000 shares. The Board approved the proposed amendment to the 2005 Stock Plan described above on May 27, 2009, with such amendment to be effective upon stockholder approval.

The 2005 Stock Plan is an omnibus plan that provides for a variety of equity and equity-based award vehicles, including the use of stock options, stock appreciation rights, restricted stock, restricted stock units, performance shares, and other share-based awards. Stockholders' approval of the proposed amendment to the Company's 2005 Stock Plan will allow for the continued ability to grant share-based awards that qualify as performance-based compensation, thereby preserving the Company's tax deduction under Section 162(m) of the Code, and stock options that have certain favorable tax treatment to participants, and to satisfy certain stockholder approval requirements of the NYSE rules.

Background of the Amendment

Current Equity Incentive Reserve is Insufficient. Equity awards are an essential component of the Company's long-term compensation program. As of April 30, 2009, an aggregate of 11,486,209 shares of our common stock remained available for grant under the 2005 Stock Plan. This number was reduced as a result of our annual May 2009 equity grant process, which included the establishment of performance targets that convert into RSU awards the following year, such that we believe there will be insufficient shares available in the 2005 Stock Plan to fulfill our equity incentive program commitments as of the 2010 Annual Meeting of Stockholders. Specifically, approximately 5,500,000 shares were deducted from the available share reserve as a consequence of our May 2009 equity grant process, and based on past experience, we expect a similar amount will be deducted in May 2010 for the same purpose. In addition, the Company anticipates investing in new business opportunities and sustaining its revenue growth in FY 2010. To do this, the Company will need to recruit new talent and retain its current employees with offers of competitive equity compensation. Without additional shares in the 2005 Stock Plan, the Company will be challenged in its employee recruitment and retention efforts. With additional shares in the 2005 Stock Plan as a result of this amendment, the Company will be in a stronger position to recruit and retain those employees who are central to our continued success.

Prudent Management of Equity Incentive Programs. Management believes that it has managed the Company's equity incentive programs prudently, as can be measured by reference to the Company's run-rate and equity overhang, each described further below.

Run-Rate. The Company has reduced the size of employee share-based awards from prior years, and thereby reduced the Company's run-rate to lower levels. The run-rate is the level of net share-based awards made by the Company (*i.e.*, actual grants less cancellations, terminations or forfeitures for any given period) divided by the shares outstanding for the period. For the last five fiscal years, the amounts were as follows:

	Grants	Cancellations	Net Grants (Cancellations) (Shares in thousands)	Run-Rate (%)
FY 2005⁽¹⁾	6,791	5,051	1,740	0.6%
FY 2006⁽¹⁾	5,388	1,686	3,702	1.2% ⁽²⁾
FY 2007	2,102	229	1,873	0.6% ⁽²⁾
FY 2008	2,661	1,905	756	0.3% ⁽²⁾
FY 2009	3,145	7,401	(4,256)	(3)

- (1) Includes awards granted under legacy stock plans that were in use prior to stockholders' approval of the 2005 Stock Plan.
- (2) Pursuant to the terms of the 2005 Stock Plan, for any one share of common stock issued in connection with a stock-settled stock appreciation right, restricted stock award, restricted stock unit award, performance share or other share-based award, two shares must be deducted from the shares available for future grant. Based on this counting methodology, the Company's run-rate for FY 2006 through FY 2009 would have been 1.3%, 0.9%, 0.8%, and 0.0%, respectively.
- (3) Since the number of cancellations exceeded grants, the run-rate for FY 2009 is not a meaningful indicator.

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For the past five fiscal years, the Company has maintained its run-rate below two percent. The lower run-rate for FY 2007 through FY 2009 reflects our greater reliance on full value share grants, such as restricted stock units, subsequent to the adoption of Statement of Financial Accounting Standards No. 123(R), Share-based Payment on April 1, 2006. We believe this lower run-rate is indicative of future practice. Under the share counting method used in the 2005 Stock Plan, as described in the plan summary below, the award of a stock option for one share of common stock requires the deduction of only one share from the eligible plan share reserve. However, pursuant to the terms of the 2005 Stock Plan, for any one share of common stock issued in connection with a stock-settled stock appreciation right, restricted stock award, restricted stock unit award, performance share or other share-based award, two shares must be deducted from the shares available for future grants. Through the continued emphasis on full value shares, such as restricted stock units, we expect that we will be able to continue to contain our run-rate and attract new employees and retain current employees.

Equity Overhang. The Company also has been focused on reducing the dilution caused by the grant of share-based awards, which is referred to as our equity overhang. The Company's equity overhang is calculated by dividing (A) the sum of all share-based awards outstanding and available for grant as of the end of each fiscal year (the Total Awards) by (B) the sum of the total number of shares of the Company's common stock outstanding as of the end of each fiscal year and Total Awards. For the last five fiscal years, the amounts were as follows:

	Equity Overhang (%)
FY 2005	19.1%
FY 2006	15.1%
FY 2007	12.5%
FY 2008	14.0%
FY 2009	11.2%

Conclusion. The Board believes that the proposed amendment to the 2005 Stock Plan is in the best interests of the Company because of its continuing need to provide share-based compensation to attract and retain high quality employees. Having additional equity compensation available to grant under the 2005 Stock Plan will enable the Company to recruit the top talent necessary to achieve continued success. Nonetheless, we will continue to monitor changes in the marketplace relating to equity compensation and respond appropriately. We have periodically revised our equity award guidelines in response to evolving market practices and will continue to be vigilant in this regard so that our efforts to provide competitive equity compensation matches, but does not significantly exceed, prevailing market standards.

2005 Stock Plan Summary

The following summary of the material features of our 2005 Stock Plan (including the proposed amendment) does not purport to be complete and is qualified in its entirety by reference to the specific language of our 2005 Stock Plan. A copy of our 2005 Stock Plan, including the text of our proposed amendment, is available to any of our stockholders upon request by: (i) writing to the Corporate Secretary, McKesson Corporation, One Post Street, 35th Floor, San Francisco, CA 94104; (ii) sending an e-mail to corporatesecretary@mckesson.com; or (iii) calling the Corporate Secretary's Department toll-free at (800) 826-9260. The 2005 Stock Plan, including our proposed amendment, may also be viewed as Appendix B to the definitive proxy statement posted to the SEC's website at www.sec.gov.

Purpose of the 2005 Stock Plan

The purpose of the 2005 Stock Plan is to provide employees of the Company or its affiliates and members of the Company's Board of Directors the opportunity to: (i) receive equity-based long-term incentives so that the Company may effectively attract and retain the best available personnel; (ii) promote the success of the Company by motivating employees and directors to superior performance; and (iii) align employee and director interests with the interests of the Company's stockholders.

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2005 Stock Plan Basics

Eligible participants: All employees of the Company and its affiliates and members of the Company's Board of Directors are eligible to receive stock awards under the 2005 Stock Plan, and there were approximately a total of 32,500 employees and nine non-employee directors eligible as of March 31, 2009. Incentive stock options may be granted only to employees of the Company or its subsidiaries. The administrator has the discretion to select the eligible participants who will receive an award. Since July 2005, in practice, all of our executive officers and directors and approximately 3,192 other employees have received grants under the 2005 Stock Plan.

Types of awards available for grant:	Incentive stock options	Restricted stock units
	Nonstatutory stock options	Performance shares
	Stock appreciation rights	Other share-based awards
	Restricted stock	

Share reserve: Subject to capitalization adjustments, 13,000,000 shares of common stock were reserved under the 2005 Stock Plan at its July 2005 approval by stockholders. An additional 15,000,000 shares were approved by the Company's stockholders on July 25, 2007. If stockholders approve the proposed amendment, the additional reserve of 14,500,000 shares will constitute approximately 5.3% of the Company's shares outstanding as of April 30, 2009. The percentage calculations are based on 271,418,501 shares of common stock outstanding as of April 30, 2009.

If any outstanding option or stock appreciation right expires or is terminated or any restricted stock or other share-based award is forfeited, then the shares allocable to the unexercised or attributable to the forfeited portion of the stock award may again be available for issuance under the 2005 Stock Plan.

Limitations: For any one share of common stock or stock equivalent issued in connection with a stock-settled stock appreciation right, restricted stock award, restricted stock unit award, performance share or other share-based award, two shares will be deducted from the reserve of shares available for issuance under the 2005 Stock Plan.

Shares of common stock not issued or delivered as a result of the net exercise of a stock appreciation right or option, shares used to pay the withholding taxes related to a stock award, or shares repurchased on the open market with proceeds from the exercise of options will not be returned to the reserve of shares available for issuance under the 2005 Stock Plan.

Subject to capitalization adjustments, the maximum aggregate number of shares or share equivalents that may be subject to restricted stock awards, restricted stock units, performance shares or other share-based awards granted to a participant in any fiscal year is 500,000, and the maximum

aggregate number of shares or share equivalents that may be subject to options or stock appreciation rights in any fiscal year is 1,000,000 per optionee.

Term of the Plan:

The 2005 Stock Plan will terminate on May 24, 2015, unless the Board terminates it earlier.

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Capitalization adjustments: The administrator will make equitable changes to the share reserve, any of the limitations described above, and the exercise or purchase price and number and kind of shares issued in connection with future awards and subject to outstanding stock awards to the extent that the administrator determines in its sole discretion that a stock split, reverse stock split, dividend, merger, consolidation, reorganization, recapitalization, spin-off, combination, repurchase, share exchange or similar transaction affects the common stock such that an adjustment is appropriate to preserve the rights of participants.

Repricing and option exchange programs: Not permitted without stockholder approval.

Reload options: Not permitted.

Options and Stock Appreciation Rights

Term: Not more than 7 years from the date of grant.

Exercise price: Not less than 100% of the fair market value of the underlying stock on the date of grant. The fair market value is the closing price for the Company's common stock on the date of grant. On June 8, 2009, the closing price for a share of the Company's common stock was \$41.41 per share.

Method of exercise:	<i>Cash</i>	<i>Net exercise</i>
	Delivery of common stock (including delivery by attestation)	Directing a securities broker to sell shares of common stock and delivering sufficient proceeds to the Company
	All exercise methods other than cash are subject to the administrator's discretion	Any other form of legal consideration that the administrator approves

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Restricted Stock Awards; Restricted Stock Unit Awards; Performance Shares; and Other Share-Based Awards

Purchase price:	Determined by the administrator at time of grant; may be zero.
Consideration:	Determined by the administrator at the time of grant; may be in any form permissible under applicable law.
Performance objectives:	The administrator may condition the grant or vesting of stock awards upon the attainment of one or more of the performance objectives listed below, or upon such other factors as the administrator may determine.

Cash flow	Market share
-----------	--------------

Cash flow from operations

Total earnings

Earnings per share, diluted or basic

Earnings per share from continuing operations, diluted or basic

Earnings before interest and taxes

Earnings before interest, taxes, depreciation and amortization

Earnings from operations

Net or gross sales

Economic value added

Cost of capital

Change in assets

Expense reduction levels

Customer satisfaction

Employee satisfaction

Total stockholder return

Net asset turnover

Inventory turnover

Capital expenditures

Net earnings

Operating earnings

Gross or operating margin

Debt

Working capital

Return on equity

Return on net assets

Return on total assets

Return on investment

Return on capital

Return on committed capital

Return on invested capital

Return on sales

Debt reduction

Productivity

Stock price

Performance objectives may be determined on an absolute basis, relative to internal goals, relative to levels attained in prior years, or related to other

companies or indices or as ratios expressing relationships between two or more performance objectives. In addition, performance objectives may be based upon the attainment of specified levels of corporate performance under one or more of the measures described above relative to the performance of other corporations.

To the extent that stock awards are intended to qualify as performance-based compensation under Section 162(m) of the Code, the performance objectives will be one or more of the objectives listed above that satisfy the applicable requirements of Section 162(m) of the Code.

Adjustment of performance goals: The administrator may adjust performance goals to prevent dilution or enlargement of awards as a result of extraordinary events or circumstances

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or to exclude the effects of extraordinary, unusual or nonrecurring items including, but not limited to, merger, acquisition or other reorganization.

Non-employee director awards: Each director who is not an employee of the Company may be granted a restricted stock unit award on the date of each annual stockholders meeting for up to 5,000 share equivalents (subject to capitalization adjustments) as determined by the Board. Each restricted stock unit award granted to a non-employee director will vest immediately. If a director meets the director stock ownership guidelines (currently \$300,000 in shares and share equivalents), then the director will, on the grant date, receive the shares underlying the RSU grant, unless the director elects to defer receipt of the shares. The determination of whether a director meets the director stock ownership guidelines is made as of the last day of the deferral election period preceding the applicable RSU grant. If a non-employee director has not met the stock ownership guidelines as of the last day of such deferral election period, then the shares underlying the RSU grant will be automatically deferred until after the director's separation from service.

Dividend equivalents: Dividend equivalents may be credited in respect of share equivalents underlying restricted stock unit awards and performance shares as determined by the administrator.

Deferral of award payment: Each participant will be permitted to defer all or a percentage of the participant's RSUs. The administrator may also establish one or more programs to permit selected participants to elect to defer receipt of consideration upon vesting of a stock award, the satisfaction of performance objectives, or other events which would entitle the participant to payment, receipt of common stock or other consideration.

All Stock Awards

Vesting: Determined by the administrator at time of grant. The administrator may accelerate vesting at any time, subject to certain limitations to satisfy the requirements for performance-based compensation under Section 162(m) of the Code. Generally, the vesting schedule is expected not to exceed four years.

Termination of service: The unvested portion of the stock award will be forfeited immediately upon a participant's termination of service with the Company, unless otherwise determined by the administrator. A limited post-termination exercise period may be imposed on the vested portion of options and stock appreciation rights.

Payment: Stock appreciation rights and other share-based awards may be settled in cash, stock, or in a combination of cash and stock, or in any other form of consideration determined by the administrator and set forth in the applicable award agreement. Options, restricted stock, restricted stock units and performance shares may be settled only in shares of common stock.

Transferability: Stock awards generally are not transferable, except as may be provided in the 2005 Stock Plan.

Other terms and conditions: The stock award agreement may contain other terms and conditions, including a forfeiture provision as determined by the administrator, that are consistent with the 2005 Stock Plan.

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Additional 2005 Stock Plan Terms

Administration. The 2005 Stock Plan may be administered by the Board, or the Board may delegate administration of the 2005 Stock Plan to a committee of the Board, or to an officer or officers of the Company under limited circumstances. Currently, the Governance Committee administers the 2005 Stock Plan with respect to non-employee directors; whereas the Compensation Committee administers the 2005 Stock Plan with respect to employees. The Board may further delegate the authority to make option grants. The administrator determines who will receive stock awards and the terms and conditions of such awards. Subject to certain conditions and limitations of the 2005 Stock Plan, the administrator may modify, extend or renew outstanding stock awards.

Change-in-Control. Stock awards may be subject to additional acceleration of vesting and exercisability upon or after a change-in-control (as defined in the 2005 Stock Plan) as may be provided in the applicable stock award agreement as determined by the Compensation Committee on a grant-by-grant basis or as may be provided in any other written agreement between the Company or any affiliate and the participant; provided, however, that in the absence of such provision, no such acceleration will occur.

Tax Withholding. Tax withholding obligations may be satisfied by the eligible participant by: (i) tendering a cash payment; (ii) authorizing the Company to withhold shares of common stock from the shares of common stock otherwise issuable as a result of the exercise or acquisition of common stock under the stock award; (iii) delivering to the Company owned and unencumbered shares of common stock; or (iv) directing a securities broker to sell shares of common stock and delivering sufficient proceeds to the Company.

New Plan Benefits. The amount of awards payable, if any, to any individual is not determinable as awards have not yet been determined by the administrator. However, each July non-employee directors receive an annual grant under the 2005 Stock Plan of restricted stock units with an approximate value as of the grant date equal to \$150,000. The actual number of RSUs under the grant is determined by dividing \$150,000 by the closing price of the Company's common stock on the grant date (with any fractional unit rounded up to the nearest whole unit); provided, however, that the number of units granted in any annual grant will in no event exceed 5,000 units, in accordance with the requirements of the our 2005 Stock Plan.

Amendment. The Board may suspend or discontinue the 2005 Stock Plan at any time. The Compensation Committee of the Board may amend the 2005 Stock Plan with respect to any shares at the time not subject to awards. However, only the Board may amend the 2005 Stock Plan and submit the plan to the Company's stockholders for approval with respect to amendments that: (i) increase the number of shares available for issuance under the 2005 Stock Plan or increase the number of shares available for issuance pursuant to incentive stock options under the 2005 Stock Plan; (ii) materially expand the class of persons eligible to receive awards; (iii) expand the types of awards available under the 2005 Stock Plan; (iv) materially extend the term of the 2005 Stock Plan; (v) materially change the method of determining the exercise price or purchase price of an award; (vi) delete or limit the requirements regarding repricing options or stock appreciation rights or effectuating an exchange of options or stock appreciation rights; (vii) remove the administration of the 2005 Stock Plan from the administrator; or (viii) amend the provision regarding amendment of the 2005 Stock Plan to defeat its purpose.

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Benefits to Directors, Named Executive Officers and Others. The table below shows, as to the Company's directors, named executive officers and the other individuals and groups indicated, the number of shares of common stock subject to option grants and restricted stock unit grants under the 2005 Stock Plan since the plan's inception through April 30, 2009.

Name and Position	Number of Shares Subject to Options Granted Under the 2005 Stock Plan	Number of Shares Subject to Restricted Stock Units Granted Under the 2005 Stock Plan
John H. Hammergren <i>Chairman, President and Chief Executive Officer</i>	1,285,000	675,069
Jeffrey C. Campbell <i>Executive Vice President and Chief Financial Officer</i>	368,000	138,739
Paul C. Julian <i>Executive Vice President, Group President</i>	703,000	318,835
Marc E. Owen <i>Executive Vice President, Corporate Strategy and Business Development</i>	212,000	102,776
Laureen E. Seeger <i>Executive Vice President, General Counsel and Secretary</i>	235,000	40,440
Pamela J. Pure <i>Former Executive Vice President, President, McKesson Technologies Solutions</i>	351,000	146,892
All current executive officers, as a group	3,366,500	1,479,281
All directors who are not executive officers, as a group		77,685
All employees who are not executive officers, as a group	5,268,700	2,879,793

Since its inception, no shares have been issued under the 2005 Stock Plan to any other nominee for election as a director, or any associate of any such director, nominee or executive officer, and no other person has been issued five percent or more of the total amount of shares issued under the 2005 Stock Plan.

Our executive officers have a financial interest in this proposal because it would increase the number of shares available for issuance under the 2005 Stock Plan to executives and other employees.

Certain United States Federal Income Tax Information

The following is a summary of the effect of U.S. federal income taxation on the 2005 Stock Plan participants and the Company. This summary does not discuss the income tax laws of any other jurisdiction in which the recipient of the award may reside.

Incentive Stock Options (ISOs). Participants pay no income tax at the time of grant or exercise of an ISO, although the exercise is an adjustment item for alternative minimum tax purposes and may subject the option holder to the alternative minimum tax. The participant will recognize long-term capital gain or loss, equal to the difference between the sale price and the exercise price, on the sale of the shares acquired on the exercise of the ISO if the sale occurs at least two years after the grant date and more than one year after the exercise date. If the sale occurs earlier than the

expiration of these holding periods, then the participant will recognize ordinary income equal to the lesser of the difference between the exercise price of the option and the fair market value of the shares on the exercise date or the difference between the sales price and the exercise price. Any additional gain realized on the sale will be treated as capital gain. The Company can deduct the amount, if any, that the participant recognizes as ordinary income.

Nonstatutory Stock Options and Stock Appreciation Rights. There is no tax consequence to the participant at the time of grant of a nonstatutory stock option or stock appreciation right. Upon exercise, the excess, if any, of the fair market value of the shares over the exercise price will be treated as ordinary income. Any gain or loss realized on the sale of the shares will be treated as a capital gain or loss. The Company may deduct the amount, if any, that the participant recognizes as ordinary income.

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Restricted Stock. No taxes are due on the grant of restricted stock, unless a Code Section 83(b) election is made. The fair market value of the shares subject to the award is taxable as ordinary income when no longer subject to a substantial risk of forfeiture (i.e., becomes vested or transferable). Unless an election pursuant to Code Section 83(b) is made (subjecting the value of the shares on the award date to current income tax), income tax is paid by the participant on the value of the shares at ordinary rates when the restrictions lapse and the Company will be entitled to a corresponding deduction. Any gain or loss realized on the sale of the shares will be treated as a capital gain or loss.

Restricted Stock Units and Performance Shares. No taxes are due upon the grant of the award. The fair market value of the shares subject to the award is taxable to the participant when the stock is distributed to the participant, subject to the limitations of Code Section 409A. The Company may be entitled to deduct the amount, if any, that the participant recognizes as ordinary income.

Code Section 162(m). Code Section 162(m) denies a deduction for annual compensation in excess of \$1,000,000 paid to covered employees. Performance-based compensation is disregarded for this purpose. Stock option and stock appreciation rights granted under the 2005 Stock Plan qualify as performance-based compensation. Other awards will be performance-based compensation if their grant or vesting is subject to performance objectives that satisfy Code Section 162(m).

Deferred Compensation. Restricted stock awards, restricted stock unit awards and performance shares that may be deferred beyond the vesting date are subject to Code Section 409A limitations. If Code Section 409A is violated, deferred amounts that are not subject to a substantial risk of forfeiture and have not been included in income will be subject to income tax in the year of the violation and to penalties equal to: (i) 20% of the amount deferred; and (ii) interest at a specified rate on the under-payment of tax that would have occurred if the amount had been taxed in the year it was first deferred or, if later, the year it was no longer subject to a substantial risk of forfeiture.

Equity Compensation Plan Information

The following table sets forth information as of March 31, 2009 with respect to the plans under which the Company's common stock is authorized for issuance:

Plan Category	Number of Securities to be Issued upon Exercise of Outstanding Options, Warrants and Rights	Weighted-Average Exercise Price of Outstanding Options, Warrants and Rights⁽¹⁾	Number of Securities Remaining Available for Future Issuance under Equity Compensation Plans (Excluding Securities Reflected in the First Column)
Equity compensation plans approved by security holders ⁽²⁾	14.8	\$43.74	15.9 ⁽³⁾
Equity compensation plans not approved by security holders ⁽⁴⁾⁽⁵⁾	7.7	32.57	

(In millions, except per share amounts)

- (1) The weighted-average exercise price set forth in this column is calculated excluding outstanding RSU awards, since recipients are not required to pay an exercise price to receive the shares subject to these awards.
- (2) Represents option and RSU awards outstanding under the following plans: (i) 1994 Stock Option and Restricted Stock Plan; (ii) 1997 Non-Employee Directors Equity Compensation and Deferral Plan; and (iii) the 2005 Stock Plan.
- (3) Represents 4,379,566 shares which remained available for purchase under the 2000 Employee Stock Purchase Plan and 11,505,221 shares available for grant under the 2005 Stock Plan.
- (4) Represents options and RSU awards outstanding under the following plans: (i) 1999 Stock Option and Restricted Stock Plan; (ii) 1998 Canadian Stock Incentive Plan; and (iii) certain one time stock option plan awards. No further awards will be made under any of these plans.
- (5) As a result of acquisitions, the Company currently has two assumed option plans under which options and RSU awards are exercisable for 39,804 shares of the Company's common stock. No further awards will be made under any of the assumed plans and information regarding the assumed options is not included in the table above.

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On July 27, 2005, the Company's stockholders approved the 2005 Stock Plan which had the effect of terminating: (i) the 1999 Stock Option and Restricted Stock Plan, the 1998 Canadian Stock Incentive Plan and certain 1999 one time stock option plan awards, which plans had not been submitted for approval by the Company's stockholders; and (ii) the 1994 Stock Option and Restricted Stock Plan and the 1997 Non-Employee Directors' Equity Compensation and Deferral Plan, which had previously been approved by the Company's stockholders. Prior grants under these plans include stock options, restricted stock and RSUs. Stock options under the terminated plans generally have a ten-year life and vest over four years. Restricted stock contains certain restrictions on transferability and may not be transferred until such restrictions lapse. Each of these plans has outstanding equity grants, which are subject to the terms and conditions of their respective plans, but no new grants will be made under any of these terminated plans.

The material terms of all of the Company's plans, including those not previously approved by stockholders, are described in accordance with the requirements of the Statement of Financial Accounting Standards No. 123(R), Share-Based Payment, in Financial Notes 1 and 3 of the Company's consolidated financial statements, and in Part III, Item 12, Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters, of the Company's Annual Report on Form 10-K filed with the SEC on May 5, 2009. This information is incorporated herein by reference.

Item 3. *Ratification of Appointment of Deloitte & Touche LLP as the Company's Independent Registered Public Accounting Firm for Fiscal Year 2010*

The Audit Committee of the Company's Board of Directors has approved Deloitte & Touche LLP (D&T) as the Company's independent registered public accounting firm to audit the consolidated financial statements of the Company and its subsidiaries for the fiscal year ending March 31, 2010. D&T has acted in this capacity for the Company for several years, is knowledgeable about the Company's operations and accounting practices, and is well qualified to act as the Company's independent registered public accounting firm.

We are asking our stockholders to ratify the selection of D&T as the Company's independent registered public accounting firm. Although ratification is not required by our By-Laws or otherwise, the Board is submitting the selection of D&T to our stockholders for ratification as a matter of good corporate practice. If stockholders fail to ratify the selection, the Audit Committee will reconsider whether or not to retain D&T. Even if the selection is ratified, the Audit Committee in its discretion may select a different registered public accounting firm at any time during the year if it determines that such a change would be in the best interests of the Company and our stockholders. Representatives of D&T are expected to be present at the Annual Meeting to respond to appropriate questions and to make a statement if they desire to do so. For the fiscal years ended March 31, 2009 and 2008, professional services were performed by D&T, the member firms of Deloitte Touche Tohmatsu, and their respective affiliates (collectively, Deloitte & Touche), which includes Deloitte Consulting. Fees paid for those years were as follows:

	2009	2008
Audit Fees	\$ 9,054,211	\$ 9,662,161
Audit-Related Fees	1,691,800	1,265,721
Total Audit and Audit-Related Fees	10,746,011	10,927,882
Tax Fees	1,208,000	1,772,000
All Other Fees		
Total	\$ 11,954,011	\$ 12,699,882

Audit Fees. This category consists of fees billed for professional services rendered for the audit of the Company's consolidated annual financial statements, the audit of the Company's internal control over financial reporting as required by the Sarbanes-Oxley Act of 2002, review of the interim consolidated financial statements included in quarterly reports, and services that are normally provided by D&T in connection with statutory and regulatory filings or engagements. This category also includes advice on accounting matters that arose during, or as a result of, the audit or the review of interim financial statements, foreign statutory audits required by non-U.S. jurisdictions, registration statements and comfort letters.

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Audit-Related Fees. This category consists of fees billed for services in connection with the performance of an audit or review of the Company's consolidated financial statements and are not reported under Audit Fees. These include fees for employee benefit plan audits, accounting consultations, and due diligence in connection with mergers and acquisitions, attest services related to financial reporting that are not required by statute or regulation, and consultations concerning financial accounting and reporting standards.

Tax Fees. This category consists of fees billed for professional services rendered for U.S. and international tax compliance, including services related to the preparation of tax returns. For the fiscal years ended March 31, 2009 and 2008, no amounts were incurred by the Company for tax advice, planning or consulting services.

All Other Fees. This category consists of fees for products and services other than the services reported above. The Company paid no fees in this category for the fiscal years ended March 31, 2009 and 2008.

Policy on Audit Committee Pre-Approval of Audit and Permissible Non-Audit Services of Independent Registered Public Accounting Firm

Pursuant to the Applicable Rules, and as set forth in the terms of its charter, the Audit Committee has sole responsibility for appointing, setting compensation for, and overseeing the work of the independent registered public accounting firm. The Audit Committee has established a policy which requires it to pre-approve all audit and permissible non-audit services, including audit-related and tax services to be provided by Deloitte & Touche, and between meetings the Chair of the Audit Committee is authorized to pre-approve services, which are reported to the Committee at its next meeting. All of the services described in the fee table above were approved in conformity with the Audit Committee's pre-approval process.

Audit Committee Report

The Audit Committee of the Company's Board of Directors assists the Board in fulfilling its responsibility for oversight of the quality and integrity of the Company's financial reporting processes. The functions of the Audit Committee are described in greater detail in the Audit Committee's written charter adopted by the Company's Board of Directors, which may be found on the Company's website at www.mckesson.com under the caption Investors Corporate Governance. The Audit Committee is composed exclusively of directors who are independent under the applicable SEC and NYSE rules and the Company's independence standards. The Audit Committee's members are not professionally engaged in the practice of accounting or auditing, and they necessarily rely on the work and assurances of the Company's management and the independent registered public accounting firm. Management has the primary responsibility for the financial statements and the reporting process, including the system of internal control over financial reporting. The independent registered public accounting firm of Deloitte & Touche LLP (D&T) is responsible for performing an independent audit of the Company's consolidated financial statements in accordance with generally accepted auditing standards and expressing opinions on the conformity of those audited financial statements with United States generally accepted accounting principles, the effectiveness of the Company's internal control over financial reporting and management's assessment of the internal control over financial reporting.

The Audit Committee has: (i) reviewed and discussed with management the Company's audited financial statements for the fiscal year ended March 31, 2009; (ii) discussed with D&T the matters required to be discussed by Statement on Auditing Standards No. 61, as amended, as adopted by the Public Company Accounting Oversight Board in Rule 3200T; (iii) received the written disclosures and the letter from D&T required by applicable requirements of the Public Company Accounting Oversight Board regarding D&T's communications with the Audit Committee concerning independence; and (iv) discussed with D&T its independence from the Company. The Audit Committee further considered whether the provision of non-audit related services by D&T to the Company is compatible with maintaining the independence of that firm from the Company. The Audit Committee has also discussed with

management of the Company and D&T such other matters and received such assurances from them as it deemed appropriate.

The Audit Committee discussed with the Company's internal auditors and D&T the overall scope and plans for their respective audits. The Audit Committee meets regularly with the internal auditors and D&T, with and without

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management present, to discuss the results of their examinations, the evaluation of the Company's internal control over financial reporting and the overall quality of the Company's accounting.

In reliance on the reviews and discussions referred to above, the Audit Committee recommended to the Board of Directors, and the Board has approved, that the audited financial statements for the fiscal year ended March 31, 2009 be included in the Company's Annual Report on Form 10-K for filing with the SEC.

Audit Committee of the
Board of Directors

Marie L. Knowles, Chair
Andy D. Bryant
Wayne A. Budd
Jane E. Shaw

Table of Contents**PRINCIPAL STOCKHOLDERS****Security Ownership of Certain Beneficial Owners**

The following table sets forth information regarding ownership of the Company's outstanding common stock by any entity or person, to the extent known by us or ascertainable from public filings, to be the beneficial owner of more than five percent of the outstanding shares of common stock:

Name and Address of Beneficial Owner	Amount and Nature of Beneficial Ownership	Percent of Class*
Wellington Management Company, LLP 75 State Street Boston, MA 02109	20,730,474 ⁽¹⁾	7.7%

* Based on 268,660,174 shares of common stock outstanding as of May 29, 2009.

⁽¹⁾ This information is based upon a Schedule 13G/A filed with the SEC on May 11, 2009 by Wellington Management Company, LLP, as an investment adviser, which reports shared voting power with respect to 7,692,176 shares and shared dispositive power with respect to 20,730,474 shares.

Security Ownership of Directors, Nominees and Executive Officers

The following table sets forth, as of May 29, 2009, except as otherwise noted, information regarding ownership of the Company's outstanding common stock by: (i) each individual named in the 2009 Summary Compensation Table below (collectively, the NEOs); (ii) each director and director nominee; and (iii) all directors, director nominees, NEOs and executive officers as a group. The table also includes shares of common stock that underlie outstanding RSU awards and options to purchase common stock of the Company that either vest or become exercisable within 60 days of May 29, 2009:

Name of Individual	Shares of Common Stock Beneficially Owned⁽¹⁾	Percent of Class
Andy D. Bryant	3,733 ⁽²⁾	*
Wayne A. Budd	21,924 ⁽²⁾⁽³⁾⁽⁴⁾	*
Jeffrey C. Campbell	437,640 ⁽³⁾⁽⁵⁾	*
John H. Hammergren	4,023,557 ⁽³⁾⁽⁴⁾⁽⁵⁾	1.5%
Alton F. Irby III	87,140 ⁽²⁾⁽³⁾⁽⁴⁾	*
M. Christine Jacobs	75,769 ⁽²⁾⁽³⁾	*
Paul C. Julian	1,339,719 ⁽³⁾⁽⁵⁾	*
Marie L. Knowles	9,342 ⁽²⁾	*
David M. Lawrence, M.D.	20,303 ⁽²⁾⁽³⁾	*

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Edward A. Mueller	3,252 ⁽²⁾	*
James V. Napier	88,950 ⁽²⁾⁽³⁾⁽⁴⁾	*
Marc E. Owen	340,087 ⁽³⁾⁽⁵⁾	*
Pamela J. Pure	346,892 ⁽³⁾⁽⁴⁾⁽⁵⁾	*
Laureen E. Seeger	133,625 ⁽³⁾⁽⁵⁾	*
Jane E. Shaw	97,505 ⁽²⁾⁽³⁾⁽⁴⁾	*
All directors, director nominees, NEOs and executive officers as a group (17 persons)	7,266,419 ⁽²⁾⁽³⁾⁽⁴⁾⁽⁵⁾	2.7%

* Less than 1.0%. The number of shares beneficially owned and the percentage of shares beneficially owned are based on 268,660,174 shares of the Company's common stock outstanding as of May 29, 2009.

⁽¹⁾ Except as otherwise indicated in the footnotes to this table, the persons named have sole voting and investment power with respect to all shares of common stock shown as beneficially owned by them, subject to community property laws where applicable.

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- (2) Includes vested RSUs or common stock units accrued under the 2005 Stock Plan, Directors' Deferred Compensation Administration Plan and the 1997 Non-Employee Directors' Equity Compensation and Deferral Plan (which plan has been replaced by the 2005 Stock Plan) as follows: Mr. Bryant, 3,733 units; Mr. Budd, 12,449 units; Mr. Irby, 12,301 units; Ms. Jacobs, 14,967 units; Ms. Knowles, 9,342 units; Dr. Lawrence, 12,803 units; Mr. Mueller, 3,252 units; Mr. Napier, 12,661 units; Dr. Shaw, 34,112 units; and all directors as a group, 115,620 units. Directors have neither voting nor investment power with respect to such units.
- (3) Includes shares that may be acquired by exercise of stock options or vesting of RSUs within 60 days of May 29, 2009 as follows: Mr. Budd, 9,375 shares; Mr. Campbell, 380,500 shares; Mr. Hammergren, 3,532,416 shares; Mr. Irby, 66,489 shares; Ms. Jacobs, 59,802 shares; Mr. Julian, 1,339,336 shares; Dr. Lawrence, 7,500 shares; Mr. Napier, 59,089 shares; Mr. Owen, 335,000 shares; Ms. Pure, 329,400 shares; Ms. Seeger, 131,250 shares; Dr. Shaw, 51,687 shares; and all directors, NEOs and executive officers as a group, 6,518,094 shares.
- (4) Includes shares held by immediate family members who share a household with the named person, by family trusts as to which each of the following individuals and their respective spouses have shared voting and investment power, or by an independent trust for which the named person disclaims beneficial ownership: Mr. Budd, 100 shares; Mr. Hammergren, 487,180 shares; Mr. Irby, 1,550 shares; Mr. Napier, 1,040 shares; Ms. Pure, 5 shares; Dr. Shaw, 11,306 shares; and all directors, NEOs and executive officers as a group, 501,181 shares.
- (5) Includes shares held under the Company's PSIP as of May 29, 2009 as follows: Mr. Campbell, 949 shares; Mr. Hammergren, 3,961 shares; Mr. Julian, 326 shares; Mr. Owen, 1,393 shares; Ms. Pure, 1,438 shares; Ms. Seeger, 1,308 shares; and all NEOs and executive officers as a group, 12,275 shares.

Table of Contents**EXECUTIVE COMPENSATION****Compensation Discussion and Analysis*****Our Compensation Philosophy and Objectives***

The foundation of our executive compensation program is pay for performance. At our Company, this means that for an executive to receive compensation above his or her predetermined target amount, the Company's performance must exceed pre-established financial metrics and the executive must be able to identify his or her contributions to those results. To foster a culture where performance is highlighted in everything we do, at all levels of the Company, our pay for performance philosophy applies to both short- and long-term compensation elements. Therefore, Company or individual performance below pre-established metrics will result in compensation below the pre-determined target amount. The amount of compensation paid to each named executive officer is designed to reflect the officer's experience, his or her individual performance and the performance of the Company. Consistent with our goal to pay for performance, as an executive officer's responsibility and ability to impact the Company's financial performance increase, the individual's at-risk performance based compensation increases as a proportion of his or her total compensation. Moreover, the percentage of long-term relative to short-term compensation increases proportionately with job responsibility. Ultimately, our executive compensation program is designed to provide above-market compensation for achieving above-market financial results, and below-market compensation if the Company and/or individual performance fails to meet objectives.

Achievement of Performance Based Compensation

Over the last five years, the Company's financial results have been outstanding. During this period the Company has made significant progress growing revenues and earnings per share, and over the last fiscal year, we have continued to do so despite the economic slowdown that has affected many parts of the broader economy. Since March 31, 2005, our revenues increased from \$79.1 billion to \$106.6 billion, a compound annual growth rate of 7.74%, and diluted earnings per share (EPS), excluding adjustments for litigation charges (credits), increased from \$2.19 to \$4.07, a compound annual growth rate of 16.76%. The following table is a display of the Company's revenue and EPS growth over the last five fiscal years as it is reviewed by the Board and Compensation Committee when assessing the performance of the organization, our operating segments and our senior management.

Five-Year EPS and Total Revenue
Fiscal year results through March 31, 2009

(*) EPS excludes adjustments for litigation charges (credits). For supplemental financial data and corresponding reconciliations to accounting standards generally accepted in the United States (GAAP), see Appendix A attached to this proxy statement. Non-GAAP measures should be viewed in addition to, and not as an alternative for, financial results prepared in accordance with GAAP.

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Over the same five-year period, we have centralized operations and services to gain efficiencies of scale while increasing the quality of our products and services, improved operating processes using Six Sigma, introduced innovative new solutions to drive customer satisfaction, and increased employee engagement and retention. Over the past three years, we have deployed approximately \$7.4 billion of capital, including \$1.4 billion in FY 2009 to:

- reshape the organization, expand market penetration and increase EPS through reinvestment in our business;
- pay dividends to our stockholders at rates competitive with other companies in our sector;
- complete a series of value-creating acquisitions; and
- expand and execute on our stock repurchase program.

This progress has come under the leadership of the executive management team assembled by John H. Hammergren, our Chairman, President and CEO.

The following discussion of executive compensation primarily reflects individual and Company performance for two periods: namely, the fiscal year and the three-year period ended on March 31, 2009. Therefore, the amounts displayed in the following compensation tables primarily reflect compensation decisions made early in FY 2009 and FY 2007, based largely on FY 2008 and FY 2006 performance, respectively. As a result of McKesson's performance over these prior one- and three- year performance periods, short- and long-term performance related compensation for all named executive officers was superior.

Special Compensation Actions Taken by the Compensation Committee

For FY 2010, we are facing a new economic environment, characterized by a general slowdown that has affected nearly all sectors of the economy. Given this reality, executive management recommended, and the Compensation Committee agreed, to implement a number of important changes to our executive compensation program. After careful consideration of the Company's results in FY 2009, and in light of the current economic environment, the Company made the following modifications for FY 2010:

Base Salary there will be no base salary increases for any of our executive officers, including our CEO;

Short-term Cash Bonus Program the difficulty of achieving a full payout of the Company's annual cash bonus program, our Management Incentive Plan (the "MIP"), has been increased for all executive officers, including our CEO. As further described below, it will be considerably more difficult this year for an executive officer to receive a 100% payout of his or her MIP target bonus amount unless the Company's FY 2010 EPS performance significantly exceeds our strategic operating plan, which we refer to as Company performance at target; and

Long-term Cash Bonus Program the Company's annual long-term cash bonus program, our Long-term Incentive Plan (the "LTIP"), will include a new performance metric. In addition to cumulative EPS, our FY 2010 FY 2012 LTIP program will now assess performance relative to cumulative operating cash flow over the three-year measurement period. The addition of this new performance metric will place greater emphasis on cash management and profitable deployment of capital.

These decisions reflect a balance between the need to encourage executive retention and align performance with long-term Company growth and success. In addition to the above, in FY 2009 executive management recommended, and the Compensation Committee agreed, not to provide tax gross-ups on executive perquisites.

Oversight of Executive Officer Compensation

The Compensation Committee has responsibility for overseeing all forms of compensation for our executive officers, including the named executive officers listed in the 2009 Summary Compensation Table below (collectively, the Company's NEOs). For FY 2009, our NEOs and their respective titles were as follows:

John H. Hammergren, *Chairman, President and Chief Executive Officer;*

Jeffrey C. Campbell, *Executive Vice President and Chief Financial Officer;*

Paul C. Julian, *Executive Vice President, Group President;*

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

Laureen E. Seeger, *Executive Vice President, General Counsel and Secretary; and*

Pamela J. Pure, *Former Executive Vice President, President, McKesson Technology Solutions.*

All of the above listed NEOs currently serve as executive officers, with the exception of Ms. Pamela J. Pure, who left the Company effective March 30, 2009. The Compensation Committee directly employs its own independent

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compensation consultant, Compensation Strategies, Inc., and independent legal counsel, Gunderson Dettmer Stough Villeneuve Franklin & Hachigian, LLP. Compensation Strategies, Inc. also provides consulting services to the Governance Committee in the area of director compensation. These advisors do not provide any other services to the Company, except as to matters related to the activities mentioned above and as further described below.

Use and Selection of the Peer Group

Annually, the Compensation Committee's independent compensation consultant develops information that captures the levels of total compensation and individual components of pay (base salary and short- and long-term incentive potential) for executives at a diverse group of public companies with duties and responsibilities similar to the Company's executives. Information sources used by the independent compensation consultant include the Hewitt Associates Total Compensation Database and compensation information published by other public companies. From this larger sampling of companies, the Compensation Committee's review of salary data focuses on a smaller group of companies that represent the types of companies with which the Company historically competes for executive talent. This diverse selection of peer group companies, as identified in the chart below, provides the Compensation Committee with a broad picture of the market for executive talent. The Compensation Committee uses the compensation information about the pay practices of our peer group and the information provided by our independent compensation consultant as a guideline to assist the committee in its decisions about overall compensation, the elements of compensation, the amount of each element of compensation and relative compensation among our executives. Although the Compensation Committee uses various metrics derived from the peer group data to provide context for its own determinations and strategies, it does not set compensation or any element of compensation for our NEOs at any specified level within the peer group.

Composition of the Company's peer group is reviewed periodically by the Compensation Committee and its independent consultant. As part of its review process, the Compensation Committee and its independent compensation consultant endeavor to design the Company's peer group such that the addition or removal of any single company would not have a material impact on the survey results. For the fiscal year ended March 31, 2009, the following companies were members of the Company's peer group:

	Revenue in Billions (\$)*		Revenue in Billions (\$)*
Abbott Laboratories	29.5	Ingram Micro Inc.	34.4
Aetna Inc.	31.0	Johnson & Johnson	63.7
AmerisourceBergen Corporation	70.2	Eli Lilly and Company	20.4
Amgen Inc.	15.0	Medco Health Solutions, Inc.	51.3
Automatic Data Processing, Inc.	8.8	Medtronic, Inc.	13.5
Baxter International Inc.	12.3	Omnicare, Inc.	6.3
Becton, Dickinson and Company	7.2	Oracle Corporation	22.4
BMC Software, Inc.	1.9	Rite Aid Corporation	26.3
Bristol-Myers Squibb Company	20.6	Safeway Inc.	44.1
Cardinal Health, Inc.	91.1	Schering-Plough Corporation	18.5
Computer Sciences Corporation	16.7	Stryker Corporation	6.7
CVS Caremark Corporation	87.5	Sysco Corporation	37.5
Electronic Data Systems Corporation	22.1	Thermo Fisher Scientific, Inc.	10.5
Express Scripts, Inc.	22.0	Tyco International Ltd.	20.2
FedEx Corporation	38.0	Walgreen Co.	59.0
General Electric Company	182.5	WellPoint, Inc.	61.3

* Financial results are for the most recently completed fiscal year as publicly reported by each company listed above as of May 29, 2009. However, due to its recent acquisition by the Hewlett-Packard Company, results shown for Electronic Data Systems Corporation are for the fiscal year ended December 31, 2007.

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At its January 2009 meeting, the Compensation Committee reevaluated the Company's slate of peer group companies. Due to its recent acquisition by the Hewlett-Packard Company, the Compensation Committee removed Electronic Data Systems Corporation from the Company's FY 2010 peer group. The Compensation Committee also determined that it was necessary to recalibrate the peer group due to recent market fluctuations and the Company's relative revenue growth over the last few years. Accordingly, BMC Software, Inc. was removed from, and Affiliated Computer Services, Inc. and International Business Machines Corporation were added to, the Company's FY 2010 peer group.

Our Compensation Review and Determination Process

The Compensation Committee has responsibility for setting performance targets and payout scales for all incentive compensation programs for all executive officers. While performance targets and payout scales are initially developed by senior management, and reflect the one-year and three-year strategic business operating plans reviewed with the Board, the Compensation Committee in its sole discretion approves, modifies or amends management's target and scale recommendations.

The executive compensation review process is one part of a detailed annual performance review process that begins with the April meeting of the Board and the Compensation Committee. At the beginning of each fiscal year, all members of the Company's senior management team are required to prepare a written analysis of their performance goals for the upcoming fiscal year. These individual performance goals are established by senior management with reference to the Company's annual budget and strategic planning processes. The process includes face-to-face meetings between our CEO and each of the other executive officers at which both strategic and tactical priorities for the upcoming fiscal year are established.

Concurrent with establishing performance goals for the upcoming year, each member of senior management reviews with our CEO his or her actual performance against the goals established for the prior fiscal year. For employees in the senior management ranks, including our NEOs, this review includes an examination of their leadership abilities, financial performance, strategic performance and their professional development and mentoring of subordinates. Each executive officer is also evaluated on the executive's commitment to the Company's ICARE principles, which guide all our employees. These principles are:

- I Integrity;
- C Customer first;
- A Accountability;
- R Respect; and
- E Excellence.

ICARE is the cultural foundation of the Company, and the principles unify the Company and guide individuals behavior toward each other, customers, vendors and other stakeholders.

Our CEO, in consultation with the Compensation Committee's independent compensation consultant and the Executive Vice President, Human Resources, will then develop compensation recommendations for each executive officer. Factors that our CEO weighs in making individual target compensation recommendations include:

- the performance review conducted by our CEO;

value of the job in the marketplace;

relative importance of the position within our executive ranks;

individual tenure and experience; and

individual contributions to the Company's results.

At its April meeting, the Board conducts a performance review of our CEO on the same basis described for all other executive officers. In advance of this meeting, our CEO distributes to the Board a written analysis of his accomplishments keyed to the business and individual goals established for the prior fiscal year. At the Board meeting, our CEO presents his individual performance results for the prior fiscal year and individual goals for the new fiscal year, and responds to any questions that may arise. Upon completion of his performance review, the

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Board discusses in executive session our CEO's performance for the prior fiscal year and approves, modifies or amends his individual goals for the new fiscal year.

At its May meeting, the Compensation Committee reviews and evaluates compensation matters for all executive officers of the Company, including our CEO. At this meeting, Mr. Hammergren presents his findings and compensation recommendations for each executive officer for the Compensation Committee's review and consideration. In addition to our CEO's findings and recommendations, the Compensation Committee examines a compensation tally sheet for each executive officer, including our CEO. This tally sheet is prepared with the assistance of the Compensation Committee's independent compensation consultant and details for each executive officer, by element of compensation, the actual compensation delivered in the prior fiscal year, and the compensation that is proposed by senior management to be provided for the upcoming fiscal year. At the same meeting, the Compensation Committee reviews a compilation of each executive officer's total holdings, which includes the status of all stock option grants, current unvested grants of full-value shares (such as RSUs) and outstanding awards under the Company's cash long-term incentive plan. In connection with the preparation of our annual proxy statement, at its May meeting the Compensation Committee reviews a display detailing the elements of current compensation and estimated benefits on separation from service due to voluntary and involuntary termination, and termination coincident with a change-in-control, for each of our NEOs. The Compensation Committee finds tools like tally sheets and displays of total holdings helpful in its analysis of the Company's executive compensation program, but in determining the specific levels of compensation, the Compensation Committee is generally more focused on individual elements of our executive compensation program and the measurement of these elements against similarly situated executives in the peer group of companies. The Compensation Committee, in its sole discretion, then: (i) determines the level of payout to each executive officer under our short- and long-term compensation programs for the completed fiscal year; and (ii) establishes for each executive officer the base salary, the individual target and the Company performance measures for performance-based compensation for the new fiscal year.

At the May meeting, the Compensation Committee meets in executive session, without our CEO present, to determine our CEO's compensation with input from the Compensation Committee's independent compensation consultant. The Compensation Committee's assessment of CEO compensation is completed on the same basis described above for all other executive officers, and incorporates the Board's evaluation of our CEO's performance conducted at the April meeting. In addition to the tally sheets and assessment of total holdings that are presented with regard to all executive officers, the Compensation Committee's independent compensation consultant prepares and presents to the Compensation Committee a display of the three-year history of compensation delivered by the Company to our CEO.

Finally, in October of each year, the Compensation Committee conducts a detailed review of all elements of executive compensation, including review of individual tally sheets for each executive officer, including our NEOs. This second set of tally sheets displays the elements of current compensation and estimated benefits on separation from service due to voluntary and involuntary termination and termination coincident with a change-in-control with respect to the then-current fiscal year. At the same October meeting, management updates the Compensation Committee on actual performance against the pre-established goals for all outstanding performance based compensation programs.

Elements of Executive Officer Compensation

There are four basic elements of our executive compensation program, which are short-term compensation, long-term compensation, other compensation and benefits, and severance and change-in-control benefits. Annually, the Compensation Committee reviews both short- and long-term compensation to determine the relative competitiveness of the Company's compensation program, which is examined in relation to the 50th and 75th percentiles of our peer group of companies. Each element of compensation and total compensation is then reviewed across our executive ranks to ensure internal consistency.

The Compensation Committee's objective is to target executive pay at levels that are comparable to similarly situated executives within our peer group of companies. Short-term compensation, which includes both a fixed base salary and annual at-risk performance based compensation, is reviewed in relation to the 50th percentile for that

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position within the Company's peer group. In turn, long-term compensation is reviewed in relation to the 50th and 75th percentiles of the Company's peer group.

Short-term Compensation

Short-term compensation is delivered in cash with a substantial portion at risk and contingent on the successful accomplishment of pre-established performance goals. We believe it is important to have at-risk compensation that can be focused on short-term Company and individual goals. For executive officers, including our CEO and other NEOs, depending on the officer's seniority level the proportion of target short-term compensation at-risk ranges from approximately 40% to 60%.

Base Salary. Base salary for executive officers is assessed the same way base salary is determined for all employees base salary for a fully functioning employee is reviewed in relation to the 50th percentile for that position within the Company's peer group.

The 2009 Summary Compensation Table below displays base salaries for each NEO over the last fiscal year. Base salaries were reviewed by the Compensation Committee at its May 2008 meeting, at which time base salaries for all NEOs were increased for FY 2009 effective May 25, 2008. Base salary increases for FY 2009 ranged from 6.4% to 11.8% for all NEOs other than our CEO, and for our CEO, his base salary was increased by 6.0%. These increases resulted from the performance evaluations described above, and in response to market data from the Company's peer group analyzed by the Compensation Committee with the assistance of its independent compensation consultant. FY 2009 base salaries for all NEOs, including our CEO, were consistent with the peer group reference point selected by the Compensation Committee for short-term compensation. Differences in NEOs' base salaries and base salary increases occur because the Compensation Committee considers a number of factors when evaluating base salaries in relation to the peer group data, including job performance, skill set, prior experience, the executive's time in his or her position and/or with the Company, internal consistency regarding pay levels for similar positions or skill levels within the Company, external pressures to attract and retain talent, and market conditions generally.

The Compensation Committee continued its practice of reviewing all elements of executive officer compensation at its May 2009 meeting. Members of the Compensation Committee noted the position of each officer's base salary versus comparable positions at peer group companies and reaffirmed its position, consistent with management's recommendation, to forego FY 2010 increases to base salary for all executive officers. The expectation is that this action, together with a number of important cost control measures previously announced, will help contain the Company's short-term compensation expense for FY 2010.

Annual Incentive. The Management Incentive Plan is an annual cash incentive program with payment conditioned on the achievement of individual and Company performance goals. The MIP, like base salary, is designed to generally deliver short-term cash incentive compensation at the 50th percentile of the Company's peer group when performance meets objectives. For FY 2009, our NEOs were eligible for MIP target award opportunities that ranged from 75% to 150% of their base salaries. The aggregate cash value delivered to each NEO can range from zero to 300% of the target award amount, which is determined in reference to: (i) the Company's fiscal year EPS performance, and (ii) the results of each NEO's performance review, as described below.

In May 2008, the Compensation Committee approved an EPS goal of \$3.82 as the MIP performance target for FY 2009. This marked the fourth year that the Compensation Committee utilized EPS as the primary performance measure for both our short- and long-term compensation programs, including the MIP. The Compensation Committee utilizes EPS as the primary performance measure because it is a key metric used by management to direct and measure the Company's business performance, and the basis upon which we communicate forward-looking financial information to the investment community. Moreover, we believe that EPS measures are clearly understood by both

our employees and stockholders, and that incremental EPS growth leads to the creation of long-term stockholder value.

As described in the narrative following the 2009 Summary Compensation Table, MIP payouts are conditioned on the achievement of a minimum EPS goal below which no award is earned, and conversely, payouts are subject to a maximum EPS goal above which no additional award is earned. The Compensation Committee has the authority to

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adjust the EPS result scale to reflect a number of unusual events, including acquisitions, divestitures and unusual stock buybacks. For FY 2009, the Company's actual EPS performance of \$4.07 from continuing operations, excluding litigation charges (credits), exceeded the pre-established EPS target goal noted above by twenty-five cents per share. The Compensation Committee determined that an additional downward net adjustment of eleven cents per share to reported EPS was appropriate to reflect certain events that were not included in the Company's FY 2009 operating plan, including an impairment charge and the release of certain tax reserves, such that all corporate employee participants would be eligible to receive 123% of their initial MIP target cash award.

The Compensation Committee has the authority to further adjust the MIP to reflect the result of each NEO's individual performance review. As previously described, individual performance goals are established at the beginning of the fiscal year and reviewed by the Board in the case of our CEO, or by our CEO in the case of all other executive officers. The adjustment can result in no MIP payment being made for the applicable fiscal year. Specifically, to reflect the employee's individual impact on achieving the Company's short-term financial results and long-term strategic objectives, assuming achievement of the maximum EPS goal, the Compensation Committee applies the individual performance modifier to adjust the maximum limit so that, as a result, no payout may be made or the payout may be as high as 300% of the target award. The Company's individual personal modifier is used to recognize the executive officer's performance against non-financial objectives and initiatives. These include but are not limited to the following metrics: (i) employee satisfaction, as measured annually and compared against norms established by global high performing companies; and (ii) customer satisfaction as measured annually. Applying the individual personal modifiers to the FY 2009 financial results noted above, our NEOs other than our CEO achieved MIP payouts ranging from 95% to 185% of the initial targeted amounts, and our CEO achieved a MIP payout of 166% of the initial targeted amount. Due to substantial completion of the performance period, the Compensation Committee determined that it was appropriate to provide Ms. Pure with a FY 2009 MIP cash payout commensurate with her former Technology Solutions management team. The FY 2009 MIP cash payout for each of our NEOs is reflected in the 2009 Summary Compensation Table below.

In May 2009, the Compensation Committee decided to continue using EPS and individual performance as MIP modifiers for the fiscal year ending March 31, 2010. The EPS target approved by the Compensation Committee for FY 2010 is consistent with the guidance published by the Company on May 4, 2009, which disclosed a projected earnings range between \$3.90 and \$4.05 per share. However, unlike programs for prior years, the FY 2010 MIP EPS target was configured such that the Company must substantially exceed its strategic operating plan for FY 2010, which aligns with the May 4, 2009 EPS guidance, for an executive officer to receive a 100% payout of his or her MIP target bonus amount, before factoring his or her individual performance modifier for the same period. In light of these changes, the Company and the Compensation Committee believe that the EPS goal for a target FY 2010 MIP payout can be characterized as very challenging and difficult to achieve, but attainable with significant effort and skill on the part of the executive officer participants. For FY 2010, comparable with the Company's prior practice, our NEOs are eligible for MIP target cash award opportunities of 75% to 150% of their base salaries, which equate to \$2,370,000, \$718,200, \$1,084,600, \$504,000 and \$461,250 for Messrs. Hammergren, Campbell, Julian and Owen and Ms. Seeger, respectively.

Long-term Compensation

We believe that a significant portion of compensation for executive officers should be contingent on delivering long-term value to all stockholders. We also believe that long-term compensation is a critical component of any executive compensation program because of the need to foster a long-term focus on the Company's financial results. Long-term compensation is an incentive tool that management and the Compensation Committee use to align the financial interests of executives and other key contributors to sustained stockholder value creation.

The Company's long-term compensation program includes three primary components: namely, a three-year cash incentive program, an annual stock option award and an annual award of performance based restricted stock units, referred to as PeRSUs. We believe retention value is generated by the three-year performance cycle for our cash incentive program, and by the vesting requirements of equity awards. Generally, within long-term compensation, the Compensation Committee seeks to allocate awards on the basis of performance based cash incentive at approximately 20% of the median target value for each position, with stock options and PeRSUs split equally at approximately 40% of the target value.

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