MCKESSON CORP
Form DEF 14A
June 13, 2007

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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 þ
Filed by a Party other than the Registrant o
Check the appropriate box:
o Preliminary Proxy Statement
o **Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**
þ Definitive Proxy Statement
o Definitive Additional Materials
o 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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NOTICE OF ANNUAL MEETING OF STOCKHOLDERS
OF McKESSON CORPORATION

The 2007 Annual Meeting of Stockholders of McKesson Corporation will be held on Wednesday, July 25, 2007 at 8:30 a.m. at the A.P. Giannini Auditorium, 555 California Street, San Francisco, California to:

Elect two individuals to the Board of Directors;

Approve amendments to our Restated Certificate of Incorporation to declassify 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 15,000,000;

Approve an amendment to the 2000 Employee Stock Purchase Plan to increase the number of shares of common stock reserved for issuance under the plan by 5,000,000;

Ratify the appointment of Deloitte & Touche LLP as the Company s independent registered public accounting firm for the fiscal year ending March 31, 2008; and

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

Stockholders of record at the close of business on May 29, 2007 are entitled to notice of and to vote at the meeting or any adjournment or postponement of the meeting.

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.

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 13, 2007

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PROXY STATEMENT

General Information

Proxies and Voting at the 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 25, 2007 (the Meeting), and at any adjournment or postponement of the Meeting. This proxy statement includes information about the matters to be voted upon at the Meeting.

On June 13, 2007, the Company began delivering these proxy materials to all stockholders of record at the close of business on May 29, 2007 (the Record Date). On the Record Date, there were approximately 296,896,901 shares of the Company s common stock outstanding and entitled to vote. 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 Meeting by sending a written revocation or a proxy bearing a later date. Stockholders may also revoke their proxies by attending the Meeting in person and casting a ballot.

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 the stockholder s identity and to allow the stockholders 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 via the Internet or telephone, 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 their instructions. Your stockholder vote is important. Brokers, banks and other nominees that have not received voting instructions from their clients cannot vote on their clients behalf on the proposals to amend the 2005 Stock Plan or the 2000 Employee Stock Purchase Plan, which could reduce the number of votes cast on these proposals. 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 no specification is made, the proxies will be voted **FOR:**

The election of the two director nominees named below;

The approval of amendments to our Restated Certificate of Incorporation to declassify the Board of Directors;

The approval of an amendment to the 2005 Stock Plan to increase the number of shares of common stock reserved for issuance under the plan by 15,000,000;

The approval of an amendment to the 2000 Employee Stock Purchase Plan to increase the number of shares of common stock reserved for issuance under the plan by 5,000,000; and

Ratifying the appointment of Deloitte & Touche LLP as the Company s independent registered public accounting firm for the fiscal year ending March 31, 2008.

We know of no other matters to be presented at the Meeting. If any other matters properly come before the Meeting, it is the intention of the proxy holders to vote on such matters in accordance with their best judgment.

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Attendance at the Meeting

If you plan to attend the 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 bank, broker or other holder of record and you plan to attend the Meeting in person, you may obtain an admission ticket in advance by sending a request, along with proof of ownership, such as a bank or brokerage account statement, to the Company s Corporate Secretary, One Post Street, 33rd Floor, San Francisco, California 94104. Stockholders who do not have an admission ticket will only be admitted upon verification of ownership at the door.

Dividend Reinvestment Plan

For those stockholders who participate in the Company s Automatic Dividend Reinvestment Plan (DRP), the enclosed proxy includes all full shares of common stock held in your DRP account on the Record Date for the 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 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, or abstain from voting on the election as a director of one or more of the two nominees. 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 defined below), if any, will not count as votes cast. There is no cumulative voting with respect to the election of directors.

Item 2 Amendments to the Restated Certificate of Incorporation to Declassify the Board of Directors. The affirmative vote of a majority of the outstanding shares of the Company s common stock is required for the proposal to amend our Restated Certificate of Incorporation to declassify the Board of Directors.

You may vote for or against, or abstain from voting on, the proposal to approve the amendments to the Company s Restated Certificate of Incorporation.

Item 3 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 Meeting.

You may vote for or against, or abstain from voting on, the proposal to approve the amendment to the Company s 200 Stock Plan.

Item 4 Amendment to the 2000 Employee Stock Purchase Plan. Approval of the amendment to the Company s 2000 Employee Stock Purchase 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 Meeting.

You may vote for or against, or abstain from voting on, the proposal to approve the amendment to the Company s 200 Employee Stock Purchase Plan.

Item 5 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 Meeting. Our 2008 fiscal year began on April 1, 2007 and will end on March 31, 2008 (FY 2008).

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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 2008.

The Board of Directors recommends a vote FOR each nominee named in Item 1, and FOR each of items 2, 3, 4 and 5.

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 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 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. Since the amendment to our Restated Certificate of Incorporation to declassify the Board of Directors for the annual election of all directors requires the affirmative vote of a majority of the outstanding shares of the Company s common stock, shares not voted, including abstentions and broker non-votes, will have the effect of a vote against the proposal. With respect to the proposed amendment to the 2005 Stock Plan, the proposed amendment to the 2000 Employee Stock Purchase Plan and ratification of the appointment of Deloitte & Touche LLP, 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 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 separate PSIP voting instruction card for that purpose. In general, the PSIP provides that all other shares for which no voting instructions are received from participants and unallocated shares of common stock held in the leveraged employee stock ownership plan established as part of the PSIP, will be voted by the Trustee in the same proportion as shares as to 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 Meeting will be available at the Meeting and for ten days prior to the Meeting for any purpose germane to the Meeting, during ordinary business hours, at our principal executive offices at One Post Street, 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 the Annual Report on Form 10-K for our fiscal year ended March 31, 2007 are available on our website at *www.mckesson.com.* Instead of receiving future copies of the Annual Report on Form 10-K and the proxy statement by mail, stockholders can elect to receive an e-mail that will provide electronic links to these documents.

Stockholders of Record: If you vote using the Internet, you may elect to receive proxy materials electronically next year in place of receiving printed materials. You will save the Company printing and

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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. If you used a different method to vote, sign up for electronic delivery anytime using your Stockholder Account Number, which you can locate on the accompanying proxy card, at the Internet website *www.proxyconsent.com/mck*.

Beneficial stockholders: If you hold your shares in a bank or brokerage account, you may also have the opportunity to receive copies of the Annual Report on Form 10-K and the proxy statement electronically. Please check the information provided in the proxy materials mailed to you by your bank or broker regarding the availability of this service or contact the bank, broker 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 e-mail at *investors@mckesson.com.*

Householding of Proxy Materials

In a further effort to reduce printing costs and postage fees, we have adopted a practice approved by 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 one or more 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: (1) mail your request to Investor Relations, Box K, McKesson Corporation, One Post Street, San Francisco, CA 94104; (2) send an e-mail to *investors@mckesson.com*; or (3) call our Investor Relations department toll-free at (800) 826-9260. Similarly, you may also contact us if you received multiple copies of the proxy materials and would prefer to receive a single copy in the future.

PROPOSALS TO BE VOTED ON

Item 1. *Election of Directors*

The Board of Directors (the Board) is currently divided into three classes for purposes of election. One class is elected at each annual meeting of stockholders to serve for a three-year term. Directors hold office until the end of their terms 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 Meeting.

The terms of office of the directors designated as nominees, Ms. M. Christine Jacobs and Mr. John H. Hammergren, will expire at the upcoming Meeting. The Board has nominated each of these directors for reelection. As described below, the Board is recommending stockholder approval of its proposal to amend our Restated Certificate of Incorporation to eliminate the current classification of our directors. If that proposal is approved by our stockholders at the Meeting, our Board will be declassified, and the two nominees, if elected, will serve a one-year term that will expire at the 2008 Annual Meeting of Stockholders. If that proposal is not adopted, each of the two nominees, if elected, will serve a three-year term that will expire at the 2010 Annual Meeting of Stockholders. Furthermore, if that proposal is approved by our stockholders at the Meeting, all directors will be elected for a one-year term beginning with the 2008 Annual Meeting of Stockholders.

The other director whose term is expiring at the upcoming Meeting, Mr. Robert W. Matschullat, informed the Company on May 29, 2007 that he would not stand for reelection to the Board.

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Accordingly, Mr. Mattschullat s term as director will expire as scheduled on July 25, 2007. We anticipate that the Board will fill the upcoming vacancy following the Meeting.

All of the nominees have informed the Board that they are willing to serve as directors. 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.

Majority Voting Standard for Election of Directors. In January 2007, the Board of Directors revised the Company s Amended and Restated Bylaws to install a majority voting standard for the election of directors. The amendment states that in uncontested director elections, such as that being conducted this year, 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 continues to apply. This majority vote 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 two nominees and the continuing directors.

Nominees

The Board of Directors recommends a vote FOR all Nominees.

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

Mr. Hammergren, age 48, was named Chairman of the Board effective July 31, 2002 and was named President and Chief Executive Officer of the Company effective April 1, 2001. He was Co-President and Co-Chief Executive Officer of the Company from July 1999 until April 2001. He was Executive Vice President of the Company and President and Chief Executive Officer of the Supply Management Business from January 1999 to July 1999, Group President, McKesson Health Systems from 1997 to 1999 and Vice President of the Company since 1996. He is a director of Nadro, S.A. de C.V. (Mexico) and Verispan LLC, entities in which the Company holds interests, and a director of the Hewlett-Packard Company. He has been a director of the Company since 1999.

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

Ms. Jacobs, age 56, is the Chairman, President, Chief Executive Officer and director 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

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1993. Ms. Jacobs has been a director of the Company since 1999. She is a member of the Compensation Committee and the Committee on Directors and Corporate Governance.

Directors Continuing in Office

Directors Whose Terms will Expire in 2008

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

Ms. Knowles, age 60, 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 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.

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

Dr. Shaw, age 68, 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 a director of Intel Corporation. Dr. Shaw has been a director of the Company since 1992. She is the Chair of the Committee on Directors and Corporate Governance and a member of the Audit Committee.

Directors Whose Terms Will Expire in 2009 if Stockholders Do Not Approve the Proposal to Declassify Our Board

Wayne A. Budd
Senior Counsel
Goodwin Procter LLP

Mr. Budd, age 65, 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,

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Mr. Budd was Group President-New England for Bell Atlantic Corporation (now Verizon Communications, Inc.). From 1994 to 1997, he was a Commissioner, United States Sentencing Commission and from 1993 to 1996, Mr. Budd was a senior partner at the law firm of Goodwin Procter. 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.

Alton F. Irby III
Chairman and Partner
London Bay Capital

Mr. Irby, age 66, is the founding partner of London Bay Capital, a privately held investment firm, since May 2006. He was 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 was 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. 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 1999. He is Chair of the Compensation 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 66, 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 a director of Agilent Technologies, 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.

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James V. Napier
Chairman of the Board, Retired
Scientific-Atlanta, Inc.

Mr. Napier, age 70, retired as Chairman of the Board, Scientific-Atlanta, Inc., a cable and telecommunications manufacturing company, in November 2000. He had been the Chairman of the Board since 1993. He is also a director of Vulcan Materials Company, Intelligent Systems, Inc. and WABTEC Corporation. Mr. Napier has been a director of the Company since 1999. He is a member of the Finance Committee.

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. Its 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 nine members, all of whom are independent with the exception of the Chairman. The Company 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 has 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 (the Applicable Rules). Each of these charters requires an annual review by its committee. All of the members of the committees are independent, as determined by the Board, under the NYSE listing standards and the Company s director independence standards. In addition, all of the members of the Audit Committee meet the additional, heightened independence criteria applicable to audit committee members. The members of each standing committee are elected by the Board each year for a term of one year or until his or her successor is elected. The members of the committees are identified in the table below.

Director	Audit	Compensation	Corporate Governance	Finance
Wayne A. Budd	X		X	
Alton F. Irby III		Chair		X
M. Christine Jacobs		X	X	
Marie L. Knowles	Chair			X
David M. Lawrence		X		
Robert W. Matschullat	X			Chair
James V. Napier				X
Jane E. Shaw	X		Chair	

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Board and Meeting Attendance

During the fiscal year ended March 31, 2007 (FY 2007), the Board met eight times. No director attended fewer than 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 seven directors attended the annual stockholders meeting held in calendar year 2006.

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 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; 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 intended to be in accordance with the Applicable Rules for corporate audit committees. The Audit Committee met seven times during FY 2007.

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 and approving the corporate goals and objectives relevant to the CEO s compensation and evaluating, together with the Board the CEO s performance in light of those objectives; making and annually reviewing decisions concerning cash and equity compensation, and other terms and conditions of employment for the CEO; 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;

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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 the CEO the authority to grant options to employees other than directors or executive officers, provided that such grants are within the limits established by Delaware General Corporate 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 has engaged Compensation Strategies, Inc., an independent executive and director compensation consulting firm, to provide executive compensation consulting services to the Company. Additional information on the Compensation Committee s process and procedures for consideration of executive compensation are addressed in the Compensation Discussion and Analysis below. The Compensation Committee met five times during FY 2007.

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 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. The Finance Committee met seven times during FY 2007.

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 committee composition; and advising the Board regarding director compensation and administering the 2005 Stock Plan with respect to directors equity awards. The Governance Committee met six times during FY 2007.

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 retained by the Governance Committee, Company executives and other stockholders. Stockholders who wish to propose a director candidate for consideration by the Governance Committee or who wish to nominate a candidate 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, 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 that 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 to

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stand 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 his or her 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 increased 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 award and per-meeting fees. The committee chairs also receive an additional annual retainer, and beginning July 2007, the Presiding Director will similarly receive an additional annual retainer.

Directors are also paid their reasonable expenses for attending Board and committee meetings. 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 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, the account balance will be paid in the form elected by the director. In the event of death, the account balance will be paid to the director s designated beneficiary. 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 years 2006 and 2007 was 8.0%.

Following a comprehensive review of compensation practices and levels for non-employee directors, on October 27, 2006, the Board increased the annual retainer for non-employee directors from $50,000 to $75,000 and increased the annual retainer for each committee chair by $5,000, which resulted in a $20,000 annual retainer for the Chair of the Audit Committee and $10,000 for each of the Chairs of the Finance Committee and the Committee on Directors and Corporate Governance. The annual retainer for the Chair of the Compensation Committee was increased to $20,000 from $5,000. These changes became effective on October 1, 2006. Also, at the October 2006 Board meeting, an annual retainer of $10,000 was established for the Presiding Director effective July 25, 2007.

In addition to payment of an annual retainer, Board members are also entitled to meeting fees of $1,500 for each Board, Finance Committee, Compensation Committee or Committee on Directors and Corporate Governance meeting attended, and $2,000 for each Audit Committee meeting attended.

Each July directors receive an automatic annual grant of restricted stock units (RSUs) in an amount not to exceed 5,000 units, which is currently set at 2,500 RSUs. The RSUs vest immediately; however, under the terms of our 2005

Stock Plan, receipt of the underlying stock is deferred until such time as the director leaves the Board. Dividend equivalents on the RSUs are credited to an interest bearing cash account in the Company s DCAP III and are not distributed until the director leaves the Board.

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Directors who are employees of the Company or its subsidiaries do not receive any compensation for service on the Board. Alton F. Irby III is also a director of McKesson Information Solutions UK Limited, an indirect wholly-owned subsidiary of the Company, and currently receives meeting fees of $1,500 for each board meeting attended for his service as a Board member of that company. For the fiscal year ended March 31, 2007, Mr. Irby earned $1,500 in meeting attendance fees for his service as a board member of McKesson Information Solutions UK Limited.

Non-employee directors are eligible to participate in the McKesson Corporation Foundation s Educational Matching Gifts Program. Under this program, directors gifts to schools and educational associations or funds will be matched by the foundation up to $5,000 per director for each fiscal year.

The following table sets forth information concerning the compensation earned during the last fiscal year by each individual who served as a director at any time during the last fiscal year:

Director Compensation

Name	Fees Earned or Paid in Cash ($)(1)	Stock Awards ($)(2)	Option Awards ($)	Non-Equity Incentive Plan Compensation ($)	Change in Pension Value and Non-qualified Deferred Compensation Earnings ($)(3)	All Other Compensation ($)	Total ($)
Wayne A. Budd	97,500	125,675			3,532		226,707
Alton G. Irby III	102,000	125,675			2,347		230,022
M. Christine Jacobs	91,000	125,675			617		217,292
Marie L. Knowles	115,000	125,675			2,822		243,497
David M. Lawrence, M.D.	79,000	125,675			1,811		206,486
Robert W. Matschullat	104,500	125,675			6,189		236,364
James V. Napier	85,000	125,675			716		211,391
Jane E. Shaw	105,843	125,675			5,558		237,067

(1) Includes the cash portion of the director annual retainer, annual chair and meeting fees (whether paid or deferred).

(2) Amounts shown in this column reflect the Company s accounting expense for these awards 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 represents the full grant date fair value of the director s automatic annual grant of RSUs as computed pursuant to Statement of Financial Accounting Standards No. 123(R), Share-based Compensation (FAS 123(R)). For additional information on the assumptions used to calculate the value of such awards, refer to Note 19 of the Company s consolidated financial statements in the Annual Report on Form 10-K for the fiscal year ended March 31, 2007, as filed with the SEC on May 9, 2007.

(3)

Represents the amount of above-market interest earned under the Company s Deferred Compensation Administration Plans. A discussion of the Company s Deferred Compensation Administration Plans is provided below under the subsection entitled Nonqualified Deferred Compensation.

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 of 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, during the last fiscal year the Board undertook a comprehensive review of the Company s current corporate governance practices, the corporate governance environment and current trends, and, as a result, instituted a number of important changes, including the

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early termination of the Company s stockholder rights plan, commonly known as a poison pill, such that it automatically expired at the close of business on January 31, 2007; amending the Company s governing documents to implement a majority vote standard in uncontested director elections in place of the plurality vote standard, which will continue to apply for contested elections; and voting to declassify the Board, a change that is discussed in greater detail below as it is subject to approval by the Company s stockholders at the upcoming Meeting. 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 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, 33rd Floor, San Francisco, California 94104.

Majority Voting Standard

In January 2007, the Board approved amendments to the Company s Amended and Restated By-Laws (the By-Laws) to adopt a majority voting standard for the election of directors in place of the plurality vote standard. 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 were amended to 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 continue to 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 meeting of stockholders.

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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 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 Governance, or a printed copy may be obtained by any stockholder from the Corporate Secretary upon request. 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 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.

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 25, 2007, which can be found on the Company s website at *www.mckesson.com* under the caption Governance, or a printed copy may be obtained by any stockholder from the Corporate Secretary upon request.

Director Stock Ownership Guidelines

The Board has adopted Director Stock Ownership Guidelines pursuant to which directors are 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. As of March 31, 2007, all of our directors were in compliance with the Company s Director Stock

Ownership Guidelines.

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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 of the 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. The Board has established standards to assist it in making a determination of director independence, which go beyond the criteria required by the NYSE. A director will not be considered independent if, within the preceding five years:

a) The director receives, or whose immediate family member receives, more than $100,000 per year 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);

b) The director is affiliated with or employed by, or whose immediate family member is affiliated with or employed in a professional capacity by, a present or former internal or external auditor of the Company;

c) The director is employed, or whose immediate family member is employed, as an executive officer of another company where any of the Company s present executives serve on that company s compensation committee;

d) The director is an executive officer or an employee, or whose immediate family member is an executive officer, of another company (A) that accounts for at least 2% of the Company s consolidated gross revenues, or (B) for which the Company accounts for at least 2% or $1,000,000, whichever is greater, of such other company s consolidated gross revenues;

e) The director is 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% of the respective company s total assets measured as of the last completed fiscal year;

f) The director serves as an officer, director or trustee of a charitable organization and the Company s discretionary charitable contributions are more than 5% 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); and

g) 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 Governance. Provided that no relationship or transaction exists that would disqualify a director under the standards, and no other relationship or transaction exists of a type not specifically mentioned in the standards, that, in the Board s opinion, taking into account all 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 those standards, and all other applicable laws, rules or regulations, the Board has determined that, with the exception of John H. Hammergren, each of the current directors, namely Wayne A. Budd, Alton F. Irby III, M. Christine Jacobs, Marie L. Knowles, David M. Lawrence, M.D., Robert W. Matschullat, James V. Napier and Jane E. Shaw, is 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

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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. Robert W. Matschullat, 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 2007.

Communications with Directors

Stockholders and other interested parties may communicate with the Presiding Director, the nonmanagement directors, or any of the directors by addressing their correspondence to the Board member or members, c/o the Corporate Secretary s Office, McKesson Corporation, One Post Street, 33rd 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 not relevant to and consistent with the Company s operations, policies and philosophies, are deemed of a commercial or frivolous nature or otherwise inappropriate for the Board s consideration. The Corporate Secretary s office 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 indemnity agreements with each of 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 permit indemnification for acts or omissions for which indemnification is not permitted under Delaware law.

Item 2. ***Proposal to Amend our Restated Certificate of Incorporation to Declassify the Board of Directors***

The Board Of Directors recommends a vote FOR amending the Restated Certificate of Incorporation.

The Company s Restated Certificate of Incorporation currently provides that the Board is divided into three classes, with each class being elected once every three years. In January 2007, on the recommendation of the Governance Committee, the Board unanimously adopted resolutions approving, declaring advisable and recommending to the stockholders for approval, amendments to declassify the Board of Directors.

If the proposed amendments to the Restated Certificate of Incorporation are approved by our stockholders, the classification of the Board will be eliminated, the current term of office of each director will end at the next annual meeting of stockholders and directors will thereafter be elected for one-year terms at each annual meeting of stockholders. Furthermore, any director chosen as a result of a newly created directorship, or to fill a vacancy on the Board, will hold office until the next annual meeting of stockholders and until his or her successor is elected and qualified.

If the proposed amendments to the Restated Certification of Incorporation are not approved by stockholders, the Board will remain classified, and if elected, the two nominees for director at the Meeting will each serve until the 2010 Annual Meeting of Stockholders and until their respective successors are duly elected and qualified. All other directors will continue in office for the remainder of their full three-year terms and until their successors are duly elected and qualified. This proposal would not change the present number of directors, nor would it change the Board s authority to change that number and to fill any vacancies or newly created directorship by resolution of the Board.

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The text of the proposed amendment to the Restated Certificate of Incorporation is attached as Appendix A to this proxy statement. If approved, this proposal will become effective upon the filing of a Certificate of Amendment to the Restated Certificate of Incorporation with the Secretary of State of the State of Delaware, which the Company intends to do promptly if stockholder approval is obtained.

Corresponding Amendment to the Company s Amended and Restated By-Laws

In addition, in connection with the Board s approval on January 4, 2007 of amendments to the Company s Restated Certificate of Incorporation for purposes of declassifying the Board, the Board also approved amendments to Section 2 of Article III of the Amended and Restated By-Laws relating to declassification of the Board. Such amendments will become effective only if the stockholders approve the declassification of the Board, and only upon the filing of a Certificate of Amendment to the Corporation s Restated Certificate of Incorporation relating to the declassification of the Board. Such amendments to the By-Laws would also change the number of directors from a fixed number of nine (which was historically modified by the Board upon approval of a By-Law amendment) to a range of three to fifteen, with the exact number to be fixed from time to time by resolution of the Board.

Background of Proposal

The proposal to declassify the Board is a result of a recent comprehensive review of current corporate governance practices by the Governance Committee and the Board, as described above under the subsection entitled Election of Directors Corporate Governance, and following the passage of a stockholder proposal on the subject at the Company s 2006 Annual Meeting of Stockholders.

The Board considered the various costs and benefits of retaining or eliminating the classified board structure. Additionally, the Board considered the current corporate governance environment and the trend by public companies to move to annual election of all directors. In light of our size and financial strength, the Board determined that the classification of the Board should be eliminated. On recommendation of the Governance Committee, the Board approved the proposed amendments to the Company s Certificate of Incorporation to eliminate the classified Board structure and provide for the annual election of all directors, and determined to recommend that stockholders also approve such amendments to the Company s Certificate of Incorporation.

Item 3. ***Proposal to Amend our 2005 Stock Plan***

The Board of Directors 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 Plan) to increase the number of shares of common stock reserved for issuance under the plan by 15,000,000 shares.

The Board approved the adoption of our 2005 Plan on May 25, 2005, subject to stockholder approval. The Company s stockholders approved the 2005 Plan at their annual meeting held on July 25, 2005, which is the effective date of the 2005 Plan. On October 27, 2006, the Board retroactively 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).

As of April 30, 2007, an aggregate of 4,738,729 shares of our common stock remained available for grant under the 2005 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 Plan for use in attracting, motivating and retaining qualified employees. Accordingly, stockholders are being asked to approve an amendment to the 2005 Plan to increase the number of shares of the Company s common stock reserved for issuance by 15,000,000 shares. The Board approved the proposed

amendment to

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the 2005 Plan to increase the share reserve on May 23, 2007, with such amendment to be effective upon stockholder approval.

The 2005 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 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.

Background of the Amendment

Current Equity Incentive Reserve is Insufficient. The Company, as of April 30, 2007, had an aggregate of 4,738,729 shares remaining available for grant under the 2005 Stock Plan. Equity awards are an essential component of the Company s long-term compensation program. The Company anticipates investing in new business opportunities and sustaining its revenue growth in FY 2008. 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 Plan, the Company will be challenged in its employee recruitment and retention efforts. With additional shares in the 2005 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	Run-Rate (%)
	(shares in thousands)			
FY 2003(1)	7,159	4,197	2,962	1.0%
FY 2004(1)	7,448	2,365	5,083	1.8%
FY 2005(1)	6,791	5,051	1,740	0.6%
FY 2006	5,388	1,686	3,702	1.2%(2)
FY 2007	2,102	229	1,873	0.6%(2)

(1) Includes awards granted under legacy stock plans that were in use prior to stockholders approval of the 2005 Plan.

(2) Pursuant to the terms of the 2005 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 and FY 2007 would have been 1.3% and 0.9%, respectively.

For the past five fiscal years, the Company has maintained its run-rate below two percent. The lower run-rate for FY 2007 reflects management s 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 Compensation on April 1, 2006. Management believes this lower run-rate is indicative of future practice. Under the share counting method used in the 2005 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

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the 2005 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. 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 while still attracting and retaining our 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 plus Total Awards. For the last five fiscal years, the amounts were as follows:

	Equity Overhang (%)
FY 2003	22.4%
FY 2004	21.7%
FY 2005	19.1%
FY 2006	15.1%
FY 2007	12.5%

Conclusion. The Board believes that the proposed amendment to the 2005 Plan is in the best interests of the Company because of its continuing need to provide share-based compensation to attract and retain quality employees. The current hiring environment is more competitive than in the recent past. Moreover, since FY 2005, the total number of employees has increased by more than 6,000. Having additional equity compensation available to grant under the 2005 Plan will enable the Company to recruit the top talent necessary to enable our Company to achieve continued success. 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 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 Plan. A copy of our 2005 Plan is available to any of our stockholders upon request by: (1) writing to the Corporate Secretary, McKesson Corporation, One Post Street, 33rd Floor, San Francisco, CA 94104; (2) sending an e-mail to *corporatesecretary@mckesson.com*; or (3) calling the Corporate Secretary s Office toll-free at (800) 826-9260. The 2005 Plan may also be viewed without charge on the SEC s website at *www.sec.gov*.

Purpose of the 2005 Plan

The purpose of the 2005 Plan is to provide employees, 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 Plan Basics

Eligible participants:	All employees and directors of the Company and its affiliates are eligible to receive stock awards under the 2005 Plan, and there are approximately a total of 31,800 employees and eight non-employee directors eligible as of March 31, 2007. 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 2,200 to 2,400 other employees have received grants under the 2005 Plan.
Types of awards available for grant:	Incentive stock options Nonstatutory stock options Stock appreciation rights Other share-based awards Restricted stock Restricted stock unit Performance shares
Share reserve:	Subject to capitalization adjustments, 13,000,000 shares of common stock were reserved under the 2005 Plan at its July 2005 approval by stockholders. If stockholders approve the proposed amendment, the additional issuance of 15,000,000 shares will constitute approximately 5% of the Company s shares outstanding as of April 30, 2007. The percentage calculations are based on 297,437,185 shares of common stock outstanding as of April 30, 2007. 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 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 shall be deducted from the reserve of shares available for issuance under the 2005 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 shall not be returned to the reserve of shares available for issuance under the 2005 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 the options or stock appreciation rights in any fiscal year is 1,000,000.

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Term of the Plan:	The 2005 Plan will terminate on May 24, 2015, unless the Board terminates it earlier.
Capitalization adjustments:	The share reserve, 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 may be adjusted (as applicable), as the administrator determines in its sole discretion, in the event of a stock split, reverse stock split, dividend, merger, consolidation, reorganization, recapitalization, spin-off, combination, repurchase, share exchange or similar transaction.
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, 2007, the closing price for a share of the Company s common stock was $61.88 per share.

Method of exercise:	Cash Delivery of common stock (including delivery by attestation)	Net exercise Any other form of legal consideration that the administrator approves

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.

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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
- 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
- Market share
- 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 or relative to internal goals or 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 (other than stock options and stock appreciation rights) 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.

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 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 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 be fully vested on the date of grant; provided,

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	however, that payment of any shares is delayed until the director is no longer performing services for the Company.
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:	The administrator may 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. 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. Options, restricted stock, restricted stock units and performance shares may be settled only in shares of common stock.
Transferability:	Stock awards are transferable as provided in the applicable stock award agreement.
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 Plan.

Additional 2005 Plan Terms

Administration. The 2005 Plan may be administered by the Board, or the Board may delegate administration of the 2005 Plan to a committee of the Board, to an officer or officers of the Company under limited circumstances. Currently, the Governance Committee administers the 2005 Plan with respect to non-employee directors; whereas, the Compensation Committee administers the 2005 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 the conditions and limitations of the 2005 Plan, the administrator may modify, extend or renew outstanding stock awards. In connection with the Code Section 409A proposed regulations, a provision was added to the 2005 Plan in October 2006, which restricted modification, extension or renewal of options and stock appreciation rights to limit exercisability beyond the later of: (i) the fifteenth day of the third month

following the date on which the option or stock appreciation right otherwise would have expired if the option or stock appreciation right had not been extended; or (ii) December 31 of the calendar year in which the option or stock appreciation right otherwise would have expired if the option or stock appreciation right had not been extended, based on the terms of

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the option or stock appreciation right on the date of grant. The amendment was adopted to avoid the application of penalty taxes on certain grants. The Compensation Committee will review this amendment in light of the issuance of the Code Section 409A final regulations and adopt changes as it deems appropriate.

Change-in-Control. Stock awards may be subject to additional acceleration of vesting and exercisability upon or after a change-in-control 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 shall 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; or (iii) delivering to the Company owned and unencumbered shares of common stock.

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, under the 2005 Plan, each July non-employee directors receive an annual grant of restricted stock units in an amount not to exceed 5,000 units, which is currently set at 2,500 restricted stock units. The restricted stock units vest immediately, but receipt of the underlying stock is deferred until such time as the director leaves the Board.

Amendment. The Board may suspend or discontinue the 2005 Plan at any time. The Compensation Committee of the Board may amend the 2005 Plan with respect to any shares at the time not subject to awards. However, only the Board may amend the 2005 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 Plan or increase the number of shares available for issuance pursuant to incentive stock options under the 2005 Plan; (ii) materially expand the class of persons eligible to receive awards; (iii) expand the types of awards available under the 2005 Plan; (iv) materially extend the term of the 2005 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 Plan from the administrator; or (viii) amend the provision regarding amendment of the 2005 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 May 1, 2007.

Name and Position	Number of Shares Subject to Options Granted Under the 2005 Plan	Number of Shares Subject to Restricted Stock Units Granted Under the 2005 Plan
John H. Hammergren *Chairman, President and Chief Executive Officer*	585,000	293,919
Jeffrey C. Campbell *Executive Vice President and Chief Financial Officer*	134,000	65,653
Paul C. Julian *Executive Vice President, Group President*	306,000	153,835
Marc E. Owen *Executive Vice President, Corporate Strategy and Business Development*	82,000	43,871
Pamela J. Pure *Executive Vice President, President, McKesson Provider Technologies*	117,000	70,662
All current executive officers, as a group	1,471,000	664,628
All directors who are not executive officers, as a group		40,000
All employees who are not executive officers, as a group	4,613,050	515,479

Since its inception, no shares have been issued under the 2005 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 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 Plan to executives and other employees.

Certain United Stated Federal Income Tax Information

The following is a summary of the effect of U.S. federal income taxation on the 2005 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 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

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capital gain or loss. The Company may deduct the amount, if any, that the participant recognizes as ordinary income.

Restricted Stock. No taxes are due on the grant of restricted stock. 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 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. Stock appreciation rights that are settled in cash, 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 will be subject to income tax immediately 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.

Item 4. ***Proposal to Amend our 2000 Employee Stock Purchase Plan***

The Board Of Directors recommends a vote FOR amending the 2000 Employee Stock Purchase Plan.

At the annual meeting, our stockholders will be asked to approve an amendment to the Company s 2000 Employee Stock Purchase Plan (the ESPP) to increase the number of shares of common stock reserved for issuance under the plan by 5,000,000 shares.

The ESPP was adopted by the Board of Directors of HBO & Company (HBOC) prior to January 12, 1999, the date when the Company acquired HBOC (the Acquisition). The ESPP was amended and restated by the Board effective as of the closing of the Acquisition, and further amended by the Board on January 27, 1999, April 26, 1999, August 25, 1999, October 27, 1999, March 27, 2002 and November 1, 2004.

On May 23, 2007, the Board of Directors, approved an increase in the number of shares of common stock available for issuance under the ESPP from 11,100,000 to 16,100,000 shares, subject to the approval of the Company s stockholders. As of May 1, 2007, approximately 1,206,236 shares of common stock were available for issuance under the ESPP.

ESPP purchases occur each January, April, July and October on behalf of participants, and at the last purchase approximately 218,622 shares were issued to participants. Therefore, to assure that sufficient shares will be available to permit the ESPP to continue to operate, the Board has approved an increase in the number of shares of common stock reserved for issuance under the plan from 11,100,000 to 16,100,000 shares (subject to adjustment for any stock split, stock dividend or other relevant change in the Company s capitalization). The Company s forecast indicates that

the addition of 5,000,000 shares will allow continued employee participation for approximately four to five years. If

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this amendment to the ESPP is not approved by the stockholders, the Board will suspend employee participation in the ESPP once the currently available shares are purchased.

A vote in favor of this proposal will increase by 5,000,000 the number of shares available for purchase under the ESPP. A vote not to approve will mean that the number of shares reserved for issuance under the ESPP will remain at 11,100,000.

The ESPP is designed to provide employees, including officers, with an opportunity to purchase shares of the Company s common stock on favorable terms by means of an automatic payroll deduction mechanism. The purpose of the ESPP is to advance and promote the interests of the stockholders of the Company by making available to eligible employees of the Company and participating subsidiaries and related entities the opportunity to acquire a proprietary interest, or to increase their existing proprietary interest, in the Company. The Board believes that employee ownership of the ESPP shares serves as an incentive to motivate and retain employees and encourage superior performance.

The Board believes that the proposed amendment to the ESPP is in the best interests of the Company because of its continuing need to provide share-based compensation to attract and retain quality employees. The current hiring environment is more competitive than in the recent past. Since FY 2005, the total number of Company employees eligible to participate in the ESPP has increased by more than 6,000. Having additional equity compensation available to grant under the ESPP will enable the Company to recruit the top talent necessary to enable our Company to achieve continued success.

The ESPP is intended to qualify as an employee stock purchase plan within the meaning of Code Section 423. In March 2002, the Board amended the ESPP to allow for participation in the plan by employees of certain of the Company s international and certain other subsidiaries. As to those employees, the ESPP does not so qualify under the Code.

The following summary of the material features of our ESPP (including the proposed amendment) does not purport to be complete and is qualified in its entirety by reference to the specific language of our ESPP. A copy of our ESPP is available to any of our stockholders upon request by: (1) writing to the Corporate Secretary, McKesson Corporation, One Post Street, 33rd Floor, San Francisco, CA 94104; (2) sending an e-mail to *corporatesecretary@mckesson.com*; or (3) calling the Corporate Secretary s Office toll-free at (800) 826-9260. The ESPP may also be viewed without charge on the SEC s website at *www.sec.gov*.

Plan Administration

The ESPP is administered by the Compensation Committee, which has the authority to make rules and regulations governing the ESPP.

Offering Periods

The ESPP is implemented through a continuous series of three-month offerings beginning on the first trading day on or after each February 1, May 1, August 1, and November 1 (the Offering Dates), and ending on the last trading day of the month which is three months later (the Offering Periods), during which contributions may be made toward the purchase of common stock under the plan. For purposes of determining the purchase price of a share of common stock, the last trading day of each Offering Period is used.

Once an employee participant is enrolled in the ESPP for an Offering Period, participation in the plan will continue until: (i) the date the participant withdraws from the plan; (ii) the participant is no longer an eligible employee; (iii) no

further shares are authorized for purchase under the plan; or (iv) the Compensation Committee discontinues the plan.

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Eligible Employees

Each employee of the Company (and subsidiaries and related entities designated by the Compensation Committee) who has been employed for 60 days or more prior to the beginning of an Offering Period and who customarily works at least 20 hours per week and more than five months in any calendar year is eligible to participate in the ESPP. However, no employee is eligible to participate in the ESPP to the extent that, immediately after the grant, the employee would own 5% of either the voting power or the value of the Company s common stock. As of May 1, 2007, approximately 23,166 employees were eligible to participate in the ESPP and 6,583 employees had elected to participate.

Payroll Deductions

Each eligible employee may become a participant in the ESPP by making an election, at least ten days prior to any Offering Date, authorizing regular payroll deductions during the next succeeding Offering Period, the amount of which may not exceed 15% of a participant s compensation for any payroll period. A participant may increase or decrease his or her rate of contributions or withdraw from participation at any time.

Payroll deductions are credited to a cash account for each participant. At the end of each Offering Period, the funds will be used to purchase shares of the Company s common stock, which are then held in a stock account. A participant has the right to vote the shares credited to his or her stock account, and may withdraw these shares at any time.

Purchase Price

The purchase price of each share of the Company s common stock will be 85% of the fair market value of such share on the last trading day of the applicable Offering Period. The fair market value is the closing price for the Company s common stock on the applicable date. On June 8, 2007, the closing price per share of the Company s common stock was $61.88 per share. The purchase price is subject to adjustment to reflect certain changes in the Company s capitalization.

The maximum number of shares of common stock that a participant may purchase during any calendar year is $25,000, which is determined based on the fair market value of the Company s common stock on the Offering Date.

Effect Of Termination of Employment of Participant

If a participant terminates employment with the Company, its subsidiaries and related entities during a Offering Period, the balance of the participant s cash account will either be returned to the participant without interest, or in the event of death, to the person or persons entitled to the participant s cash account.

Non-Transferability of Purchase Rights

Rights to acquire the Company s common stock under the ESPP are not transferable by any participant and may in general be exercised only by the participant.

Capitalization Adjustments

In the event of any stock dividend, stock split, spin-off, recapitalization, merger, consolidation, exchange of shares or other change in capitalization, the number of shares then subject to purchase and the number of authorized shares remaining available to be sold shall be increased or decreased appropriately, with other adjustment as may be deemed necessary or equitable by the plan administrator, including adjustments to the price per share.

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Amendment and Termination

The Board of Directors may amend the ESPP in any respect. However, an amendment that increases the number of shares reserved under the ESPP (other than adjustments upon changes in capitalization or a corporate transaction) or changes in the designation of corporations whose employees may be eligible to participate in the ESPP, other than a parent or subsidiary corporation, requires stockholder approval.

The ESPP will terminate when the number of shares available for issuance under the ESPP has been substantially exhausted, or at any earlier time by action of the Board.

Number of Shares Purchased by Certain Individuals and Groups

The actual number of shares that may be purchased by any individual under the ESPP is not determinable in advance since the number is determined, in part, on the contributed amount and the purchase price. The following table sets forth (1) the aggregate number of shares of Company common stock that was purchased under the ESPP by the listed persons and groups since its inception through the most recent purchase date, April 30, 2007, and (2) the average per share purchase price paid for such shares.

Name and Position	Number of Shares Purchased	Average Per Share Purchase Price
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	3,290	$ 30.24
Executive Vice President, Corporate Strategy and Business Development		
Pamela J. Pure	3,081	$ 32.30
Executive Vice President, President, McKesson Provider Technologies		
All current executive officers as a group	14,960	$ 27.04
All employees who are not executive officers as a group	9,893,764	$ 24.78

None of our directors who are not executive officers are eligible to participate in the ESPP. Since its inception, no shares have been issued under the ESPP 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 ESPP.

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

Certain United Stated Federal Income Tax Information

The information provided below is only a summary of the effect of United States federal income taxation upon the ESPP participants and the Company with respect to the shares purchased under the ESPP. It does not purport to be complete, and does not discuss the tax consequences arising in the context of a participant s death or the income tax

laws of any municipality, state or foreign country in which the participant s income or gain may be taxable.

Taxation of Shares Acquired Upon Exercise of Purchase Rights. For employees of the Company and its subsidiaries (as defined in Section 424(f) of the Code), the plan is intended to qualify as an employee stock purchase plan within the meaning of Section 423(b) of the Code. For employees of

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other subsidiaries and participating entities, the ESPP cannot so qualify, so the taxation rules are different.

Employees of the Company and Code Section 424(f) subsidiaries. A participant will pay no Federal income tax upon enrolling in the ESPP or upon purchase of shares under the plan. A participant may recognize income and/or capital gain or loss upon the sale or other disposition of shares purchased under the plan, the amount and character of which will depend on whether the shares are held for at least two years after the first day of the Offering Period in which the shares were purchased and at least one year after the last day of the Offering Period in which the shares were purchased (the Required Holding Period).

If the participant sells or otherwise disposes of the shares before expiration of the Required Holding Period, the participant will recognize ordinary income in the year of the sale in an amount equal to the excess of: (i) the fair market value of the shares on the purchase date; over (ii) the purchase price paid by the participant for the shares. The Company or applicable subsidiary will be entitled to a Federal income tax deduction in the same amount.

In contrast, if the participant holds the shares until after the Required Holding Period expires, the participant will generally recognize ordinary income at the time of sale in an amount equal to the lesser of: (i) 15 percent of the fair market value of the shares on the first day of the Offering Period in which the shares were purchased; or (ii) the excess of the fair market value of the shares at the time the shares were sold over the purchase price of the shares. The Company will not in this case be entitled to any deduction for Federal income tax purposes.

Employees of other subsidiaries and participating entities. A participant will not realize taxable income at the time a purchase right is granted under the ESPP. When the shares are actually purchased, the participant will realize taxable income in the amount of the difference between the fair market value of the shares and the purchase price paid under the ESPP. (As described under Purchase Price, the price paid for shares purchased under the ESPP will always be at least 15% less than the fair market value of the shares on the Purchase Date). The basis of the shares will be increased by the amount includible as ordinary income. When the shares are sold, the gain or loss on the shares will be treated as capital gain or loss.

Capital Gain or Loss. When the shares acquired through participation in the ESPP are sold, the gain or loss on the shares will be treated as a capital gain or loss. Net capital gain (*i.e.*, generally, capital gain in excess of capital losses) recognized by the participant from the sale of shares that have been held for more than 12 months will generally be subject to long-term capital gain rates. Net capital gain recognized from the sale of shares held for 12 months or less will be subject to tax at ordinary income tax rates.

Equity Compensation Plan Information

The following table sets forth information as of March 31, 2007 with respect to the plans under which the Company s common stock is authorized for issuance:

	Number of securities to be issued upon	**Weighted-average**	**Number of securities remaining available for future issuance under equity**

Plan Category (In millions, except per share amounts)	exercise of outstanding options, warrants and rights	exercise price of outstanding options, warrants and rights	compensation plans (excluding securities reflected in the first column)
Equity compensation plans approved by security holders(1)	18.9	$ 52.73	8.8(2)
Equity compensation plans not approved by security holders(3),(4)	14.4	34.55	0.3

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(1) Includes the 1973 Stock Purchase Plan and the 2000 Employee Stock Purchase Plan. Also includes options outstanding under the 1994 Stock Option and Restricted Stock Plan, which expired October 2004, the 2005 Stock Plan, and the 1997 Non-Employee Directors Equity Compensation and Deferral Plan, which was replaced by the 2005 Stock Plan, following its approval by the stockholders on July 27, 2005.

(2) Includes 4,851,455 shares available for grant under the 2005 Stock Plan, 1,424,882 shares available for purchase under the ESPP and 2,510,200 shares available for grant under the 1973 Stock Purchase Plan as of March 31, 2007. No further purchases under the Company s 1973 Stock Purchase Plan will be made, of which, the last occurred January 1999.

(3) Includes the 1999 Executive Stock Purchase Plan and a small assumed sharesave scheme (similar to the ESPP) in the United Kingdom. Also includes options that remain outstanding under the terminated broad-based 1999 Stock Option and Restricted Stock Plan, the 1998 Canadian Stock Incentive Plan, and two stock option plans, all of which were replaced by the 2005 Stock Plan following its approval by the stockholders on July 27, 2005.

(4) As a result of acquisitions, the Company currently has eight assumed option plans under which options are exercisable for 2,358,337 shares of Company 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.

On July 27, 2005, the Company s stockholders approved the 2005 Stock Plan that had the effect of terminating the 1999 Stock Option and Restricted Stock Plan, the 1998 Canadian Stock Incentive Plan, the Stock Option Plans adopted in January 1999 and August 1999, which plans had not been submitted for approval by the Company s stockholders, 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 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, Accounting for Stock-Based Compensation, as amended by SFAS No. 148, Accounting for Stock-Based Compensation-Transition and Disclosure, in Financial Notes 1 and 19 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 Form 10-K filed on May 9, 2007. This information is incorporated herein by reference.

Item 5. ***Ratification of Appointment of Deloitte & Touche LLP as the Company s Independent Registered Public Accounting Firm for Fiscal 2008***

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, 2008. 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

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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 Meeting to respond to appropriate questions and to make a statement if they desire to do so. For the fiscal years ended March 31, 2007 and 2006, 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:

	2007	2006
Audit Fees	$ 9,220,394	$ 8,160,206
Audit-Related Fees	2,072,770	1,015,907
Total Audit and Audit-Related Fees	11,293,164	9,176,113
Tax Fees	284,000	193,749
All Other Fees		
Total	$ 11,577,164	$ 9,369,862

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.

Audit-Related Fees. This category consists of fees billed for assurance and related services that are reasonably related to the performance of the audit or review of the Company s consolidated financial statements and are not reported under Audit Fees. These services include fees related to 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 tax compliance, tax advice and tax planning (federal, state and international). Fees in this category include international corporate income tax return preparation and related services, U.S. expatriate tax return preparation and assistance, U.S. corporate income tax preparation software and consulting services.

All Other Fees. This category consist 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, 2007 and 2006.

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.

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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 Governance. The Audit Committee is composed exclusively of directors who are independent under the applicable SEC and NYSE rules. 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 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 reviewed and discussed the audited financial statements of the Company for the year ended March 31, 2007 (the Audited Financial Statements) with management. In addition, the Audit Committee has discussed with D&T the matters required to be discussed by Statement on Auditing Standards No. 61 (Communications with Audit Committees), as amended.

The Audit Committee also has received the written disclosures and the letter from D&T required by the Independence Standards Board Standard No. 1 (Independence Discussions with Audit Committees) and has discussed with that firm 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 the 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 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 be included in the Company s Annual Report on Form 10-K for the fiscal year ended March 31, 2007 for filing with the SEC.

Audit Committee of the Board

Marie L. Knowles, Chair
Wayne A. Budd
Robert W. Matschullat
Jane E. Shaw

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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 know 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	36,634,961(1)	12.38%
Capital Research and Management Company 333 South Hope Street Los Angeles, CA 90071	14,910,000(2)	5.0%
Vanguard Specialized Funds Vanguard Health Care Fund 100 Vanguard Boulevard Malvern, PA 19355	14,800,000(3)	5.0%

* Based on 295,397,045 common shares outstanding as of December 31, 2006.

(1) This information is based on a Schedule 13G filed with the SEC on February 14, 2007 by Wellington Management Company, LLP, as investment adviser, which reports shared voting power with respect to 15,124,681 shares and shared dispositive power with respect to 36,634,961 shares.

(2) This information is based upon a Schedule 13G filed with the SEC on February 12, 2007 by Capital Research and Management Company, which reports sole voting power with respect to 2,910,000 shares and sole dispositive power with respect to 14,910,000 shares.

(3) This information is based on a Schedule 13G filed with the SEC on February 13, 2007 by Vanguard Specialized Funds Vanguard Health Care Fund, which reports sole voting and dispositive power with respect to 14,800,000 shares.

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Security Ownership of Directors, Nominees and Executive Officers

The following table sets forth, as of May 31, 2007, except as otherwise noted, information regarding ownership of the Company s outstanding common stock by: (i) each executive officer named in the Summary Compensation Table below; (ii) each director, including the nominee directors; and (iii) all directors and executive officers as a group. The table also includes the number of shares subject to outstanding options to purchase common stock of the Company that are exercisable within 60 days of May 31, 2007:

Name of Individual	Shares of Common Stock Beneficially Owned(1)	Percent of Class
Wayne A. Budd	16,824(2)(4)(5)	*
Jeffrey C. Campbell	308,934(4)(7)	*
John H. Hammergren	5,310,535(4)(7)	1.8%
Alton F. Irby III	101,404(2)(4)(5)	*
M. Christine Jacobs	88,069(2)(4)	*
Paul C. Julian	1,674,646(4)(7)	*
Marie L. Knowles	15,695(2)(4)	*
David M. Lawrence	15,203(2)(4)	*
Robert W. Matschullat	14,297(2)(4)	*
James V. Napier	103,032(2)(4)(5)	*
Marc E. Owen	299,065(4)(7)	*
Pamela J. Pure	318,073(4)(6)(7)	*
Jane E. Shaw	102,981(2)(3)(4)(5)	*
All Directors and Executive Officers as a group (16 persons)	8,772,457(2)(3)(4)(5)(6)(7)	3.0%

* Less than 1%. The number of shares beneficially owned and the percentage of shares beneficially owned are based on 296,954,638 shares of the Company s common stock outstanding as of May 31, 2007.

(1) Except as otherwise indicated, the persons named in this table 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 and to the information contained in the footnotes to this table.

(2) Includes vested RSUs accrued under the 2005 Stock 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. Budd, 7,349 units; Mr. Irby, 7,201 units; Ms. Jacobs, 9,867 units; Ms. Knowles, 6,791 units; Dr. Lawrence, 7,703 units; Mr. Matschullat, 6,102 units; Mr. Napier, 7,561 units; Dr. Shaw, 19,928 units; and all directors as a group, 72,502 units. Directors have neither voting nor investment power with respect to such units.

(3) Includes 5,315 common stock units accrued under the Directors Deferred Compensation Administration Plan for Dr. Shaw. Dr. Shaw has neither voting nor investment power with respect to such units.

(4) Includes shares that may be acquired by exercise of stock options within 60 days of May 31, 2007 as follows: Mr. Budd, 9,375 shares; Mr. Campbell, 286,750 shares; Mr. Hammergren, 5,084,766 shares; Mr. Irby, 85,853 shares; Ms. Jacobs, 77,202 shares; Mr. Julian, 1,674,500 shares; Ms. Knowles, 8,904 shares; Dr. Lawrence, 7,500 shares; Mr. Matschullat, 8,195 shares; Mr. Napier, 77,471 shares; Mr. Owen, 295,500 shares; Ms. Pure, 313,150 shares; Dr. Shaw, 66,706 shares; and all directors and executive officers as a group, 8,368,702 shares.

(5) Includes shares held by family trusts as to which each of the following named directors and their respective spouses have shared voting and investment power: Mr. Budd, 100 shares; Mr. Irby,

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1,550 shares; Mr. Napier, 1,840 shares; Dr. Shaw, 11,032 shares; and those directors as a group, 14,552 shares.

(6) Includes 686 shares owned by Ms. Pure s spouse and son.

(7) Includes shares held under the Company s PSIP as of May 31, 2007 as to which participants have sole voting but no investment power as follows: Mr. Hammergren, 3,698 shares; Mr. Campbell, 684 shares; Mr. Julian, 89 shares; Mr. Owen, 1,075 shares, Ms. Pure, 1,156 shares, and all executive officers as a group, 11,027 shares.

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EXECUTIVE COMPENSATION

Compensation Discussion and Analysis

Our Compensation Philosophy and Objectives

Our compensation program is designed to motivate our officers and other key employees to achieve short- and long-term corporate goals that enhance stockholder value and enable the Company to attract and retain exceptionally talented individuals. To meet these objectives, we seek to foster a pay for performance culture by setting challenging performance goals for our executives and conditioning a significant proportion of their overall compensation on the achievement of those goals. To foster a culture where performance is highlighted in everything we do, the Company s pay for performance philosophy applies to both short- and long-term compensation elements.

Our compensation program is shaped by the highly competitive nature of the healthcare industry, and also by the highly competitive market for exceptional management talent. The amount of compensation for each named executive officer is intended 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 increases, 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 for when the Company s and/or individual performance fails to meet expectations.

At risk performance based pay for all executives is determined from the results of their annual performance review and the Company s performance against pre-established financial objectives. Beginning with FY 2006, the Compensation Committee established diluted earnings per share (EPS) as the Company s primary performance measure for both short- and long-term compensation programs. As described in more detail below, performance based awards were designed such that payouts would occur only if the Company achieved superior levels of EPS growth.

Achievement of Performance Based Compensation

Over the last seven years, the Company s strategic and financial results have been excellent. The Company has made significant progress growing revenues, earnings per share and stockholder value. During the seven-year period between FY 2000 and FY 2007, our revenues increased from $37 billion to $93 billion, a compound annual growth rate of 14%, earnings per diluted share from continuing operations (excluding adjustments for the securities litigation reserve) increased from 65 cents to $2.89, a compound annual growth rate of 24%, and market capitalization increased from $6.0 billion to $17.3 billion, a compound annual growth rate of 17%. As shown in the stock performance chart below, over this same seven-year period, our total stockholder return outperformed both the S&P 500 Index and the Value Line Healthcare Sector Index.

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Comparison of Seven-Year Cumulative Total Return (*)

- Performance results through March 31, 2007 -

(*) Cumulative total return assumes $100 invested at the close of trading on March 31, 2000 in McKesson Corporation s common stock, the S&P 500 Index and the Value Line Healthcare Sector Index, and assumes reinvestment of dividends when paid.

Over the same seven-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 products and services to drive customer satisfaction and margin expansion, and increased employee satisfaction and retention. As described in our FY 2007 Annual Report on Form 10-K, we also made a series of important acquisitions designed to expand our product offering and increase market penetration.

This progress has come under the leadership of the executive management team assembled by John H. Hammergren, our Chairman, President and Chief Executive Officer. Mr. Hammergren was appointed by the Board as the Company s co-chief executive officer in July 1999 following the resignation of our former chief executive officer. This action accompanied the resignation of the Company s chief financial officer and termination of the senior management team at our newly acquired healthcare information technology business unit after the discovery of accounting improprieties in that unit two months earlier. At that time, the Company was in distress. To secure the leadership necessary to guide the Company through these challenging times, and in light of the terminations of the preceding month, the Board and Mr. Hammergren agreed to an employment agreement on the same terms as his predecessor. It was from this starting point that Mr. Hammergren and the executive management team he assembled produced the outstanding business results described in this analysis. In April 2001, Mr. Hammergren was named by the Board as the Company s sole chief executive officer.

The compensation reported in this proxy statement primarily reflects performance during two periods: FY 2007 and the three-year period of FY 2005 to FY 2007. During this period, as explained above,

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the Company s financial performance has been excellent. As a result, short- and long-term performance related compensation for all named executive officers was superior. Moreover, based upon the terms of his employment agreement and due to increases in his performance related compensation, Mr. Hammergren s FY 2007 total compensation includes a significant performance based payment in his short- and long-term incentive compensation, as described in the subsections below entitled Summary Compensation Table and Grants of Plan Based Awards. In turn, Mr. Hammergren s FY 2007 cash compensation directly affects his pension benefits as displayed in the tables below.

Oversight and Authority Over 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 Summary Compensation Table below (collectively, the Company s NEOs). For FY 2007, 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*; and

Pamela J. Pure, *Executive Vice President, President, McKesson Provider Technologies*.

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 Board compensation. These advisors do not provide any other services to the Company, except as to matters related to the above mentioned activities.

At the beginning of each fiscal year the Compensation Committee s independent compensation consultant presents 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 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 similar in both size and complexity (based on sales, revenues and other financial measures) that represent the types of companies with which the Company historically competes for executive talent. This diverse comparison group of companies, as identified in the chart below, provides the Compensation Committee with a broad picture of the market for executive talent. Composition of the compensation comparison group is reviewed by the Compensation Committee and its independent consultant every other year. As part of their review process, the Compensation Committee and its independent consultant endeavor to design the Company s compensation comparison group such that the addition or removal of any single company would not have a material impact on the survey results.

Company Name	**Revenue in Billions(*)**

Abbot Laboratories	22.5
Aetna Inc.	25.1
AmerisourceBergen Corporation	61.2
Amgen Inc.	14.3
Automatic Data Processing, Inc.	8.9
Baxter International Inc.	10.4

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Company Name	Revenue in Billions(*)
Becton, Dickinson and Company	5.8
BMC Software, Inc.	1.5
Bristol-Myers Squibb Company	17.9
Cardinal Health, Inc.	81.4
Computer Sciences Corporation	14.6
CVS Corporation	43.8
Electronic Data Systems Corporation	21.3
Express Scripts, Inc.	17.7
FedEx Corporation	32.3
General Electric Company	163.4
Ingram Micro Inc.	31.4
Johnson & Johnson	53.3
Eli Lilly and Company	15.7
Medco Health Solutions, Inc.	42.5
Medtronic, Inc.	11.3
Omnicare, Inc.	6.5
Oracle Corporation	14.4
Rite Aid Corporation	17.5
Safeway Inc.	40.2
Schering-Plough Corporation	10.6
Stryker Corporation	5.4
Sysco Corporation	32.6
Thermo Fisher Scientific, Inc.	3.8
Tyco International Ltd.	41.0
Walgreen Co.	47.5
WellPoint, Inc.	57.0
McKesson Corporation	**93.0**

(*) Financial results are for the most recently completed fiscal year as publicly reported by each company as of May 31, 2007.

Annually, each element of executive officer compensation is reviewed by the Compensation Committee to determine the relative competitiveness of the Company s compensation program, which is compared against the 50th and 75th percentile of the compensation comparison group listed above. 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 at the companies in our compensation comparison group. Short-term compensation, which includes both a fixed base salary and annual at risk performance based compensation, is generally targeted to provide compensation at the median (50th percentile) of the compensation comparison group when both the Company s and executive officer s performance reach predetermined target levels which, we refer to as performance at target. In turn, long-term compensation is generally targeted to provide compensation between the 50th and 75th percentile of the compensation comparison group when both the Company s and executive officer s performance reaches or exceeds predetermined target levels.

At the beginning of each fiscal year, our Chief Executive Officer (CEO) evaluates the financial and strategic results of executive officers against the strategic operating plan for the prior fiscal year. The CEO s evaluation of individual performance focuses on executive officers leadership abilities, including

their professional development and mentoring of subordinates. Each executive officer is also evaluated on their commitment to the Company s ICARE principles, which guide all 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.

The CEO, in consultation with the Compensation Committee s independent compensation consultant and the Executive Vice President, Human Resources, then develops compensation recommendations for executive officers. Factors that the CEO weighs in making individual target compensation recommendations include:

the performance review conducted by the 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.

In May, the CEO presents his findings and compensation recommendations to the Compensation Committee for its review and consideration. In addition to the CEO s findings and recommendations, the Compensation Committee reviews a compensation tally sheet for each executive officer. The tally sheet presents the total value of compensation when both individual and Company performance is at target, and presents an estimate of the compensation that would be delivered should the executive officer s employment be terminated voluntarily, involuntarily or as a result of a change-in-control. The Compensation Committee finds tools like tally sheets helpful in its analysis of the executive compensation program, but in determining the specific levels of compensation, the Compensation Committee is generally more focused on individual elements of the Company s executive compensation program and its measurement against similarly situated executives in the compensation comparison group. The Compensation Committee, in its sole discretion, determines the level of payout to each executive officer under our short- and long-term compensation programs for the completed fiscal year, and the individual and Company performance targets for the new fiscal year.

At the beginning of each fiscal year, the Board conducts a performance review of the CEO on the same basis described above for all other executive officers. For the Board s review, the CEO prepares a written analysis of his accomplishments keyed to the business and individual goals established for the prior fiscal year. At the Board s April meeting, the CEO presents his personal performance results for the prior fiscal year, goals for the new fiscal year and responds to any questions that may arise. At the completion of his performance review, the Board discusses the CEO s performance review in executive session prior to delivering their additional input and feedback to the Compensation

Committee. In May, in executive session without the CEO present, the Compensation Committee determines the CEO s compensation with input from the Compensation Committee s independent consultants.

The Compensation Committee has responsibility for setting performance targets and payout scales for all incentive compensation programs. While performance targets are initially developed by management, and reflect the one-year and three-year strategic business operating plans reviewed with the

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Board, the Compensation Committee in its sole discretion may approve or amend management s recommendations.

Consistent with the Company s pay for performance culture, the Compensation Committee allocates a majority of each NEO s compensation to at risk components contingent on the successful accomplishment of pre-determined performance goals. Most recently, when measured at target, more than 90% of the Company s CEO s compensation for FY 2007 was at risk and subject to future performance. Similarly, for FY 2007, approximately 75% to 88% of compensation for the Company s other NEOs was at risk and subject to future performance.

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.

Short-term Compensation

Short-term compensation is delivered in cash with a substantial portion at risk and contingent on the successful accomplishment of pre-determined 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 the Company s CEO and other NEOs, depending on the officer s seniority level, the proportion of total short-term compensation at risk ranges from approximately 40% to 60%.

Base Salary. Base salary for executive officers is determined the same way base salary is determined for all employees base salary for a fully functioning employee should approach the 50th percentile for that position within the compensation comparison group. Base salary may be set above the 50th percentile, depending on the employee s experience, long-term performance in the job, financial results and his or her individual performance review.

The Summary Compensation Table below reflects FY 2007 base salary for each NEO. These salaries were reviewed by the Compensation Committee at its May 2006 meeting, at which salaries were increased effective May 28, 2006. Increases in FY 2007 salaries for NEOs were the result of the Compensation Committee s evaluation of their individual performance, and in response to market data derived from the compensation comparison group as reviewed annually by the committee with its independent compensation consultant.

Base salaries were again reviewed by the Compensation Committee at its May 2007 meeting. Consistent with prior year practice, effective May 27, 2007, the Compensation Committee approved FY 2008 base salary increases for the Company s NEOs based on the evaluation and review process described above.

Annual Incentive. The Management Incentive Plan (MIP) is an annual cash incentive program with payments determined by performance against measurable annual financial goals. The MIP, like base salary, is designed to deliver short-term cash incentive compensation on average at the 50th percentile of the compensation comparison group.

In May 2006, the Compensation Committee approved EPS of $2.62 as the MIP performance target for FY 2007. EPS was chosen as the relevant 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. Therefore, since FY 2006, both short- and long-term performance compensation programs employed by the Company have used EPS as a performance target. As such, a large percentage of NEO cash and equity opportunities are tied to the achievement of EPS growth.

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For FY 2007, our NEOs were eligible for MIP target award opportunities that ranged from 75% to 135% of their base salary. The Company s actual financial performance can result in a MIP payout range of zero to 200% of the NEO s pre-established target. In FY 2007, based on the performance targets established in May 2006, actual performance exceeded the predetermined EPS target goal by more than 10%. As described in greater detail below in the narrative following the Summary Compensation Table, MIP payouts are conditioned on the achievement of a minimum EPS goal below which no award would be earned, and conversely, payouts are subject to a maximum EPS goal above which no additional award would be earned. The Compensation Committee has the authority to adjust EPS targets to reflect unusual events, such as acquisitions, divestures and unusual stock buybacks.

The Compensation Committee has the authority to further adjust the amount earned under MIP based upon the NEO s individual performance review. Individual performance targets are established at the beginning of the fiscal year and approved by the Board in the case of the CEO, or by the CEO in the case of the other executive officers. The individual performance modifier can adjust individual payouts to zero, or increase the payout by an additional 50%, to reflect the employee s individual impact on achieving the Company s financial results. The CEO makes a recommendation to the Compensation Committee for each executive officer s personal modifier, which ultimately is decided solely by the committee, whereas the committee will determine the personal modifier for the CEO based on his performance review before the full Board.

In May 2007, the Compensation Committee decided to continue using EPS and individual performance as the MIP modifiers for the fiscal year ending March 31, 2008. The FY 2008 EPS target approved by the Compensation Committee is consistent with the guidance published by the Company on May 7, 2007, which disclosed an earnings range between $3.15 and $3.30 per diluted share. The Company and the Compensation Committee believe that the EPS goal for a target MIP payout is realistic and achievable while providing strong motivation for executives to strive to exceed the EPS goal in a way that balances short- and long-term stockholder value creation. For FY 2008, consistent with the Company s prior year practice, our NEOs are eligible for MIP target award opportunities of 75% to 135% of their base salary, which may be adjusted based on the Company and individual performance modifiers described above.

Long-term Compensation

We believe that a significant portion of compensation should be contingent on delivery of value to all stockholders. We 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.

In FY 2006, we restructured our long-term compensation program for executive officers in order to create a stronger correlation between Company performance and long-term compensation. Specifically, we reduced our reliance on stock options by introducing a new element of equity compensation grants of performance restricted stock units, which we call PeRSUs. As explained further below, PeRSUs are awards conditioned on the achievement of individual and Company performance targets, which after completion of a one-year performance period, are settled in RSUs that vest over a subsequent three-year period. We believe the use of PeRSUs focuses executives attention on annual financial goals, individual contributions to the Company s success and stock price appreciation. The Company s deliberate move away from the broad use of stock options to PeRSUs as a performance motivating tool also reflects changes in market practice and the financial accounting treatment of share-based compensation. Starting in FY 2007, long-term compensation was delivered to NEOs using a combination of cash incentives, stock options and PeRSUs.

We believe retention value is generated by the three-year performance cycle for our cash incentive program, and vesting requirements of equity grants. In addition to using the survey results of our

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compensation comparison group, the Compensation Committee annually reviews the compensation at risk versus the vested value in hand for each executive officer which can be used in setting individual long-term compensation targets.

Generally, within long-term compensation, the Compensation Committee seeks to allocate awards on the basis of 20% cash, 40% stock options and 40% PeRSUs. Since final compensation awards are subject to future performance, long-term compensation that is actually paid to our executive officers may reflect a different relative allocation.

Cash. The cash portion of the Company s long-term incentive compensation program is designed to motivate executives to exceed multi-year financial goals. The performance targets used in this program directly reflect the Company s long-term strategic operating plan that is reviewed with the Board. The cash opportunities under the Company s Long Term Incentive Plan (LTIP) generally span a three-year performance cycle. A new three-year cycle with new target incentives and performance goals begins each fiscal year. When mature, this portion of the long-term incentive compensation program will have three, three-year performance cycles running concurrently. As described in greater detail below in the narrative following the Summary Compensation Table, participants may earn zero to 300% of their LTIP target opportunity depending on the Company s actual performance versus pre-established goals. Performance is assessed and payments that may be earned are approved in May, following the close of the third fiscal year of the performance cycle.

The FY 2005 FY 2007 LTIP performance period, which ended March 31, 2007, was aligned with a cumulative EPS goal of $4.41 per share and with return on committed capital of 22.5%. Due to the restructuring of executive officer compensation in FY 2006, the FY 2005 FY 2007 LTIP EPS goal was based upon EPS earnings for only a two-year period (FY 2006 through FY 2007) as opposed to the typical three year goal. Also, the FY 2005 FY 2007 LTIP payout is the last to include a return on committed capital performance component. Since FY 2006, the Compensation Committee has used EPS as the Company s primary performance measure for both short- and long-term compensation programs. The actual LTIP cash payouts for the FY 2005 FY 2007 performance period for each of our NEOs is reflected in the Summary Compensation Table below.

At its May 2007 meeting, the Compensation Committee established a FY 2008 FY 2010 LTIP performance target of $2,700,000, $675,000, $1,375,000, $400,000 and $675,000 for Messrs. Hammergren, Campbell, Julian, Owen and Ms. Pure, respectively. The FY 2008 FY 2010 LTIP target amounts were selected by the Compensation Committee based on its evaluation of each NEO s individual performance, and in response to market data derived from the compensation comparison group as reviewed by the Compensation Committee with its independent compensation consultants.

Stock Options. We believe stock options align executive officer financial interests directly with stockholders via stock price appreciation. Stock option grants are made at the beginning of each fiscal year and generally vest in four equal annual installments over a four year period with a seven-year life. The grant date fair value is targeted to be approximately 40% of the total long-term compensation for the fiscal year. Consistent with its review of stock option awards by companies within the compensation comparison group, during FY 2007 the Compensation Committee awarded a stock option to Messrs. Hammergren, Campbell, Julian, Owen and Ms. Pure for 285,000, 63,000, 142,000, 42,000 and 55,000 shares, respectively. Similarly, for FY 2008, the Compensation Committee awarded a stock option to Messrs. Hammergren, Campbell, Julian, Owen and Ms. Pure for 300,000, 75,000, 145,000, 44,000 and 75,000 shares, respectively.

Performance Restricted Stock Units. PeRSU target award opportunities are set at the beginning of each fiscal year. The actual number of RSUs granted one year later upon settlement of PeRSUs can range from zero to 200% of the initial target amount, depending on both individual and Company accomplishment of pre-determined performance goals. Vesting of the RSUs issued upon settlement occurs in two phases, with fifty percent vested in the second and

fourth years after the PeRSU target performance awards are established. For the fiscal year ended March 31, 2007, the Compensation Committee approved an EPS target of $2.62 as the Company s performance target. Since the

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Company s actual EPS performance for the FY 2007 performance period was $2.89, executive officers PeRSUs target awards were increased by 14% over the initial target amount. Similar to the MIP, the results were further modified based on the individual performance of each NEO. Accordingly, at its May 2007 meeting, the Compensation Committee awarded Messrs. Hammergren, Campbell, Julian, Owen and Ms. Pure a total of 188,100, 37,950, 87,780, 29,070 and 37,620 shares, respectively. The final PeRSU awards earned by each NEO for the FY 2007 performance period is reflected in the footnotes to the Grants of Plan Based Awards Table below.

At its May 2007 meeting, the Compensation Committee established a FY 2008 PeRSU target award opportunity of 110,000, 22,000, 44,000, 17,000 and 22,000 shares for Messrs. Hammergren, Campbell, Julian, Owen and Ms. Pure, respectively. The FY 2008 PeRSU target amounts were selected by the Compensation Committee based on its evaluation of each NEO s individual performance, and in response to market data derived from the compensation comparison group as reviewed annually by the Compensation Committee with its independent compensation consultant.

Other Compensation and Benefits

The Company provides a broad array of benefits to all employees. These broad based benefits are comparable to those offered by other employers in our industry and geographic locations. A limited number of additional benefits are also provided to executive officers as part of the total compensation package because we believe that it is customary to provide such benefits, or otherwise in our best interest to do so. In providing such benefits, both management and the Compensation Committee determined that these elements are appropriate for the attraction and retention of executive talent. In addition to the discussion of benefits below, the compensation associated with these programs is included in the All Other Compensation Table, which follows the Summary Compensation Table.

The Company has four benefit plans under which participation is restricted to executive officers with approval of the Compensation Committee. These benefit plans are reviewed periodically to ensure that they continue to meet their objectives. The four executive officer benefit plans are as follows:

- the Executive Benefit Retirement Plan (EBRP), a final pay pension plan. This plan has been phased out with participation restricted to the current roster of executive officers.

- the Executive Medical Plan, which provides reimbursement of eligible medical, dental and vision expenses for executive officers and their enrolled dependents;

- the Executive Survivor Benefit Plan, which provides a supplemental death benefit in addition to the voluntary life insurance plan provided to all employees; and

- the Executive Salary Continuation Program, which provides short-term disability benefits.

At its May 2007 meeting, the Compensation Committee concluded that it was appropriate to continue to offer such executive officer benefit plans. These benefits were deemed necessary since without these programs, restrictions and caps generally imposed on insured plans would result in curtailment of benefits to executive officers.

At the same meeting, the Compensation Committee concluded that the EBRP has been a valuable tool in attracting mid-career executive talent, including some of our current NEOs. However, with the change in the accounting treatment of share-based awards, the Compensation Committee determined there are other benefit programs that are equally effective as the existing EBRP. Therefore, effective May 22, 2007, the Compensation Committee closed future participation in the EBRP to the current roster of executive officers.

The Company also offers two voluntary nonqualified deferred compensation plans:

Deferred Compensation Administration Plan III (DCAP III); and

Supplemental Profit Sharing Investment Plan II (SPSIP II).

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These plans are not tax-qualified plans under the Internal Revenue Code. DCAP III is offered to all employees eligible for the MIP, including all executive officers and other select highly compensated employees. The SPSIP II is offered to all employees who may be impacted by the compensation limits that restrict participation in the Company s qualified 401(k) plan, the Profit Sharing Investment Plan (PSIP), including executive officers.

The Company s executive officers are offered other benefits, including reimbursement for financial counseling, estate planning and tax preparation services. The CEO has been directed by the Board to use corporate aircraft for all travel. He may authorize the use of the corporate aircraft for personal use by Mr. Julian and Ms. Pure and their families generally in conjunction with business related activities. The Company provides security services for Mr. Hammergren, Mr. Julian and Ms. Pure. A car and driver are available for use by Mr. Hammergren and Mr. Julian and other executive officers.

Severance and Change-in-Control Benefits

Selected senior executives, including the NEOs, are covered by the Company s Change-in-Control Policy for Selected Executive Employees (the CIC Policy), which was updated effective November 1, 2006. We believe the protection afforded under the CIC Policy is in line with current market practice. Specific change-in-control language, consistent with the new CIC Policy, is included in Ms. Pure s and Mr. Julian s employment agreements. All contracts, policies and plans with change-in-control protections require an individual s termination, a so-called double trigger, to invoke the protection. Coverage by the CIC Policy is managed by the Compensation Committee.

Each of the Company s stockholder approved equity compensation plans includes change-in-control provisions consistent with current market practice and the Company s CIC Policy. These plans generally provide that there is no change in the timing of vesting unless there is an involuntary or constructive termination of employment following a change-in-control.

Mr. Hammergren s agreement provides for severance benefits in the case of voluntary, involuntary and constructive termination with or without a change-in-control, as it is defined in his employment agreement and summarized below under Executive Employment Agreements. Mr. Hammergren s employment agreement, in substantially its current form, was extended to him when he was offered the position of co-CEO in 1999. The severance provisions of that employment agreement were not materially different from the agreement of his predecessor, including provisions regarding pension rights.

The aggregate value of change-in-control, severance and termination benefits for each NEO is summarized below under the subheadings, Post-Employment Compensation and Benefits and Executive Employment Agreements.

Information on Other Compensation-Related Topics

Stock Ownership Guidelines

In January 2007, the Company revised its guidelines for stock ownership by executive officers, which had been originally adopted in 2002. The Company s stock ownership guidelines were revised to include MIP as a measuring component, such that the guideline is now expressed as a multiple of base salary and target MIP. The effect of such amendment was to substantially increase the ownership requirement for each of the Company s executive officers. The revised stock ownership guideline for our CEO is four times his combined base salary and target MIP, whereas the Company s remaining NEOs must achieve three times their combined base salary and target MIP. In light of this increase, our executive officers are allowed five years from January 2007 to meet the stock ownership guideline. However, as of May 31, 2007, each of our NEOs has satisfied the Company s revised stock ownership guideline.

The stock ownership guideline may be met with common stock owned outright, shares owned in their PSIP (the Company s 401(k) plan), and any shares of restricted stock or RSUs. Stock options,

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whether vested or unvested, do not count towards meeting the stock ownership guideline. Progress toward the guideline is reviewed each May as part of the executive s total compensation review.

The Company s directors are also subject to a stock ownership guideline, which is summarized above in the subsection entitled Corporate Governance Director Stock Ownership Guidelines.

Equity Grant Practices

Stock options are awarded at an exercise price equal to the closing price of the Company s common stock reported on date of the grant. In most situations, the date of grant is the same day that the Compensation Committee meets to approve the grant. From time to time, the Compensation Committee s meeting occurs shortly before or after the Company s earnings are released to the investment community. When this occurs, the Compensation Committee will delay setting the equity grant date to the third business day following the date the Company s earnings are released to the investment community. Stock option re-pricing is not permitted.

Tax Deductibility

Section 162(m) of the Internal Revenue Code limits the Company s tax deduction to $1,000,000 for compensation paid to NEOs, unless the compensation is performance based within the meaning of that section and regulations.

The Compensation Committee s intention is and has been to comply with the requirements of Code Section 162(m) unless the Compensation Committee concludes that adherence to the limitations imposed by these provisions would not be in the best interest of the Company or its stockholders. The Company believes that payments made under its MIP and LTIP programs, and the grants of RSUs made under its PeRSU program, qualify as performance based compensation eligible for an exception from the deduction limitation of Code Section 162(m).

Clawback Policy

As described in the Company s standard award documentation, the Compensation Committee may seek to recoup any economic gains from equity grants from any employee who engages in conduct which is not in good faith and which disrupts, damages, impairs or interferes with the business, reputation or employees of the Company or its affiliates.

Compensation Committee Report on Executive Compensation

We, the Compensation Committee of the Board of Directors of McKesson Corporation, have reviewed and discussed the Compensation Discussion and Analysis contained in this proxy statement with management. Based on such review and discussion, we have recommended to the Board of Directors that the Compensation Discussion and Analysis be included in this proxy statement and in McKesson Corporation s Annual Report on Form 10-K for the fiscal year ended March 31, 2007.

Compensation Committee of the Board of
Directors

Alton F. Irby III, Chair
M. Christine Jacobs
David M. Lawrence, M.D.

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Summary Compensation Table

The following table sets forth information concerning the compensation for the fiscal year ended March 31, 2007 by our Chief Executive Officer, our Chief Financial Officer, and our three other most highly-compensated executive officers (collectively, our NEOs):

me and Principal sition	Year	Salary ($)	Stock Awards ($)(1)	Option Awards ($)(1)	Non-Equity Incentive Plan Compensation ($)(2)	Change in Pension Value and Nonqualified Deferred Compensation Earnings ($)(3)(4)	All Other Compensation ($)(5)	Total ($)
n. H. Hammergren *airman, President l Chief Executive icer*	2007	1,366,716	10,837,632	935,629	10,981,932	6,394,748	456,514	30,973,17
frey C. Campbell *cutive Vice sident l Chief Financial icer*	2007	687,365	2,306,866	1,051,208	3,050,000	242,000	127,631	7,465,07
ul C. Julian *cutive Vice sident, oup President*	2007	830,829	5,273,634	466,172	4,450,000	962,789	299,717	12,283,14
rc E. Owen *cutive Vice sident, rporate Strategy l Business velopment*	2007	526,969	1,582,402	137,891	1,800,000	387,306	61,609	4,496,17
mela J. Pure *cutive Vice sident, sident, McKesson ovider Technologies*	2007	627,238	2,224,523	324,884	2,200,000	562,548	175,401	6,114,59

(1) Amounts shown reflect the accounting expense recognized by the Company for financial statement reporting purposes in accordance with FAS 123(R), and do not reflect whether the NEO has actually realized a financial benefit from the award. For information on the assumptions used to calculate the value of the awards, refer to Note 19 of the Company s consolidated financial statements in its Annual Report on Form 10-K for the fiscal

year ended March 31, 2007, as filed with the SEC on May 9, 2007. However, in accordance with SEC rules, the amounts shown exclude the impact of estimated forfeitures related to service-based vesting conditions.

(2) Amounts shown consist of payouts under two compensation programs, the Company s MIP and the LTIP, as follows:

MIP for FY 2007: Mr. Hammergren, $5,581,932; Mr. Campbell, $1,550,000; Mr. Julian, $2,350,000; Mr. Owen, $1,200,000; and Ms. Pure, $1,600,000. In prior years, the Company s MIP payouts appeared in the Bonus column of its annual proxy statement. However, under current SEC rules, annual performance-based incentive payments such as the Company s MIP is not considered a bonus, which is generally discretionary in nature.

LTIP for FY 2005-FY 2007: Mr. Hammergren, $5,400,000; Mr. Campbell, $1,500,000; Mr. Julian, $2,100,000; Mr. Owen, $600,000; and Ms. Pure, $600,000.

(3) Amounts shown represent the increase in annual actuarial present value of pension benefits and above-market interest earned from amounts deferred into the Company s nonqualified deferred compensation plans, as follows:

Pension: Mr. Hammergren, $6,264,000; Mr. Campbell, $242,000; Mr. Julian, $866,000; Mr. Owen, $301,000; and Ms. Pure, $531,000.

Nonqualified deferred compensation: Mr. Hammergren, $130,748; Mr. Campbell, $0; Mr. Julian, $96,789; Mr. Owen, $86,306; and Ms. Pure, $31,548.

(4) The assumptions used in calculating the increase in pension benefits are set forth in the Pension Benefits Table below, under the subsection entitled Actuarial Assumptions.

(5) The amounts shown are detailed in the supplemental table below entitled All Other Compensation Table.

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Narrative to the Summary Compensation Table

Long Term Incentive Plan

The Summary Compensation Table above reflect the amounts earned for the FY 2005 - FY 2007 LTIP performance period. The performance measures approved by the Compensation Committee for the FY 2005 - FY 2007 LTIP performance period were cumulative EPS over the period FY 2006 through FY 2007 and return on committed capital (ROCC) for FY 2007. As previously mentioned, due to the restructuring of executive officer compensation in FY 2006, the FY 2005 - FY 2007 LTIP EPS goal was based upon EPS earnings for only a two-year period (FY 2006 through FY 2007) as opposed to the typical three year goal. The two measures, cumulative EPS and ROCC, are additive in their impact on the final result; in other words, each can increase the target by 150%. As initially set by the Compensation Committee, cumulative EPS of $4.41 and ROCC of 22.5% would produce a modifier of 50%, so when combined, accomplishment of these performance measures would produce a payment at 100% of target. Equally, other combinations of EPS and ROCC could also produce payment at target. As designed, the NEOs would not be entitled to any additional award under the Company s FY 2005 - FY 2007 LTIP for achievement of a performance measure greater than EPS of $4.75 and ROCC of 25%.

At its meeting in May 2007, during its annual review of compensation for executive officers, the Compensation Committee assessed the Company s performance versus the performance measures approved for the FY 2005 - FY 2007 LTIP performance period. Reported cumulative EPS was $5.29, excluding special items, resulting in targets being adjusted by 150%. ROCC for FY 2007 was 56.6%, resulting in targets being adjusted by 150%. As reflected in the Summary Compensation Table above, the overall result was therefore 300% of the target amount.

Management Incentive Plan

At its meeting in May 2006, during its annual review of compensation for executive officers, the Compensation Committee approved target awards (expressed as a percent of annual base salary), the performance measure and the award scale for the FY 2007 MIP. Targets for the NEOs for FY 2007 are displayed below in the Grants of Plan Based Awards Table. The Compensation Committee approved an EPS target for FY 2007 of $2.62. Each penny of EPS below the approved target reduced the resulting award by two and one-half percent. Earnings below $2.42 would have resulted in no MIP payout. Each penny of EPS above the approved target, up to an EPS of $2.72, increased the resulting award by two and one-half percent. Each penny of EPS above $2.72 increased the resulting award by five percent, up to a maximum award of 200% of target.

At its meeting in May 2007, during its annual review of compensation for executive officers, the Compensation Committee assessed the Company s performance versus the MIP performance measures approved in May 2006. Reported EPS for FY 2007 was $2.89, resulting in an adjustment of awards to NEOs of 200% of target. The Compensation Committee further adjusted the results to reflect individual contributions to the overall results.

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All Other Compensation Table

Totals for amounts reported as All Other Compensation in the preceding Summary Compensation Table are described below:

Elements of All Other Compensation	John H. Hammergren	Jeffrey C. Campbell	Paul C. Julian	Marc E. Owen	Pamela J. Pure
PSIP (401(k)) Match($)(a)	7,846	8,800	8,800	8,771	8,800
SPSIP II Match($)(b)	205,869	58,695	86,833	8,792	36,789
DCAP III Match($)(c)				31,087	20,500
Executive Medical Plan($)(d)	7,791	7,791	7,791	7,791	7,791
Financial Consulting($)(e)	14,296	13,088	12,399	5,168	12,000
Housing / Relocation($)(f)		39,257	85,000		31,752
Company Aircraft($)(g)	133,825		78,191		8,340
Car and Driver($)(h)	9,290		12,908		
Tax Gross-up($)	74,268(g)				15,941(i)
Home Security($)(i)					33,184
Legal Fees($)(j)	2,860		7,326		
Gifts($)	469		469		304
Total	**456,514**	**127,631**	**299,717**	**61,609**	**175,401**

(a) Represents the aggregate value of the Company s stock contributions under the Company s PSIP (the Company s 401(k) plan).

(b) Represents the Company s matching contributions under the SPSIP II, which is described below in the subsection entitled Narrative Disclosure to the Non-Qualified Deferred Compensation Plan.

(c) Represents the Company s matching contributions under the DCAP III, which is described below in the subsection entitled Narrative Disclosure to the Non-Qualified Deferred Compensation Plan.

(d) Reflects the aggregate incremental cost to the Company of the Executive Medical Plan, determined by first calculating the difference between: (i) the cost to the Company of the benefits actually paid under the Executive Medical Plan, and (ii) what would have been the cost to the Company had the claims been processed through a medical plan available to all employees. The total amount of such difference was then divided among the executive officers equally, and the cost allocated to each NEO is shown in the table immediately above.

(e) Represents the total cost of financial counseling services, which include tax preparation services, paid for by the Company on behalf of the NEOs.

(f) Represents housing assistance payments for Mr. Campbell, Mr. Julian and Ms. Pure. During FY 2007, Mr. Julian sold the residence for which housing assistance payments were being provided, resulting in the discontinuance of those payments.

(g) Represents the aggregate incremental cost to the Company of personal travel on Company aircraft by Mr. Hammergren, Mr. Julian and Ms. Pure. In calculating that cost, the Company determined the direct operating cost per flight hour for each aircraft, which includes costs for fuel, maintenance, labor, parts, engine

restoration, landing and parking fees, crew expenses, supplies and catering. The direct operating cost per flight hour was then multiplied by the total number of personal flight hours for each of these NEOs. As authorized by a resolution of the Board, Mr. Hammergren uses Company aircraft for both business and personal travel for security, productivity and privacy reasons. The Company reimbursed Mr. Hammergren for taxes due on the income imputed to him for personal travel on Company aircraft.

(h) Represents the aggregate incremental cost of the personal use by Mr. Hammergren and Mr. Julian of a Company-provided car and driver, calculated by multiplying: (i) the amount paid for the

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driver s services and various vehicle operating costs by (ii) a fraction, the denominator of which is the total hours of available car service, and the numerator of which is the number of hours of personal travel by each of these NEOs.

(i) Represents the reimbursement by the Company of costs to Ms. Pure of installing home security devices. The Company also reimbursed Ms. Pure for taxes due on the resulting imputed income.

(j) Represents the reimbursement by the Company of the legal expenses incurred by Messrs. Hammergren and Julian in connection with the review and revision of their employment agreements in order to comply with the proposed regulations issued under Code Section 409A.

Grants of Plan Based Awards Table

The following table sets forth certain information with respect to stock and option awards and other plan based awards granted during the fiscal year ended March 31, 2007 to our NEOs:

		Estimated Future Payouts Under Non-Equity Incentive Plan Awards(1)			Estimated Future Payouts Under Equity Incentive Plan Awards(2)			All Other Opinions Awards: Number of Securities Underlying Options (#)(3)	Exercise or Base Price of Option Awards ($)	Gra Fai of O Av ($)
	Grant Date	Threshold ($)	Target ($)	Maximum ($)	Threshold (#)	Target (#)	Maximum (#)			
Hammergren	5/23/2006							285,000	47.97	4,
			2,700,000	8,100,000						
						110,000	220,000			5,
		930,322	1,860,644	5,581,932						
Campbell	5/23/2006							63,000	47.97	
			600,000	1,800,000						
						25,000	50,000			1,
		296,642	593,283	1,779,849						
ulian	5/23/2006							142,000	47.97	2,
			1,375,000	4,125,000						
						55,000	110,000			2,
		420,415	840,829	2,522,487						
Owen	5/23/2006							42,000	47.97	
			400,000	1,200,000						
						17,000	34,000			
		200,325	400,650	1,201,950						
Pure	5/23/2006							55,000	47.97	
			550,000	1,650,000						
						22,000	44,000			1,
		269,779	539,559	1,618,676						

(1) The amounts shown in these columns represent the range of possible cash payouts for each NEO under: (i) the Company s LTIP for the FY 2007-FY 2009 performance period, and (ii) the Company s MIP for the FY 2007 performance period, as determined by the Compensation Committee at its May 2006 meeting. Amounts actually earned under the Company s FY 2007 MIP is included above in the Summary Compensation Table under the column titled, Non-Equity Incentive Plan Compensation. Information regarding the operation of the LTIP and MIP can be found in Compensation Discussion and Analysis under Long-term Compensation Cash and Short-term Compensation Annual Incentive, respectively, and above under Narrative to the Summary Compensation Table.

(2) The amounts shown in these columns represent the range of possible PeRSU awards for the FY 2007 performance period, as determined by the Compensation Committee at its May 2006 meeting. As the result of individual and Company accomplishment of pre-determined performance goals, the actual amount of RSUs awarded to each NEO, which was determined at the Compensation Committee s May 2007 meeting, was as follows: Mr. Hammergren, 188,100 shares; Mr. Campbell, 37,950 shares; Mr. Julian, 87,780 shares; Mr. Owen, 29,070 shares; and Ms. Pure, 37,620 shares. Amounts disclosed in these columns do not include dividend equivalents that will accrue to the RSU awards. Recipients of RSUs are entitled to dividend equivalents at the same

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rate applicable to the Company s common stockholders, and upon vesting, dividend equivalents are to be paid in cash. When the dividend equivalent vest, they will be reported in the Company s proxy statement for that year under the Option Exercises and Stock Vested Table. PeRSUs, including their vesting schedule, are described in Compensation Discussion and Analysis under Long-term Compensation Performance Restricted Stock Units.

(3) Stock options vest at the rate of 25% per year over a four-year period, beginning on the first grant date anniversary, subject to the NEO s continued employment. The Company s stock options generally expire seven years from the date of grant.

(4) Calculated in accordance with FAS 123(R).

Outstanding Equity Awards Table

The following table sets forth information concerning stock options and stock awards held by the NEOs as of March 31, 2007:

	Option Awards				Stock Awards	
Name	Number of Securities Underlying Unexercised Options (#) Exercisable	Number of Securities Underlying Unexercised Options(#)(1) Unexercisable	Option Exercise Price ($)	Option Expiration Date	Number of Shares or Units of Stock That Have Not Vested (#)	Market Value of Shares or Units of Stock That Have Not Vested ($)(2)
John H. Hammergren	25,666		$ 50.3750	1/28/2008	528,919(5)	30,962,918
	66,666		$ 90.9332	5/29/2008		
	66,667		$ 113.4955	5/29/2008		
	66,667		$ 136.7416	5/29/2008		
	19,850		$ 73.0000	1/27/2009		
	1,000,000		$ 73.0000	1/27/2009		
	868,000		$ 29.8125	8/16/2009		
	225,000		$ 28.2500	10/30/2010		
	225,000		$ 32.6700	1/31/2011		
	300,000		$ 38.6500	7/25/2011		
	500,000		$ 38.2000	1/29/2012		
	275,000		$ 32.9200	7/30/2012		
	275,000		$ 28.6000	1/28/2013		
	600,000		$ 34.3600	7/30/2013		
	400,000		$ 34.9400	5/25/2011		
	300,000		$ 45.0200	7/27/2012		
		285,000	$ 47.9700	5/23/2013		

Jeffrey C. Campbell	105,000	75,000(3)	$	29.0100	1/27/2014	94,178(5)(6)	5,513,180
	95,000		$	34.9400	5/25/2011		
	71,000		$	45.0200	7/27/2012		
		63,000	$	47.9700	5/23/2013		
Paul C. Julian	10,000		$	50.3750	1/28/2008	234,135(5)	13,706,263
	10,000		$	50.3750	1/28/2008		
	200,000		$	73.0000	1/27/2009		
	125,000		$	28.2500	10/30/2010		
	75,000		$	32.6700	1/31/2011		
	250,000		$	38.6500	7/25/2011		
	200,000		$	38.2000	1/29/2012		
	150,000		$	32.9200	7/30/2012		
	150,000		$	28.2800	1/27/2013		
	350,000		$	34.3600	7/30/2013		

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	Option Awards				Stock Awards	
Name	Number of Securities Underlying Unexercised Options (#) Exercisable	Number of Securities Underlying Unexercised Options(#)(1) Unexercisable	Option Exercise Price ($)	Option Expiration Date	Number of Shares or Units of Stock That Have Not Vested (#)	Market Value of Shares or Units of Stock That Have Not Vested ($)(2)
	175,000		$ 34.9400	5/25/2011		
	164,000		$ 45.0200	7/27/2012		
		142,000	$ 47.9700	5/23/2013		
Marc E. Owen	100,000		$ 39.8100	10/25/2011	67,511(5)	3,952,094
	30,000		$ 32.9200	7/30/2012		
	30,000		$ 28.2800	1/27/2013		
	75,000		$ 34.3600	7/30/2013		
	40,000		$ 34.9400	5/25/2011		
	40,000		$ 45.0200	7/27/2012		
		42,000	$ 47.9700	5/23/2013		
Pamela J. Pure	100,000		$ 38.2000	1/29/2012	90,362(5)	5,289,791
	21,900		$ 28.2800	1/27/2013		
	80,000		$ 34.3600	7/30/2013		
	37,500	12,500(4)	$ 29.7500	3/30/2014		
	60,000		$ 34.9400	5/25/2011		
	62,000		$ 45.0200	7/27/2012		
		55,000	$ 47.9700	5/23/2013		

(1) Except as otherwise noted, options vest at the rate of 25% per year over a four-year period, beginning on the first grant date anniversary, subject to the NEO s continued employment.

(2) Based on a closing price of the Company s common stock of $58.54 on March 30, 2007 as reported by the NYSE.

(3) Represents unvested portion of a January 27, 2004 award granted to Mr. Campbell in the amount of 300,000 shares. The remaining portion of this award vests fully on January 27, 2008.

(4) Represents unvested portion of a March 30, 2004 award granted to Ms. Pure in the amount of 50,000 shares. The remaining portion of this award vests fully on March 30, 2008.

(5) The stock awards vest as follows:

May 23, 2007 Mr. Hammergren, 133,000 shares; Mr. Campbell, 30,500 shares; Mr. Julian, 72,000 shares; Mr. Owen, 20,412 shares; and Ms. Pure, 32,000 shares;

May 25, 2007 Mr. Hammergren, 55,000 shares; Mr. Campbell, 2,275 shares; Mr. Julian, 10,300 shares; Mr. Owen, 3,640 shares; and Ms. Pure, 4,700 shares;

May 24, 2008 Mr. Hammergren, 27,919 shares; Mr. Campbell, 4,653 shares; Mr. Julian, 9,835 shares; Mr. Owen, 3,046 shares; Ms. Pure, 6,662 shares;

May 23, 2009 Mr. Hammergren, 133,000 shares; Mr. Campbell, 30,500 shares; Mr. Julian, 72,000 shares; Mr. Owen, 20,413 shares; and Ms. Pure, 32,000 shares;

May 25, 2009 Mr. Hammergren, 180,000; Mr. Campbell, 20,000; Mr. Julian, 70,000; Mr. Owen, 20,000; and Ms. Pure, 15,000.

(6) Includes an award of 6,250 shares of restricted stock granted to Mr. Campbell on January 27, 2004 that will fully vest on January 27, 2008.

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Option Exercises and Stock Vested Table

The following table provides information concerning option and stock awards exercised and vested, respectively, for NEOs during the fiscal year ended March 31, 2007:

	Option Awards		Stock Awards	
Name	Number of Shares Acquired on Exercise (#)	Value Realized on Exercise ($)(1)	Number of Shares Acquired on Vesting (#)	Value Realized on Vesting ($)(2)
John H. Hammergren	1,300,000	30,078,303	41,487	2,021,662
Jeffrey C. Campbell	120,000	3,216,978	6,250	349,563
Paul C. Julian	200,000	5,145,781	14,115	687,824
Marc E. Owen			4,318	210,416
Pamela J. Pure	58,000	1,397,469		

(1) Represents the amounts realized based on the difference between the market price of the Company s common stock on the date of exercise and the exercise price.

(2) Represents the amount realized based on the market price of the Company s common stock on the vesting date.

Pension Benefits Table

The following table sets forth the actuarial present value of the benefit accumulated by each NEO under the Company s Executive Benefit Retirement Plan (EBRP), calculated as of December 31, 2006, the plan measurement date used for financial statement reporting purposes, and using the same assumptions as are used in the Company s audited financial statements, except that retirement age is assumed to be the normal retirement age as defined in the EBRP or as provided in the executive officer s employment agreement.

Name	Plan Name	Number of Years Credited Service (#)	Present Value of Accumulated Benefit($) (1)	Payments During Last Fiscal Year ($)
John H. Hammergren	EBRP	10	34,658,000	
Jeffrey C. Campbell	EBRP	3	2,000,000(2)	
Paul C. Julian	EBRP	10	4,398,000	
Marc E. Owen	EBRP	5	1,415,000	
Pamela J. Pure	EBRP	5	1,700,000	

(1) The present value of these benefits is shown based on the assumptions used in determining our annual pension expense, as shown in the table below in the subsection entitled Actuarial Assumptions. The amounts shown represent those recognized by the Company in its financial statements as a pension obligation.

(2) Participants become vested in the EBRP benefits after completing five years of service. As Mr. Campbell s service is less than five years, he has not yet vested in the Company s EBRP.

Actuarial Assumptions

The amounts shown in the Summary Compensation Table and Pension Benefits Table above are actuarial present values of the benefits accumulated through the date shown. An actuarial present value is calculated by estimating expected future payments starting at an assumed retirement age, weighting the estimated payments by the estimated probability of surviving to each post-retirement age, and discounting the weighted payments at an assumed discount rate to reflect the time value of money. The actuarial present value represents an estimate of the amount which, if invested today at the discount rate, would be sufficient on an average basis to provide estimated future payments based

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on the current accumulated benefit. The assumed retirement age for each executive is the earliest age at which the executive could retire without any benefit reduction due to age. Actual benefit present values will vary from these estimates depending on many factors, including an executive s actual retirement age. The pension benefit values are based on the following actuarial assumptions:

	December 31, 2006	December 31, 2005
Discount rate	5.74%	5.65%
Lump sum conversion rate	4.00%	4.00%
Retirement ages:		
EBRP	62	62
Individual Agreement		
Mr. Hammergren	55 and one month	55 and one month
Turnover, disability or mortality before retirement	None	None
Post-retirement mortality rate	RP2000 Healthy Annuitants Mortality table projected by scale AA to 2014	RP2000 Healthy Annuitants Mortality table projected by scale AA to 2014
Future salary increases	None	None
Form of payment EBRP and Individual Agreement for Mr. Hammergren	Lump sum	Lump sum

For additional information on the Company s pension obligations, refer to Note 13 of the Company s consolidated financial statements in the Annual Report on Form 10-K for the fiscal year ended March 31, 2007, as filed with the SEC on May 9, 2007.

Narrative Disclosure to the Pension Benefit Table

Introduction

As of June 1, 2007, in addition to the above named NEOs, all current executive officers were approved participants in the Company s EBRP. After its most recent review of executive compensation, including executive benefits, the Compensation Committee concluded that the goal of the EBRP could be fulfilled through other, more targeted forms of compensation without a material impact on the Company s employee benefit expense. Therefore, effective June 1, 2007, the Compensation Committee has chosen to close the EBRP to new participants.

The Benefit Formula

For Retirement at Age 62 or Older:

Participants become vested in the EBRP benefits after completing five years of service. The following is a brief summary of the benefits that would be conveyed to a participant in the Company s EBRP, assuming retirement at age 62 or older and five or more years of credited service.

A participant who separates from service on or after reaching age 62 receives benefits calculated by applying the following benefit formula: (i) a service-based percentage of his or her average final compensation, as it is defined below, minus (ii) the hypothetical annualized benefit payable under the Company s Retirement Share Plan, which was a former element of the Company s PSIP (collectively, the Basic Retirement Benefits). The Retirement Share Plan,

introduced in January 1997 and discontinued after March 31, 2004, was an element offered under the Company s 401(k) plan, the PSIP. As of March 31, 2007, only Messrs. Hammergren and Julian maintained a balance under the Retirement Share Plan such that it would serve as an offset to the calculation of their Basic Retirement Benefits.

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Calculation of the Average Final Compensation

The EBRP provides that the benefit percentage described below will be applied to the average final compensation. Average final compensation is defined as the average annual compensation during the five consecutive years of full-time employment in the participant s final fifteen years before separation from service that produces the highest average more simply, the highest consecutive five in the final fifteen years. Compensation recognized in the benefit formula includes annual base salary and payments under the MIP, even if the participant has voluntarily deferred such compensation under a Company approved deferred compensation plan. For Mr. Hammergren, pursuant to his employment agreement, 150% of MIP payments are included in the calculation of average final compensation. The calculation of the average final compensation is ratably reduced if the participant has less than five years of full-time continuous employment. Payments under the LTIP and the value received from stock options and restricted stock units are among the forms of compensation not recognized in the benefit formula.

Percentage of Average Final Compensation

The gross EBRP benefit is expressed as a percentage of the participant s average final compensation. The percentage is equal to an initial base percentage benefit of 20%, which is increased by 1.77% for each completed year of service (0.148% for each completed month of service, if the executive completes less than a full year of service in the year in which he or she separates from service). The maximum benefit generally is 60% of average final compensation; however, the Compensation Committee has the authority to approve, or a participant s written employment agreement may provide, a different benefit formula including a percentage higher than 60% for an individual participant.

Mr. Hammergren s employment agreement provides that he is entitled to a benefit percentage of at least 60% of his average final compensation, and that percentage is increased by 1.5% for each completed year of service after April 1, 2004 to a maximum benefit of 75% of his average final compensation.

Service Credit

The EBRP measures service from the commencement date of an executive s employment, that is, service prior to being named a participant counts in the final calculation, until the date that the participant separates from service. Separation from service has the same meaning as provided in the proposed regulations issued under Code Section 409A, which is further described below under Executive Employment Agreements. The EBRP provides that service credit will be given for certain rehire situations, leaves of absence and periods in which a participant is receiving severance pay. Moreover, when determining the service credit to be applied, the Company may consider the duration of the participant s break-in-service, as applicable.

Basic Retirement Benefits

For purposes of calculating the Basic Retirement Benefits to be conveyed under the Company s EBRP, the offset for the hypothetical annuity benefit payable under the Retirement Share Plan is calculated by first determining the value of each share credited to the participant s account as of the date it was credited, and then applying an annual rate of 12% to that value from the date the share was credited to the account to the date the participant s EBRP benefit is scheduled to begin. The aggregate value of all of the shares credited to the participant s Retirement Share Plan is then converted to a straight life annuity. The resulting annuity is converted to a lump sum amount using the interest rate prescribed by the Pension Benefit Guaranty Corporation for purposes of determining the present value of a lump sum distribution for the month in which the participant retires, and a table based upon the 1994 Group Annuity Reserving Table (1994 GAR) (the Present Value Calculation).

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Distribution of Benefits

The EBRP benefit is an amount based on a straight life annuity of monthly payments over the participant s lifetime converted to a lump sump using the above described Present Value Calculation. Lump sum payments are made on the first day of the eighth month after a participant separates from service.

A participant may elect to receive his or her benefits in the form of an actuarial equivalent annuity, or any other form that the Company s Executive Vice President of Human Resources may approve. Any election to change the form of the benefit must be done in the time prescribed under Code Section 409A.

For Separation from Service Prior to Age 62:

The following is a brief summary of the benefits that would be conveyed to a participant in the Company s EBRP, assuming retirement prior to age 62 and five or more years of credited service.

As mentioned above, participants become vested in the EBRP benefits after completing five years of service. A participant who is terminated for cause will not receive any EBRP benefits.

Approved Retirement Prior to Age 62

The EBRP provides that a participant will have an Approved Retirement, and thus be eligible to receive a pension benefit, if the participant:

- Involuntarily separates from service after age 55 and completion of 15 years of service;
- Separates from service after age 55, but prior to age 62, with approval of the Compensation Committee; or
- Separates from service at any other time, with approval of the Board or as provided in the participant s employment agreement.

A participant who has an Approved Retirement will receive the same EBRP benefits as if he or she had retired after attaining age 62 (as described above), with the following adjustments:

- The percentage of average final compensation, used in the benefit formula, is reduced by 0.3% for each month that the actual separation from service date precedes age 62; and
- The Basic Retirement Benefits will be calculated as of the participant s age at the time he or she separates from service.

At March 31, 2007, none of the NEOs met the age and service levels to qualify for Approved Retirement under either voluntary or involuntary termination. Recognition of additional service and age, either under individual employment agreements or the CIC Policy described below, does not make any NEO, except Mr. Hammergren, eligible for Approved Retirement. Mr. Hammergren, according to the provisions of his employment agreement, will be provided with an Approved Retirement pension benefit (an Approved Retiree) should he terminate for any reason other than for cause.

Other Separations from Service Prior to Age 62

Vested participants who separate from service for reasons other than for cause, but terminate prior to attaining age 62 under circumstances that do not constitute an Approved Retirement, are also entitled to an immediate lump sum benefit, but the benefit is calculated differently. The EBRP provides that a vested participant who separates from service will receive the same EBRP benefits as if he or she had terminated due to an Approved Retirement prior to attaining age 62; however, the percentage of average final compensation used in the benefit formula is multiplied by a pro rata percentage, as described below, and calculated as the present value of a benefit payable at age 65.

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The pro rata percentage is the higher of the following two percentages (but not greater than 100%):

The percentage determined by dividing the number of the participant s whole months of employment with the Company by the number of whole months from the date that the participant was first hired by the Company to the date that the participant will reach age 65 and multiplying by 100; or

The percentage determined by multiplying 4.44% by the number of the participant s whole and partial years of completed employment with the Company.

The present value of the benefit is calculated on the basis of the 30-year U.S. Treasury yield (GATT) used to determine the present value of a lump sum distribution under a tax-qualified defined benefit retirement plan for the month in which the participant s separates from service, and a table based upon the 1994 Group Annuity Reserving Table (1994 GAR) prescribed by the U.S. Internal Revenue Service.

Nonqualified Deferred Compensation Table

The Company sponsors two nonqualified deferred compensation plans. One plan, the Supplemental Profit Sharing Investment Plan II (SPSIP II), is specifically for employees impacted by Code Section 401(a)(17), which limits participation of highly paid employees in tax qualified 401(k) plans. The second plan is the Deferred Compensation Administration Plan III (DCAP III), which is a voluntary nonqualified deferred compensation plan. Compensation eligible to be deferred into either the SPSIP II or DCAP III includes base annual salary and cash payments under the Management Incentive Plan (MIP) and Long Term Incentive Plan (LTIP).

Amounts deferred into the SPSIP II are credited with interest at the same rate as the Standish Mellon Stable Value Fund, which is an investment option generally available to all Company employees under the PSIP. As described in greater detail below, amounts deferred into the DCAP III for FY 2007 were credited with interest at 8%, which is set annually by the Compensation Committee.

The following table shows the contributions, earnings and account balances for the NEOs participating in a Company sponsored nonqualified deferred compensation program:

Name	Executive Contributions in Last Fiscal Year ($)(1)(2)	Registrant Contributions in Last Fiscal Year ($)(3)	Aggregate Earnings in Last Fiscal Year ($)(4)(5)	Aggregate Withdrawals/ Distributions ($)	Aggregate Balance at Last Fiscal Year-End ($)(6)
John H. Hammergren	257,336	205,869	521,459		8,270,730
Jeffrey C. Campbell	73,368	58,695	4,466		151,575
Paul C. Julian	193,541	86,833	338,309		5,001,630
Marc E. Owen	788,160	39,879	269,972		3,924,743
Pamela J. Pure	558,487	57,289	108,898		1,714,481

(1) Reflects the amounts deferred for each individual, which is reported as compensation to such NEO in the Summary Compensation Table above.

(2) Represents amounts deferred by the NEOs into their SPSIP II accounts and DCAP III accounts, respectively, as follows: Mr. Hammergren, $257,336 and $0; Mr. Campbell, $73,368 and $0; Mr. Julian, $108,541 and $85,000; Mr. Owen, $10,990 and $777,170; and Ms. Pure, $45,987 and $512,500.

(3) Represents Company contributions to the NEOs SPSIP II accounts and DCAP III accounts, respectively, as follows: Mr. Hammergren, $205,869 and $0; Mr. Campbell, $58,695 and $0; Mr. Julian, $86,833 and $0; Mr. Owen, $8,792 and $31,087; Ms. Pure, $36,789 and $20,500.

(4) The SPSIP II is a successor plan to the Company s Supplemental Profit Sharing and Investment Plan (SPSIP, and together with SPSIP II, the SPSIP Plans), which was frozen December 31, 2004. The DCAP III is a successor plan to the Company s Deferred Compensation Administration Plan II (DCAP II, and together with DCAP III, the DCAP Plans), which was frozen on

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December 31, 2004. Amounts shown include earnings on compensation previously deferred by NEOs into the SPSIP Plans and DCAP II Plans.

(5) If displayed separately, aggregate earnings by the NEOs during FY 2007 for the SPSIP Plans and DCAP Plans, respectively, were as follows: Mr. Hammergren, $115,882 and $405,577; Mr. Campbell, $4,466 and $0; Mr. Julian, $38,019 and $300,290; Mr. Owen, $1,361 and $268,611; Ms. Pure, $10,476 and $98,422.

(6) If displayed separately, year-end balances for NEOs under the SPSIP Plans and DCAP Plans, respectively, were as follows: Mr. Hammergren, $2,780,969 and $5,489,761; Mr. Campbell, $151,575 and $0; Mr. Julian, $933,607 and $4,068,023; Mr. Owen, $43,990 and $3,880,753; Ms. Pure, $275,759 and $1,438,722.

Narrative Disclosure to the Nonqualified Deferred Compensation Table

Supplemental Profit Sharing Investment Plan II

SPSIP II was adopted by the Board effective on January 1, 2005, and is the successor plan to the Supplemental Profit Sharing and Investment Plan, which was frozen effective December 31, 2004. The SPSIP II has participation and distribution provisions intended to comply with the proposed regulations issued under Code Section 409A. Participants accounts in the legacy SPSIP continue to be credited with earnings on the same basis as accounts in the SPSIP II.

Employees may voluntarily elect to participate in the SPSIP II. Part of the election process is stipulating the deferral percentage of 1% to 5% of pay in whole percentages that will apply to covered compensation earned after the Code Section 401(a)(17) limit is reached (currently, set at $225,000) and participation in the PSIP (the Company s 401(k) plan) stops for the year. An election to participate in SPSIP II is valid until the participant informs the plan administrator that he or she wishes participation to cease, and such an election is effective at the beginning of the next calendar year. All of the Company s NEOs have elected to participate in the plan at the 5% level. At an employee participation level of 5%, the Company contributes an additional 4% of his or her pay as a matching contribution, consistent with the terms of the PSIP (the Company Match). Participants are always 100% vested in both the Company Match and their own contributions to the SPSIP II.

Participants in the Company s SPSIP Plans can elect when payments are to start; that is, at separation from service or some other designated fixed number of years following separation from service. Participants may also elect the number of annual payments within a range of one to ten. A separate distribution election can be made for a separation from service due to death. Distributions under both SPSIP and SPSIP II are subject to ordinary income taxes.

Accounts in SPSIP II are credited with earnings at a rate equal to the amount earned during the same period by the Standish Mellon Stable Value Fund investment option in the Company s PSIP. Because earnings on SPSIP II accounts are based on a publicly available mutual fund, credited earnings are not considered above-market earnings by the U.S. Internal Revenue Service, and thus are not subject to federal Social Security and Medicare taxes in the year credited.

Unlike tax qualified retirement accounts, the SPSIP Plans are not directly supported by Company assets. Amounts paid under these plans are paid from the Company s general corporate funds, and each participant and his or her beneficiaries are unsecured general creditors of the Company with no special or prior right to any assets of the Company for payment of any obligation.

Deferred Compensation Administration Plan III

DCAP III was adopted by the Board effective on January 1, 2005, and is the successor plan to the Deferred Compensation Administration Plan II, which was frozen effective December 31, 2004. The DCAP III has participation and distribution provisions intended to comply with the proposed regulations issued under Code Section 409A. Participants accounts in the legacy DCAP II continue to be credited with earnings on the same basis as accounts in the DCAP III.

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Like the SPSIP II, employees may voluntarily elect to participate in the DCAP III. Participation is open to all employees eligible for participation in the MIP with a bonus target of at least 15%, and other highly compensated employees. For calendar year 2006, approximately 2,500 employees were eligible to participate in DCAP III, including all of the Company s NEOs.

Participants may elect to defer into the DCAP III up to 75% of their base annual salary, up to 90% of their annual MIP payment, and for those who also participate in the cash LTIP, up to 90% of any LTIP payment. An election to participate is valid for only one calendar year. The Compensation Committee annually sets the crediting rate for amounts deferred, and for calendar years 2007 and 2006, the crediting rate was 8%. Since the crediting rate is discretionary, a portion of the earnings accumulated each year may be subject to federal Social Security and Medicare taxes in the year credited.

Employees who elect to participate in DCAP III must also make a distribution election at the same time they select their level of participation. Separate elections as to timing and form of payment can be made for separations from service due to retirement, disability or death. The participant can elect the time payments start in a particular year or some designated fixed number of years following the separation from service. The participant may also elect from one to ten annual payments. If the separation from service is not due to retirement, disability or death, the entire account balance is distributed as a lump sum at a time such payment would comply with Code Section 409A. Distributions under both DCAP plans are subject to ordinary income taxes.

Earnings that are deferred into DCAP III are not considered covered compensation for PSIP or SPSIP II purposes, as it is defined by these plans. As such, no PSIP or SPSIP II employee deductions are taken from compensation deferred into DCAP III. To keep the DCAP III participant whole with respect to the Company Match, an amount is credited to his DCAP III account equal to the additional Company Match that would have been credited to PSIP and/or SPSIP II had he not participated in DCAP III.

Similar to the SPSIP Plans, the DCAP Plans are not directly supported by Company assets. Amounts paid under these plans are paid from the Company s general corporate funds, and each participant and his or her beneficiaries are unsecured general creditors of the Company with no special or prior right to any assets of the Company for payment of any obligation.

Executive Employment Agreements

The Company entered into employment agreements with each of Messrs. Hammergren, Julian and Ms. Pure that provide for, among other things, the term of employment, compensation and benefits payable during the term of the agreement as well as for specified payments in case of termination of employment. In each case, the agreement provides that the executive will participate in all compensation and fringe benefit programs made available to all executive officers. Effective November 1, 2006, the Compensation Committee approved amendments to each of the employment agreements primarily to ensure that post-employment payments and benefits under the agreements comply with the proposed regulations issued under Code Section 409A, a new section of the Code that governs certain deferred compensation and severance arrangements. In addition, the post-employment restrictions were strengthened.

The descriptions that follow are qualified in their entirety by the agreements themselves, which have been included as exhibits to the Company s Quarterly Report on Form 10-Q for the period ended September 30, 2006, as filed with the SEC on November 1, 2006.

Mr. John H. Hammergren

The Company entered into an amended and restated Employment Agreement (the Agreement) with John H. Hammergren, initially effective June 21, 1999, and as amended on April 1, 2004 and November 1, 2006. The Agreement will renew automatically so that the then remaining term is always three years. The Agreement provides for an annual base salary of at least $1,490,000 effective

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May 27, 2007 and such additional incentive compensation, if any, as may be determined by the Compensation Committee. Any incentive compensation awarded to Mr. Hammergren under the Company s MIP shall be calculated using an individual target award of not less than 135% of his base salary. Mr. Hammergren also is entitled to receive all other benefits generally available to other members of the Company s management and those benefits for which key executives are or become eligible.

The Agreement provides that if the Company terminates Mr. Hammergren without Cause, or he terminates for Good Reason (both as defined in the Agreement and described below under Definition of Cause and Definition of Good Reason), and he remains in compliance with his post-employment nondisclosure and nonsolicitation restrictions, he will be entitled to receive: (A) payment of his final monthly base salary and incentive compensation for the remainder of the term of the Agreement (the Severance Period); (B) lifetime coverage under the Company s Executive Medical Plan and financial counseling program, as well as lifetime office space and secretarial support; (C) continued participation in DCAP III for the Severance Period; (D) continued accrual and vesting of his rights and benefits under the Executive Survivor Benefits Plan (ESBP) and the EBRP for the Severance Period, with a final EBRP benefit calculated on the basis of his receiving: (i) approved retirement, as defined in the EBRP (Approved Retirement) commencing on the expiration of the Agreement, and (ii) equal to 60% of his Average Final Compensation then specified in the EBRP, increased by 1.5% for each year of completed service from April 1, 2004 through the end of the Severance Period (subject to a maximum of 75%), without any reduction for early retirement; (E) accelerated vesting of stock options and restricted stock, subject to certain forfeiture and repayment provisions; (F) continued participation in pro rata awards under the Company s LTIP for the remainder of the Severance Period; and (G) for purposes of DCAP III and the 1994 Stock Option and Restricted Stock Plan (or any similar plan or arrangement), his termination will be deemed to have occurred as if the sum of his age and years of service to the Company is at least 65. Continuation of his then-applicable base salary and incentive compensation, and payment of his benefit under the EBRP, may be delayed following his separation from service in order to comply with Code Section 409A. Any payments delayed as a result of such compliance will accrue interest at the rate applicable to the Company s nonqualified deferred compensation program.

If Mr. Hammergren s employment is terminated within six months preceding, or within two years following, a Change-in-Control (as defined in his Agreement and described below under Definition of Change-in-Control), he will receive a lump-sum payment in lieu of the salary and incentive payments described in subsection A of the preceding paragraph, and he will continue to receive all of the other severance benefits described in the preceding paragraph. This lump-sum payment will be equal to the greater of: (1) the sum of the above referenced salary and incentive compensation payments, or (2) 2.99 multiplied by his base amount (as determined pursuant to Code Section 280G).

If Mr. Hammergren is prevented from carrying out his duties and responsibilities due to disability, he would continue to receive his then-current salary for a period of up to twelve months. At the end of that twelve-month period, Mr. Hammergren would be eligible to receive benefits for an Approved Retirement under the EBRP, calculated at the rate in effect at the time of the disability, without any reduction for early retirement. The payment for this Approved Retirement would be no less than the payment (the Minimum Lump-Sum Payment) that would have been provided under Mr. Hammergren s prior employment agreement for an Approved Retirement under the EBRP.

If Mr. Hammergren s employment is terminated for Cause, the Company s obligations under the Agreement cease and terminate. Any rights he may have under the Company s benefit plans will be determined solely in accordance with the express terms of those plans.

If Mr. Hammergren dies during the term of his Agreement, the Company will continue to pay his salary to his surviving spouse or designee for a period of six months. The Company also will pay to his spouse or designee the benefits payable under the EBRP, calculated at the rate in effect at the time of

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his death, without any reduction for early retirement, subject to the Minimum Lump-Sum Payment requirement.

If Mr. Hammergren voluntarily terminates his employment with the Company other than for Good Reason after March 31, 2006, he shall be entitled to receive the benefits set forth in clauses (B), (D)(i) and (G) above, without any reduction to his EBRP benefit for early retirement, and subject to the Minimum Lump-Sum Payment requirement.

If the benefits received by Mr. Hammergren under the agreement are subject to the excise tax provision set forth in Section 4999 of the Code, the Company will provide him with a gross-up payment to cover any excise taxes and interest imposed on excess parachute payments as defined in Section 280G of the Code.

The Agreement provides that, for a period of at least two years following the termination of Mr. Hammergren s employment with the Company, Mr. Hammergren may not solicit or hire employees, or solicit competitive business from any person or entity that was a customer of the Company within the two years prior to his termination. In addition, he is forever prohibited from using or disclosing any of the Company s Confidential Information (as defined in his Agreement).

Mr. Paul C. Julian

The Company entered into an Amended and Restated Employment Agreement with Paul C. Julian effective as of November 1, 2006 (the Agreement), to superseding his previous April 1, 2004 agreement. The Agreement provides that the Company shall continue to employ Mr. Julian as Executive Vice President and Group President, or in such other executive capacities as may be specified by the CEO, until October 31, 2009, with the term automatically extending for one additional year commencing on November 1, 2009, and on each November 1 thereafter. The Agreement provides for an annual base salary of at least $904,000 effective May 27, 2007 and such additional incentive compensation, if any, as may be determined by the Compensation Committee. Any incentive compensation awarded to Mr. Julian under the MIP shall be calculated using an individual target award of 110% of his base salary. Mr. Julian also shall receive all other benefits generally available to other members of the Company s management and those benefits for which key executives are or become eligible.

The Agreement provides that if the Company terminates Mr. Julian without Cause, or he terminates for Good Reason (both as defined in the Agreement, and described below under Definition of Cause and Definition of Good Reason), the Company shall: (A) continue his then monthly base salary, reduced by any compensation he receives from a subsequent employer, for the remainder of the term; (B) consider him for a prorated bonus under the Company s MIP for the fiscal year in which termination occurs; (C) continue his Executive Medical Plan benefits until the expiration of the term; and (D) continue the accrual and vesting of his rights, benefits and existing awards for the remainder of the term of the Agreement for purposes of the EBRP, ESBP and the Company s equity compensation plans. Continuation of his then-applicable base salary and incentive compensation and payment of his benefit under the EBRP may be delayed following his separation from service to comply with Code Section 409A. Any payments delayed as a result of such compliance will accrue interest at the rate applicable to the Company s nonqualified deferred compensation program.

If Mr. Julian is prevented from carrying out his duties and responsibilities due to disability, he would continue to receive his then-current salary for a period of up to twelve months. If Mr. Julian s employment with the Company is terminated by his death, the Company will continue to pay his salary to his surviving spouse or designee for a period of six months.

If Mr. Julian s employment is terminated for Cause, the Company s obligations under the Agreement cease and terminate. Any rights he may have under the Company s benefit plans will be determined solely in accordance with the express terms of those plans.

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If Mr. Julian s employment is terminated within six months preceding, or within two years following, a Change-in-Control (as defined in his Agreement and described below under Definition of Change-in-Control), he will receive a lump-sum payment in lieu of the salary and incentive payments described in subsections (A) and (B) above, and he would continue to receive all of the other severance benefits described in the preceding paragraph. This lump-sum payment would be equal to 2.99 multiplied by his Executive Earnings as described below in the Change-in-Control Policy narrative.

If the benefits received by Mr. Julian under the Agreement are subject to the excise tax provision set forth in Section 4999 of the Code, the Company will provide him with a gross-up payment to cover any excise taxes and interest imposed on excess parachute payments as defined in Section 280G of the Code. The Change-in-Control severance payment, payment of his benefit under the EBRP and his tax gross up payment may be delayed following his separation from service to comply with Code Section 409A. Any payments delayed as a result of such compliance will accrue interest at the rate applicable to the Company s non-qualified deferred compensation program.

The Agreement provides that, for a period of at least two years following the termination of Mr. Julian s employment with the Company, Mr. Julian may not solicit or hire employees, or solicit competitive business from any person or entity that was a customer of the Company within the two years prior to his termination. In addition, he is forever prohibited from using or disclosing any of the Company s Confidential Information (as defined in his Agreement).

Ms. Pamela J. Pure

The Company entered into an amended and restated Employment Agreement with Pamela J. Pure effective as of November 1, 2006 (the Agreement), superseding her previous agreement effective as of April 1, 2004. The Agreement provides that the Company shall continue to employ Ms. Pure as Executive Vice President and President McKesson Provider Technologies, or in such other executive capacities as may be specified by the CEO, until October 31, 2009, with the term automatically extending for one additional year commencing on November 1, 2009, and on each November 1 thereafter. The Agreement provides for an annual base salary of at least $700,000 effective May 27, 2007 and such additional incentive compensation, if any, as may be determined by the Compensation Committee of the Board. Any incentive compensation awarded to her under the MIP shall be calculated using an Individual Target Award of 85% of her base salary. Ms. Pure also shall receive a mortgage allowance, and all other benefits generally available to other members of the Company s management and those benefits for which key executives are or become eligible.

The Agreement provides that if the Company terminates Ms. Pure without Cause, or she terminates for Good Reason (both as defined in the Agreement and described below under Definition of Cause and Definition of Good Reason), the Company shall (A) continue her then monthly base salary, reduced by any compensation she receives from a subsequent employer, for the remainder of the term; (B) consider her for a prorated bonus under the Company s MIP for the fiscal year in which termination occurs; (C) continue her Executive Medical Plan benefits until the expiration of the term; and (D) continue the accrual and vesting of her rights, benefits and existing awards for the remainder of the term of the Employment Agreement for purposes of the EBRP, ESBP and the Company s equity compensation plans. Continuation of her then-applicable base salary and incentive compensation and payment of her benefit under the EBRP may be delayed following her separation from service to comply with Code Section 409A. Any payments delayed as a result of such compliance will accrue interest at the rate applicable to the Company s non-qualified deferred compensation program.

If Ms. Pure is prevented from carrying out her duties and responsibilities due to disability, she would continue to receive her then-current salary for a period of up to twelve months. If Ms. Pure s employment with the Company is terminated by her death, the Company will continue to pay her salary to her surviving spouse or designee for a period of six months.

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If Ms. Pure s employment is terminated for Cause, the Company s obligations under the Agreement cease and terminate. Any rights she may have under the Company s benefit plans will be determined solely in accordance with the express terms of those plans.

If Ms Pure s employment is terminated within six months preceding, or within two years following, a Change-in-Control (as defined in her Agreement and described below under Definition of Change-in-Control), she will receive a lump-sum payment in lieu of the salary and incentive payments described in subsections (A) and (B) above, and she would continue to receive all of the other severance benefits described in the preceding paragraph. This lump-sum payment would be equal to 2.99 multiplied by her Executive Earnings as described below in the Change-in Control Policy narrative.

If the benefits received by Ms. Pure under the Agreement are subject to the excise tax provision set forth in Section 4999 of the Code, the Company will provide her with a gross-up payment to cover any excise taxes and interest imposed on excess parachute payments as defined in Section 280G of the Code. The Change-in-Control severance payment, payment of her benefit under the EBRP and her tax gross up payment may be delayed following her separation from service to comply with Code Section 409A. Any payments delayed as a result of such compliance will accrue interest at the rate applicable to the Company s non-qualified deferred compensation program

The Agreement provides that, for a period of at least two years following the termination of Ms. Pure s employment with the Company, Ms. Pure may not, perform services for a competitor similar to those she provided for the Company, solicit or hire employees, or solicit competitive business from any person or entity that was a customer of the Company within the two years prior to her termination. She is also obligated to not disclose or use the Company s trade secrets or Confidential Information (as defined in the Agreement).

Executive Severance Policy

The Company has an Executive Severance Policy (the Policy), which applies in the event an executive officer is terminated by the Company for reasons other than for cause, and the termination is not covered by the Company s CIC Policy. The benefit payable to executive officers under the Policy is equal to 12 months base salary plus one month s pay per year of service, up to a maximum of 24 months. Such benefits would be reduced or eliminated by any income the executive officer receives from subsequent employers during the severance payment period. Executive officers who are age 55 or older and have 15 or more years of service with the Company at the time of such involuntary termination are granted Approved Retirement for purposes of the EBRP and the ESBP. In addition, vesting of stock options and lapse of restrictions on restricted stock awards will cease as of the date of termination, and no severance benefits will be paid beyond age 62. A terminated executive who is receiving payments under the terms of an employment agreement he or she may have with the Company is not entitled to receive additional payments under the Policy. Continuation of his or her then-applicable base salary benefits under the EBRP may be delayed following his or her separation from service to comply with Code Section 409A. Any payments delayed as a result of such compliance will accrue interest at the rate applicable to the Company s nonqualified deferred compensation program. Pursuant to the Policy, the Company will seek stockholder approval for any future severance agreements with senior executive officers that provide specified benefits in an amount exceeding 2.99 times the sum of the executive s base salary and target bonus.

Change-in-Control Policy

The Board approved a new Change-in-Control Policy for Selected Executive Employees (the CIC Policy), effective November 1, 2006. The CIC Policy provides severance payments to certain employees of the Company (including executive officers) upon separation from service, without Cause (as defined in the policy) or for Good Reason (as defined in the policy), as the result of a change-in-control of the Company. The CIC Policy replaces any individual

agreements between the

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Company and its officers with respect to change-in-control benefits (except with respect to Mr. Hammergren, Mr. Julian and Ms. Pure, each of whom has a written employment agreement with the Company as described above) and expands eligibility for benefits to a larger employee group. Participants in the CIC Policy are designated by the Compensation Committee to participate in one of three tiers. Executive officers are considered tier one participants and are entitled to a cash benefit equal to 2.99 times the Executive s Earnings, defined by the policy as: (i) annual base salary, and (ii) the greater of (A) the participant s target bonus under the Company s MIP or (B) the average of the participant s MIP award for the latest three years for which the participant was eligible to receive a bonus (or such lesser period of time during which the participant was eligible to receive a bonus). CIC Policy participants are eligible for a gross-up payment if the change-in-control benefits paid under the policy are subject to an excise tax under Code Section 4999. In addition, if a tier one participant is covered by the EBRP, his or her straight life annuity benefits under that plan will be calculated by adding three additional years of age and three additional years of service to the participant s actual age and service. Tier one participants are eligible for three years of continued coverage under the applicable health and life insurance plans, tier two participants are eligible for two years of continued coverage and tier three participants for one year of continued coverage.

Definition of a Change-in-Control

For purposes of the Company s executive employment agreements and CIC Policy, a Change-in-Control is generally defined as the occurrence of any change in ownership of the Company, change in effective control of the Company, or change in the ownership of a substantial portion of the assets of the Company, as defined in Code Section 409A, the regulations thereunder, and any other published interpretive authority, as issued or amended from time to time.

For purposes of Mr. Hammergren s Agreement, a Change-in-Control of the Company shall be deemed to have occurred if any of the events set forth in any one of the following subparagraphs shall occur: (A) during any period of not more than twelve consecutive months, any person (as such term is used in Sections 13(d) and 14(d) of the Securities Exchange Act of 1934, as amended (the Exchange Act) excluding the Company or any of its affiliates, a trustee or any fiduciary holding securities under an employee benefit plan of the Company or any of its affiliates, an underwriter temporarily holding securities pursuant to an offering of such securities, or a corporation owned, directly or indirectly, by stockholders of the Company in substantially the same proportions as their ownership of the Company), is or becomes the beneficial owner (as defined in Rule 13(d)(3) under the Exchange Act), directly or indirectly, of securities of the Company representing 35% or more of the combined voting power of the Company s then outstanding securities; (B) during any period of not more than twelve consecutive months, individuals who at the beginning of such period constitute the Board and any new director (other than a director designated by a Person who has entered into an agreement with the Company to effect a transaction described in clause (A), (C) or (D) of this paragraph) whose election by the Board or nomination for election by the Company s stockholders was approved by a vote of at least two-thirds (2/3) of the directors then still in office who either were directors at the beginning of the period or whose election or nomination for election was previously so approved, cease for any reason to constitute a majority thereof; (C) the stockholders of the Company approve a merger or consolidation of the Company with any other corporation, other than (x) a merger or consolidation which would result in the voting securities of the Company outstanding immediately prior thereto continuing to represent (either by remaining outstanding or by being converted into voting securities of the surviving entity), in combination with the ownership of any trustee or other fiduciary holding securities under an employee benefit plan of the Company, at least 50% of the combined voting power of the voting securities of the Company or such surviving entity outstanding immediately after such merger or consolidation, or (y) a merger or consolidation effected to implement a recapitalization of the Company (or similar transaction) in which no Person acquires more than 50% of the combined voting power of the Company s then outstanding securities; or (D) the stockholders of the Company approve a plan of complete liquidation of the Company or an agreement for the sale or disposition by the Company of all or substantially all of the Company s assets.

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Notwithstanding the foregoing, under the terms of Mr. Hammergren s Agreement, no Change-in-Control shall be deemed to have occurred if there is consummated any transaction or series of integrated transactions immediately following which, in the judgment of the Compensation Committee, the holders of the Company s common stock immediately prior to such transaction or series of transactions continue to have the same proportionate ownership in an entity which owns all or substantially all of the assets of the Company immediately prior to such transaction or series of transactions.

Definition of Good Reason

Each of Messrs. Hammergren, Julian and Ms. Pure have Good Reason to resign if any of the following actions are taken without their express written consent: (A) any material change by the Company in the executive officer s functions, duties or responsibilities, if that change would cause their position with the Company to become of less dignity, responsibility, or importance; (B) any reduction in the executive officer s base salary, other than one in conjunction with an across-the-board reduction for all executive employees of the Company; (C) any material failure by the Company to comply with any of the provisions of their Agreement; (D) relocation to an office more than 25 miles from the office at which the executive officer is currently based; or (E) in the event of a Change in Control, any change in the level of officer within the Company to whom the executive officer reports as such level existed immediately prior to the Change in Control.

For Mr. Hammergren, the following additional actions constitute Good Reason to resign: (i) termination of his obligation and right to report directly to the Board, but not if he ceases to serve as Chairman, unless such action is taken in conjunction with a Change in Control; (ii) if the Board removes him as Chairman at or after a Change in Control (or prior to a Change in Control if at the request of any third party participating in or causing the Change in Control), unless such removal is required by then applicable law; (iii) a change in the majority of the members of the Board as it was construed immediately prior to the Change in Control; (iv) failure by the Company to obtain the express assumption of his Agreement by any successor or assign of the Company; or (v) cancellation of the automatic renewal provision in his Agreement. Any incapacity he may develop due to physical or mental illness will not affect his ability to resign for Good Reason.

Definition of Cause

Cause is expressly defined in each of the executive employment agreements, as described below, and also in the Company s benefit plans and programs. Generally, under the Company s plans and programs, Cause means the willful misconduct, and in some cases the negligent misconduct, on the part of the executive, which is injurious to the Company. The specific consequences of such behavior are reflected in the agreement or plan documents.

Under the terms of his Agreement, the Company will have Cause to terminate Mr. Hammergren if he: (i) willfully engages in misconduct which is demonstrably and materially injurious to the Company and its subsidiaries taken as a whole; (ii) engages in willful and material dishonesty involving the Company s assets, or those of any of its affiliated companies; or (iii) materially fails to comply with any of the provisions of his Agreement. The Company must provide him with formal written notice, give him a fifteen day opportunity to cure his conduct, and have his termination confirmed by arbitration before it takes effect.

Similarly, Mr. Julian and Ms. Pure may be terminated for Cause. Under their Agreements, Cause means: (i) the executive officer s willful misconduct, habitual neglect or dishonesty with respect to matters involving the Company or its subsidiaries which is materially and demonstrably injurious to the Company; or (ii) a material breach by the executive officer of one or more terms of his or her Agreement. The Company must provide each of them with formal written notice, give him or her a fifteen day opportunity to cure the conduct giving rise to the termination, and have the termination confirmed by arbitration before it takes effect.

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Potential Payments Upon Termination or Change-in-Control

The narrative and tables that follow describe potential payments and benefits to our NEOs or their beneficiary under existing employment agreements, plans or arrangements, whether written or unwritten, for various scenarios including change-in-control or termination of employment. The amounts shown assume a termination effective as of March 31, 2007, as well as a closing price of the Company s common stock on March 30, 2007 of $58.54 per share, and thus include amounts earned through such time and are estimates of amounts that would be paid out to the NEOs upon their separation or termination. Unless otherwise noted, all cash benefits are stated as the total present value of the obligation. In circumstances where the Company s obligation is service-based (*i.e.*, provision for future office and secretarial support), the present discounted value of the obligation is included in the following tables. However, these amounts are estimates only, as the actual obligation can only be determined at the time of the NEO s separation from the Company.

The following presentation has been keyed to six general events upon which an NEO or their beneficiary would be entitled to a benefit: death, disability, termination for cause, voluntary termination, involuntary termination and involuntary termination following a change-in-control. Due to the nature of benefits delivered, for both death and disability the narrative and tabular disclosure encompass all benefits that may be conveyed to each NEO. Starting with voluntary termination, to avoid repetition, the narrative and tabular disclosure is stated as incremental value that may be conveyed to each NEO.

The amounts presented in these tables in the column entitled Executive Pension (EBRP) are different from those presented in the column entitled Present Value of Accumulated Benefits in the Pension Benefits Table above. As required, the values presented below assume the NEO actually terminated employment on March 31, 2007. The amounts shown under the column labeled Present Value of Accumulated Benefits above is the amount of a payment at a future date the retirement date discounted to the pension benefit measurement date, December 31, 2006. The future payment amount is determined using current service, actual plan compensation through FY 2007 (except FY 2007 bonus is estimated to be equal to target bonus), and a lump sum conversion rate that is consistent with our presentation under the Pension Benefits Table above (*e.g.*, 4%). The amounts in the tables below use current service, actual plan compensation through FY 2007, the NEO s age on March 31, 2007 and the lump sum conversion rate prescribed in the EBRP for a termination on March 31, 2007.

As of March 31, 2007, under the terms of his employment agreement, Mr. Hammergren is entitled to an unreduced pension benefit as an Approved Retiree under the EBRP for any termination other than for Cause. For purposes of the tables that follow, Mr. Hammergren s lump sum EBRP benefit has been computed as of March 31, 2007 using a 3% interest rate, as prescribed by the Pension Benefit Guaranty Corporation for purposes of determining the present value of a lump sum distribution on plan termination. The prescribed interest rate of 4.82% (as of February 2007) was used to determine the lump sum EBRP benefit for the other NEOs as of March 31, 2007, which is the interest rate applicable to those not yet retirement eligible, but with vested benefits under the EBRP. The determination of these benefits is more fully explained in the narrative following the Pension Benefit Table above. For Mr. Hammergren, moving the lump sum interest rate from the 4% actuarial assumption used in the Pension Benefits Table to the 3% prescribed in the EBRP for a March 31 termination, increased his benefit value by approximately $9,000,000. By valuing his benefit as an immediate benefit payable March 31, 2007 at age 48, rather than a future benefit discounted to a present value, further increased the amount by approximately $19,000,000. All of these values are estimates affected by subsequent events, such as changes in actuarial assumptions, changes to the applicable Pension Benefit Guaranty Corporation and the 30-year U.S. Treasury (GATT) interest rates and changes in compensation used to calculate the NEO s pension benefits.

All of the Company s executive officers, including the NEOs, participate in the Company s Executive Survivor Benefit Plan (ESBP). The ESBP provides a supplemental cash death benefit, on a tax neutral basis, to the executive s named beneficiary. Under the terms of the Company s ESBP, each

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NEO s beneficiary is entitled to a cash death benefit of 300% of the executive s annual base salary, up to a maximum of $2,000,000 should he or she expire while an active employee. In addition, under the ESBP, the executive officer s spouse (or other designated beneficiary if there is no spouse) receives six months continuation of the executive officer s annual base salary.

Under the ESBP, participants are entitled to post-employment coverage if they are granted Approved Retirement under the EBRP. However, the benefit to be conveyed under ESBP is 150% of the executive officer s final base annual salary up to a maximum of $1,000,000. As of March 31, 2007, under the terms of his employment agreement, Mr. Hammergren is entitled to an Approved Retirement should he terminate for any reason other than cause.

Benefits and Payments Upon Death

In the event of death or disability, all participants in the plans below, including the NEOs, receive acceleration of the vesting of outstanding equity awards under the Company s stockholder approved equity plans, vesting of a pro rata portion of their MIP award, and vesting of a prorated portion of the LTIP award for any performance period that is at least 50% completed, with payment made when all other payments for that performance period are made to other participants. Under such a scenario, beneficiaries and disabled participants have three years to exercise outstanding stock options, or if earlier, until the expiration date.

The table below reflects the benefits payable in the event of death of our NEOs:

Name	Salary Continuation to Spouse (ESBP) ($)(1)	Value of Option Acceleration ($)(2)	Value of Stock Acceleration ($)(2)	MIP ($)(3)	LTIP ($)(4)	Cash Death Benefit (ESBP) ($)(5)	Executive Pension (EBRP) ($)(6)
John H. Hammergren	689,128	3,012,450	30,962,918	5,581,932	7,200,000	3,430,000	68,135,197
Jeffrey C. Campbell	348,990	2,880,660	5,513,180	1,550,000	1,833,333	3,430,000	2,949,775
Paul C. Julian	420,415	1,500,940	13,706,263	2,350,000	2,800,000	3,430,000	6,727,726
Marc E. Owen	267,100	443,940	3,952,094	1,200,000	733,333	2,748,459	2,227,630
Pamela J. Pure	317,388	941,225	5,289,791	1,600,000	800,000	3,117,380	2,654,839

(1) Represents six months of the NEO s base salary as of March 31, 2007.

(2) Amounts represent the value of unvested grants of stock options and RSU grants as of March 31, 2007 for which the vesting was accelerated. The value entered for stock options is the difference between the option exercise price and $58.54, the closing price of the Company s common stock on March 30, 2007 as reported by the NYSE. In such circumstances, under the terms of the Company s 2005 Stock Plan, beneficiaries have three years to exercise the stock options. For more information on the amount of unvested securities held by NEOs, refer to the Outstanding Equity Awards Table above.

(3) For presentation purposes only, the amounts shown represent actual MIP award payments for FY 2007 as included in the Summary Compensation Table above. In the event of death, each NEO would be entitled to only a pro rata portion of their MIP award.

(4) For presentation purposes only, the amounts represent the actual LTIP award payout for FY 2005-FY 2007, as reported in the Summary Compensation Table above, as well as a prorated (66.7%) portion of the target award for the FY 2006 - FY 2008 LTIP performance period.

(5) Includes an estimated tax gross-up to reflect the tax neutral basis of the benefit to be conveyed under the Company s ESBP.

(6) The EBRP provides a death benefit for active participants that assumes the participant was granted Approved Retirement on the day before death and elected a 100% Joint and Survivor benefit. The amounts shown represent the present value of a lump sum pension benefit payable to the surviving spouse under the Company s EBRP, assuming the age of the spouse to be the same age as the NEO.

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Benefits and Payments Upon Termination Due to Disability

The Company s executive officers participate in the Executive Salary Continuation Program, which provides a short-term disability benefit of 100% of the executive officer s base salary for up to 12 months. At its discretion, in the case of an NEO s disability, the Compensation Committee may deem the NEO an Approved Retiree under the EBRP, which would entitle the NEO to a post-employment death benefit under the ESBP.

The table below reflects termination of the Company s NEOs due to their permanent and total disability, and for purposes of this presentation, is considered to be a voluntary termination under the Executive Severance Policy for Messrs. Campbell and Owen and the employment agreements for Messrs. Hammergren and Julian and Ms. Pure. The presentation further assumes that March 31, 2007 was the 12 month anniversary of the first day the NEO was unable to perform services for the Company.

	Executive Medical ($)(1)	Office and Secretary ($)(1)	Financial Counseling ($)(1)	Value of Option Acceleration ($)(2)	Value of Stock Acceleration ($)(2)	MIP ($)(3)	LTIP ($)(4)	Cash Death Benefit (ESBP) ($)(5)	Exec Pen (EB ($)
rgren	2,118,621	3,049,929	286,281	3,012,450	30,962,918	5,581,932	7,200,000	1,715,000	75,9
C. ll	N/A	N/A	N/A	2,880,660	5,513,180	1,550,000	1,833,333		
Julian	N/A	N/A	N/A	1,500,940	13,706,263	2,350,000	2,800,000		1,5
	N/A	N/A	N/A	443,940	3,952,094	1,200,000	733,333		2
J.	N/A	N/A	N/A	941,225	5,289,791	1,600,000	800,000		3

(1) Pursuant to his employment agreement, Mr. Hammergren will be provided post-employment medical coverage under the Company s Executive Medical Plan, an office and secretary, and financial counseling during his lifetime. To determine the present value of these benefits, the following assumptions were used:

Executive Medical Plan: a monthly full family remittable rate of $5,770, less employee contributions of $458; a future value discount rate of 5.78%; a health care trend of 9.6%, grading down 0.6% per year until 2013, and then at 1% per year to an ultimate trend rate of 5%; the RP2000 Healthy Annuitants Mortality Table projected with scale AA to 2014.

Financial Counseling, Office and Secretary: an annual cost of $12,000 and $127,839 for financial counseling and the office and secretary, respectively; a 5% trend rate for cost appreciation and a future value discount rate of 5.78%; a utilization rate of 100% to age 67, decreasing 5% per year to age 85 and then 1% per year to age 90; and the RP2000 Healthy Annuitants Mortality Table projected with scale AA to 2014.

(2) Amounts represent the value of unvested grants of stock options and RSU grants as of March 31, 2007 for which the vesting was accelerated. The value entered for stock options is the difference between the option exercise price and $58.54, the closing price of the Company s common stock on March 30, 2007 as reported by the NYSE. In such circumstances, under the terms of the Company s 2005 Stock Plan, beneficiaries have three years to exercise the stock options. For more information on the amount of unvested securities held by NEOs, refer to the Outstanding Equity Awards Table above.

(3) For presentation purposes only, the amounts shown represent actual MIP award payments for FY 2007 as included in the Summary Compensation Table above. In the event of death, each NEO would be entitled to only a pro rata portion of their MIP award.

(4) For presentation purposes only, the amounts represent the actual LTIP award payout for FY 2005-FY 2007, as reported in the Summary Compensation Table above, as well as a prorated (66.7%) portion of the target award for the FY 2006 - FY 2008 LTIP performance period.

(5) As an Approved Retiree, Mr. Hammergren is eligible for a post-employment benefit under the ESBP of $1,000,000 on a tax neutral basis.

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(6) In accordance with his employment agreement, Mr. Hammergren is an Approved Retiree under the EBRP. Messrs. Julian, Owen and Ms. Pure have a vested EBRP benefit, and so have an entitlement to a vested pension under the plan upon termination due to disability.

Termination for Cause

If an NEO is terminated for Cause, as it is described above under Definition of Cause and as defined in the Company s contracts, plans and policies, all obligations or commitments to the employee are void. Under such circumstances, all outstanding equity grants, including vested stock options, are cancelled. Any benefit entitlement under the MIP and LTIP is voided. Any benefit entitlement under the EBRP, a plan for executive officers only, is voided. Payments required by employment law such as accrued but unpaid salary and paid time off will be made.

Benefits and Payments Upon Voluntary Termination

If an executive officer, including an NEO, terminates voluntarily, all unvested equity is cancelled and participation in MIP and any LTIP performance periods will be cancelled and/or prorated depending on the employee s age plus service. Employees whose age plus service exceeds 65 (65 points) at time of termination, are entitled to a prorated LTIP award for any performance period that is at least 50% complete at the time of termination. Furthermore, the 2005 Stock Plan provides that such employees will have three years to exercise vested stock options or the term of the option, whichever is sooner, rather then the normal 90 days. None of the NEOs had 65 points on March 31, 2007; however, pursuant to his employment agreement, Mr. Hammergren will be deemed to have 65 points for the purposes of the 2005 Stock Plan and the Company s DCAP Plans, but not the LTIP.

As in the case of termination due to disability, and as more fully described under the heading Executive Employment Agreements and the narrative accompanying the Pension Benefits Table, in the event of a voluntary termination Mr. Hammergren is entitled to Approved Retirement under the EBRP. Specifically, he is entitled to a lump sum payment based on the conversion of an immediate unreduced pension reflecting his age, years of service and compensation history. Approved Retirement status also extends the ESBP coverage into retirement at a level of 150% of final salary on a tax neutral basis, up to a maximum of $1,000,000. Finally, Mr. Hammergren is entitled under the terms of his employment agreement to continued coverage under the Executive Medical Plan, office and secretary, and financial planning during his lifetime.

The table below reflects the benefits and payments due in the event of a voluntary termination of our NEOs effective as of March 31, 2007 and for purposes of the calculations, uses the same assumptions as those used in the event of the disability of our NEOs, as presented above.

Name	Executive Medical ($)(1)	Office and Secretary ($)(1)	Financial Counseling ($)(1)	Cash Death Benefits (ESBP) ($)(2)	Executive Pension (EBRP) ($)(3)
John H. Hammergren	2,118,621	3,049,929	286,281	1,715,000	75,932,242
Jeffrey C. Campbell	N/A	N/A	N/A		
Paul C. Julian	N/A	N/A	N/A		1,599,945
Marc E. Owen	N/A	N/A	N/A		291,111
Pamela J. Pure	N/A	N/A	N/A		389,877

(1) Pursuant to his employment agreement, Mr. Hammergren s will be provided post-employment medical coverage under the Company s Executive Medical Plan, an office and secretary and financial counseling during his lifetime. To determine the present value of these benefits, the following assumptions were used:

Executive Medical Plan: a monthly full family remittable rate of $5,770, less employee contributions of $458; a future value discount rate of 5.78%; a health care trend of 9.6%,

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grading down 0.6% per year until 2013, and then at 1% per year to an ultimate trend rate of 5%; the RP2000 Healthy Annuitants Mortality Table projected with scale AA to 2014.

Financial Counseling, Office and Secretary: an annual cost of $12,000 and $127,839 for financial counseling and the office and secretary, respectively; a 5% trend rate for cost appreciation and a future value discount rate of 5.78%; a utilization rate of 100% to age 67, decreasing 5% per year to age 85 and then 1% per year to age 90; and the RP2000 Healthy Annuitants Mortality Table projected with scale AA to 2014.

(2) As an Approved Retiree, Mr. Hammergren is eligible for a post-employment benefit under the ESBP of $1,000,000 on a tax neutral basis.

(3) In accordance with his employment agreement, Mr. Hammergren is an Approved Retiree under the EBRP. Messrs. Julian, Owen and Ms. Pure have a vested EBRP benefit, and so have an entitlement to a vested pension under the plan upon termination due to disability.

Incremental Benefits and Payments Upon Involuntary vs. Voluntary Termination

Under the terms of their respective employment agreements, which are described above under Executive Employment Agreements, Messrs. Hammergren and Julian and Ms. Pure are entitled to severance benefits. Specifically, Mr. Hammergren s agreement provides for accelerated vesting of all outstanding equity grants, and he continues to be considered an active employee for the purposes of DCAP III, the ESBP and outstanding LTIP performance periods. Ms. Pure s and Mr. Julian s agreements provide for continued vesting of all outstanding equity grants during the term of their agreements. Severance benefits for all other executive officers, including the other NEOs, are provided under the Company s:

Executive Severance Policy, amended and restated as of January 1, 2005; and

Change-in-Control Policy for Selected Executive Employees, adopted as of November 1, 2006.

The Executive Severance Policy (the Severance Policy) covers employees nominated by management and approved by the Compensation Committee. At this time, the Company s Severance Policy covers the five executive officers without an individual employment agreement. The Change-in-Control Policy for Selected Executive Employees (the CIC Policy) covers employees nominated by management and approved by the Compensation Committee. At this time, the CIC Policy covers the five executive officers without an individual employment agreement and 151 other senior managers. Provisions of the Company s Severance Policy and CIC Policy are described above in the section entitled Executive Employment Agreements.

The 2005 Stock Plan also provides that upon termination in conjunction with a change-in-control, outstanding unvested equity shall be vested. The LTIP provides that upon termination in conjunction with a change-in-control an immediate payment shall be made reflecting outstanding target awards and performance, versus performance measures, through the last completed fiscal year.

The table below reflects the incremental compensation and benefits for the NEOs had they been involuntarily terminated, not for cause, on March 31, 2007:

Salary Continuation/	Executive	Financial	Value of Option	Value of Stock	Cash Death Benefits	Execut Pensi

e	Severance ($)(1)	Medical ($)(2)	Office and Secretary ($)	Counseling ($)	Acceleration ($)(3)	Acceleration ($)(3)	MIP ($)(4)	LTIP ($)(5)	(ESBP) ($)	(EBR ($)(6
H. mergren	4,134,765				3,012,450	30,962,918	11,163,865	8,100,000		1,093
y C. bell	872,475		N/A	N/A						
C. Julian	2,102,073	159,360	N/A	N/A	1,125,705	13,706,263	2,350,000			827
E.	756,783		N/A	N/A						
la J.	1,586,938	159,360	N/A	N/A	795,888	5,289,791	1,600,000			283

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(1) Represents for Messrs. Hammergren, Julian and Ms. Pure, salary continuation pursuant to their respective employment agreements, and for Messrs. Campbell and Owen, amounts payable as severance under the Severance Policy.

(2) For Mr. Julian and Ms. Pure, pursuant to their respective employment agreements, amounts shown represent the monthly remittable rate for post-employment medical coverage under the Company s Executive Medical Plan during the remaining terms of their employment agreements.

(3) Pursuant to Mr. Hammergren s employment agreement, amounts shown represent the value of unvested grants of stock options and RSUs as of March 31, 2007 for which the vesting would be accelerated. Under the terms of the Company s 2005 Stock Plan, Mr. Hammergren would have three years to exercise his vested stock options. Pursuant to Mr. Julian s and Ms. Pure s employment agreements, they are entitled to continued vesting of their stock options and RSU grants during the remaining terms of their respective employment agreement, and amounts shown represent those grants that will vest during this period. The value entered for stock options is the difference between the option exercise price and $58.54, the closing price of the Company s common stock on March 30, 2007 as reported by the NYSE. For more information on the amount of unvested securities held by NEOs, refer to the Outstanding Equity Awards Table above.

(4) For Mr. Hammergren, per his employment agreement, the amount shown represents the FY 2007 MIP as paid plus three years of his FY 2007 MIP at target. For Mr. Julian and Ms. Pure, in accordance with their employment agreements, the amounts shown represent only the FY 2007 MIP as paid.

(5) As an Approved Retiree Mr. Hammergren is eligible for continued participation in the LTIP. For presentation purposes only, the amounts shown represent the actual LTIP award payout for FY 2005-FY 2007, as reported in the Summary Compensation Table above, as well as a prorated (66.7%) portion of the target award for the FY 2006 - FY 2008 LTIP performance period.

(6) For Mr. Hammergren, amount shown represents the incremental amount for additional service credited under the EBRP pursuant to his employment agreement, and for Mr. Julian and Ms. Pure, represents the incremental amounts for their additional service for the remaining terms of their respective employment agreements

Incremental Benefits and Payments Upon Involuntary Termination In Conjunction With a Change-in-Control

The table below reflects the incremental compensation and benefits had the Company s NEOs been involuntary terminated in conjunction with a change-in-control, as described above:

Gross-up ($)(1)	Severance ($)(1)	Executive Medical ($)(2)	Office and Secretary ($)(3)	Financial Counseling ($)(2)	Value of Option Acceleration ($)(3)	Value of Stock Acceleration ($)(3)	MIP ($)(1)(4)	LTIP ($)(5)	Cash Death Benefits (ESBP) ($)
27,666,542	38,452,659						(5,581,933)	2,700,000	
3,411,588	2,840,108	191,232	N/A	N/A	2,880,260	5,513,180	1,550,000	2,600,000	

	3,416,956	31,872	N/A	N/A	375,235			4,525,000
2,566,489	2,126,175	191,232	N/A	N/A	443,940	3,952,094	1,200,000	1,200,000
2,392,359	2,164,840	31,872	N/A	N/A	145,337			1,450,000

(1) Pursuant to his employment agreement, Mr. Hammergren is entitled to a severance benefit in lieu of salary and MIP continuation, and the amount shown represents the incremental amount over and above what he would receive in salary continuation as reflected in the above provided involuntary termination, not for cause, table. These amounts assume there is no delay in making payments to comply with Code Section 409A. For the other NEOs, amounts shown represent 2.99 times base salary and the greater of their target MIP, and the average actual MIP payments over the last three fiscal years pursuant to the CIC Policy and/or their employment agreement, as applicable. These amounts are incremental to the amounts received under the Severance Policy, or

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pursuant to employment agreements in the event of an involuntary termination, not for cause. These amounts are also subject to a gross-up for tax purposes.

(2) Amounts shown for Messrs. Campbell and Owen represent the monthly remittable rate for post-employment medical coverage under the Company s Executive Medical Plan for three years pursuant to that plan, and for Mr. Julian and Ms. Pure, incremental amounts in addition to those reflected above in the event of an involuntary termination, not for cause.

(3) Messrs. Campbell, Julian, Owen and Ms. Pure are entitled to accelerated vesting of outstanding stock options, restricted stock and RSUs pursuant to the 2005 Stock Plan. For Mr. Julian and Ms. Pure, the table reflects the vesting of stock options not otherwise vested due to involuntary termination, not for cause, grants would continue to vest for an additional six months in the event of a change-in-control. The value entered for stock options is the difference between the option exercise price and $58.54, the closing price of the Company s common stock on March 30, 2007 as reported by the NYSE.

(4) For Mr. Hammergren, the amount shown represents a reduction in the amount payable in the event of an involuntary termination, not for cause, above, since the amount shown under Severance in this table, as described in footnote (1), is in lieu of a MIP payment as well as salary. Mr. Campbell and Mr. Owen are eligible for MIP payments at target.

(5) The LTIP plan provides for an immediate payment reflecting outstanding target awards and performance, through the last completed fiscal year in the event of a change-in-control. For Mr. Hammergren, this represents the increase over his prorated LTIP payment shown in the event of an involuntary termination, not for cause, and for the other NEOs, amounts represent the LTIP payment at target.

(6) Under the EBRP, in the event of a change-in-control, the NEOs are credited with an additional three years of service.

Certain Relationships and Related Transactions

The Company and its subsidiaries may have transactions in the ordinary course of business with unaffiliated companies of which certain of the Company s non-employee directors are directors and/or executive officers. The Company does not consider the amounts involved in such transactions to be material in relation to the businesses of such other companies or the interests of the directors involved. The Company anticipates that similar transactions may occur in FY 2008. In addition, Mr. Hammergren s brother-in-law is a manager in the Company s Pharmaceutical Solutions segment and received approximately $131,686 in salary and bonus during FY 2007. Such compensation was established by the Company in accordance with its employment and compensation practices applicable to employees with equivalent qualifications and responsibilities and holding similar positions. The Company believes that any such relationships and transactions described herein were on terms that were reasonable and in the best interests of the Company.

Indebtedness of Executive Officers

As of March 31, 2007, Mr. Paul E. Kirincic was indebted to the Company in the amount of $500,000. The loan reflects the balance owed on a secured housing loan provided to Mr. Kirincic prior to the adoption of the Sarbanes-Oxley Act of 2002, which prohibits loans to executive officers. The loan provided to Mr. Kirincic is without interest unless and until he fails to pay any amount under the loans when due and thereafter at a market rate.

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ADDITIONAL CORPORATE GOVERNANCE MATTERS

Section 16(a) Beneficial Ownership Reporting Compliance

Section 16(a) of the Securities Exchange Act of 1934, as amended (the Exchange Act), requires certain persons, including the Company s directors and executive officers, to file reports of ownership and changes in ownership with the SEC. Based on the Company s review of the reporting forms received by it, the Company believes that all such filing requirements were satisfied for FY 2007.

Solicitation of Proxies

The Company is paying the cost of preparing, printing and mailing these proxy materials. We will reimburse banks, brokerage firms and others for their reasonable expenses in forwarding proxy materials to beneficial owners and obtaining their instructions. The Company has engaged Georgeson Shareholder Communications Inc. (Georgeson), a proxy solicitation firm, to assist in the solicitation of proxies. We expect Georgeson s fee to be approximately $10,000 plus out-of-pocket expenses. A few officers and employees of the Company may also participate in the solicitation without additional compensation.

Other Matters

In addition to voting choices specifically marked, and unless otherwise indicated by the stockholder, the proxy card confers discretionary authority on the named proxy holders to vote on any matter that properly comes before the Meeting which is not described in these proxy materials. At the time this proxy statement went to press, the Company knew of no other matters which might be presented for stockholder action at the Meeting.

Compliance with Corporate Governance Listing Standards

The Company submitted an unqualified certification to the NYSE in calendar year 2006 regarding the Company s compliance with the NYSE corporate governance listing standards.

Stockholder Proposals for the 2008 Annual Meeting

To be eligible for inclusion in the Company s 2008 proxy statement pursuant to Rule 14a-8 under the Exchange Act, stockholder proposals must be sent to the Secretary of the Company at the principal executive offices of the Company, One Post Street, San Francisco, CA 94104, and must be received no later than February 14, 2008. In order for stockholder proposals made outside of Rule 14a-8 under the Exchange Act to be considered timely within the meaning of Rule 14a-4(c) under the Exchange Act, such proposals must be sent to the Secretary of the Company at the address set forth above and must be received no later than April 26, 2008. The Company s Advance Notice By-Law provisions require that stockholder proposals made outside of Rule 14a-8 under the Exchange Act must be submitted in accordance with the requirements of the By-Laws, not later than April 26, 2008 and not earlier than March 27, 2008.

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A copy of the full text of the Company s Advance Notice By-Law provisions referred to above may be obtained by writing to the Secretary of the Company.

By Order of the Board of Directors

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

June 13, 2007

A copy of the Company s Annual Report on Form 10-K for the fiscal year ended March 31, 2007, on file with the Securities and Exchange Commission, excluding certain exhibits, may be obtained without charge by writing to Investor Relations, Box K, McKesson Corporation, One Post Street, San Francisco, CA 94104.

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Appendix A

**PROPOSED CERTIFICATE OF AMENDMENT
TO THE RESTATED
CERTIFICATE OF INCORPORATION
OF
McKESSON CORPORATION**

Pursuant to Sections 222 and 242 of
the General Corporation Law of the
State of Delaware

McKesson Corporation (the Corporation), a corporation organized and existing under and by virtue of the General Corporation Law of the State of Delaware, DOES HEREBY CERTIFY:

FIRST: At a meeting of the Board of Directors of the Corporation duly called and held on January 4, 2007, resolutions were duly adopted setting forth a proposed amendment to the Restated Certificate of Incorporation of the Corporation, declaring such amendment to be advisable and directing that such amendment be submitted to the stockholders of the Corporation for approval at its Annual Meeting of Stockholders held on July 25, 2007. Such resolutions recommended that Section A.2 of Article V of the Restated Certificate of Incorporation of the Corporation be amended and restated in its entirety as follows:

2. ***Term.*** Each nominee elected by the stockholders at the 2007 annual meeting of the stockholders to serve as director shall hold office for a term commencing the date of the 2007 annual meeting, or such later date as determined by the Board of Directors, and ending on the next annual meeting of stockholders and until such director s successor is elected and qualified, or until such director s earlier resignation or removal. At each annual meeting of stockholders subsequent to the 2007 annual meeting of stockholders, each nominee elected by the stockholders to serve as director shall hold office for a term commencing on the date of the annual meeting, or such later date as shall be determined by the Board of Directors, and ending on the next annual meeting of stockholders and until such director s successor is elected and qualified, or until such director s earlier resignation or removal. A director may be removed from office, with or without cause, by the holders of a majority of the shares then entitled to vote at an election of directors and, subject to such removal, death, resignation, retirement or disqualification, shall hold office until such director s term expires and until such director s successor shall be elected and qualified. In no case shall a decrease in the number of directors shorten the term of any incumbent director.

SECOND: At the Annual Meeting of Stockholders of the Corporation duly called and held on July 25, 2007, the affirmative vote of a majority of the shares entitled to vote thereon was obtained in favor of such amendment in accordance with Section 242 of the General Corporation Law of the State of Delaware.

THIRD: That the foregoing amendment was duly adopted in accordance with the provisions of Sections 222 and 242 of the General Corporation Law of the State of Delaware.

IN WITNESS WHEREOF, McKesson Corporation has caused this Certificate to be executed in its corporate name this th day of , 2007.

McKESSON CORPORATION

Name: Laureen E. Seeger
Title: Executive Vice President, General Counsel and Corporate Secretary

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Appendix B

MCKESSON CORPORATION
2005 STOCK PLAN

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1. PURPOSE.

This McKesson Corporation 2005 Stock Plan is intended to provide Employees and Directors the opportunity to receive equity-based, long-term incentives so that the Corporation may effectively attract and retain the best available personnel, promote the success of the Corporation by motivating Employees and Directors to superior performance, and align Employee and Director interests with those of the Corporation s stockholders.

2. EFFECTIVE DATE.

This Plan was adopted by the Board on May 25, 2005, to be effective immediately, subject to approval by the Corporation s stockholders. On October 27, 2006, the Plan was retroactively amended and restated effective May 25, 2005.

3. ADMINISTRATION.

(a) Administration with respect to Outside Directors.

With respect to Awards to Outside Directors, the Plan shall be administered by (A) the Board or (B) the Committee on Directors and Corporate Governance of the Board; provided that such committee consists solely of Directors who qualify as non-employee directors for purposes of Rule 16b-3 promulgated under the Exchange Act. Notwithstanding the foregoing, all Awards made to members of the Committee on Directors and Corporate Governance shall be approved by the Board.

(b) Administration with respect to Employees.

With respect to Awards to Employees, the Plan shall be administered by (A) the Board, (B) the Compensation Committee of the Board; provided that such committee consists solely of Directors who qualify as outside directors for purposes of Code section 162(m) and non-employee directors for purposes of Rule 16b-3 promulgated under the Exchange Act, or (C) in limited situations, by an officer or officers of Corporation pursuant to Section 3(c) below.

(c) Delegation of Authority to an Officer of the Corporation.

(i) The Board may delegate to a Director the authority to administer the Plan with respect to Awards made to Employees who are not subject to Section 16 of the Exchange Act.

(ii) The Board may delegate to an officer or officers of the Corporation the authority to administer the Plan with respect to Options granted to Employees who are not subject to Section 16 of the Exchange Act.

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(d) Powers of the Administrator.

The Administrator shall from time to time at its discretion make determinations with respect to Employees and Directors who shall be granted Awards, the number of Shares or Share Equivalents to be subject to each Award, the vesting of Awards, the designation of Options as Incentive Stock Options or Nonstatutory Stock Options and other conditions of Awards to Employees and Directors.

The Administrator shall have the full power and authority, in its sole discretion, to promulgate any rules and regulations which it deems necessary for the proper administration of the Plan, to supervise the administration of the Plan, to make factual determinations relevant to Plan entitlements, to adopt subplans applicable to specified Affiliates or locations and to take all actions in connection with the administration of the Plan as it deems necessary or advisable.

The Administrator shall have, subject to the terms and conditions and within the limitations of Plan, including the limitations of Section 22, the authority to modify, extend or renew outstanding Awards granted to Employees and Directors under the Plan; provided, that the exercise period of an Option or Stock Appreciation Right shall not be modified, extended or renewed beyond the later of (i) the fifteenth day of the third month following the date on which the Option or Stock Appreciation Right otherwise would have expired if the Option or Stock Appreciation Right had not been extended, or (ii) December 31 of the calendar year in which the Option or Stock Appreciation Right otherwise would have expired if the Option or Stock Appreciation Right had not been extended, based on the terms of the Option or Stock Appreciation Right on the date of grant. Notwithstanding the foregoing, however, no modification of an Award shall, without the consent of the Participant, impair any Award previously granted under the Plan.

The interpretation and construction by the Administrator of any provisions of the Plan or of any Award shall be final. No member of a Committee shall be liable for any action or determination made in good faith with respect to the Plan or any Award.

4. ELIGIBILITY.

Subject to the terms and conditions set forth below, Awards may be granted to Employees and Directors. Notwithstanding the foregoing, only employees of the Corporation and its Subsidiaries may be granted Incentive Stock Options.

(a) Ten Percent Stockholders.

An Employee who owns more than 10% of the total combined voting power of all classes of outstanding stock of the Corporation, its parent or any of its Subsidiaries is not eligible to receive an Incentive Stock Option pursuant to this Plan unless the Exercise Price of the Incentive Stock Option is at least 110% of the Fair Market Value of the underlying Shares on the date of the grant and the term of the option does not exceed five years. For purposes of this Section 4(a) the stock ownership of an Employee shall be determined pursuant to Code section 424(d).

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(b) Number of Awards.

A Participant may receive more than one Award, including Awards of the same type, but only on the terms and subject to the restrictions set forth in the Plan. Subject to adjustment as provided in Section 16, the maximum aggregate number of Shares or Share Equivalents that may be subject to Full Value Awards granted to a Participant in any fiscal year of the Corporation is 500,000 Shares or Share Equivalents and the maximum number of Shares or Share Equivalents that may be subject to Options or Stock Appreciation Rights granted to a Participant in any fiscal year of the Corporation is 1,000,000 Shares or Share Equivalents.

5. STOCK.

(a) Share Reserve.

Subject to adjustment as provided in Section 16, the aggregate number of Shares subject to Options, Stock Appreciation Rights, Restricted Stock, Restricted Stock Units, Performance Shares or Other Share-Based Awards issued under this Plan shall not exceed 13,000,000 Shares, which Shares shall be Shares of the Corporation s authorized but unissued or reacquired Common Stock bought on the market or otherwise. If any outstanding Option or Stock Appreciation Right under the Plan for any reason expires or is terminated or any Restricted Stock or Other Share-Based Award is forfeited, then the Shares allocable to the unexercised portion of such Option or Stock Appreciation Right or the forfeited Restricted Stock or Other Share-Based Award may again be available for issuance under the Plan. The following Shares may not again be made available for issuance under the Plan: Shares 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 an Award; or Shares repurchased on the open market with the proceeds of an Exercise Price.

(b) Limitation.

Notwithstanding any other provision of Section 5, for any one Share issued in connection with a Full Value Award or a stock-settled Stock Appreciation Right, that Share and one additional Share shall no longer be available for issuance in connection with future Awards.

6. OPTIONS.

Options granted to Employees and Directors pursuant to the Plan shall be evidenced by written Option Agreements in such form as the Administrator shall determine. Options shall be designated as Incentive Stock Options or Nonstatutory Stock Options and shall be subject to the following terms and conditions:

(a) Number of Shares.

Each Option shall state the number of Shares to which it pertains, which shall be subject to adjustment in accordance with Section 16.

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(b) Exercise Price.

Each Option shall state the Exercise Price, determined by the Administrator, which shall not be less than 100% the Fair Market Value of a Share on the date of grant, except as provided in Section 16.

(c) Method of Payment.

An Option may be exercised, in whole or in part, by giving notice of exercise in the manner prescribed by the Corporation specifying the number of Shares to be purchased. Such notice shall be accompanied by payment in full of the Exercise Price in cash or, if acceptable to the Administrator in its sole discretion (i) in Shares already owned by the Participant (including, without limitation, by attestation to the ownership of such Shares), (ii) by the withholding and surrender of the Shares subject to the Option, or (iii) by delivery (on a form prescribed by the Administrator) of an irrevocable direction to a securities broker approved by the Administrator to sell Shares and to deliver all or part of the sales proceeds to the Corporation in payment of all or part of the purchase price and any withholding taxes. Payment may also be made in any other form approved by the Administrator, consistent with applicable law, regulations and rules.

(d) Term and Exercise of Options.

Each Option shall state the time or times when it may become exercisable. No Option shall be exercisable after the expiration of seven years from the date it is granted.

(e) Limitations on Transferability.

An Option shall, during a Participant s lifetime, be exercisable only by the Participant. No Option or any right granted thereunder shall be transferable by the Participant by operation of law or otherwise, other than by will, the laws of descent and distribution. Notwithstanding the foregoing, (i) a Participant may designate a beneficiary to succeed, after the Participant s death, to all of the Participant s Options outstanding on the date of death; (ii) a Nonstatutory Stock Option or any right granted thereunder may be transferable pursuant to a qualified domestic relations order as defined in the Code or Title I of the Employee Retirement Income Security Act; and (iii) any Participant, who is a senior executive officer recommended by the Chief Executive Officer and approved by the Administrator may voluntarily transfer any Nonstatutory Stock Option to a Family Member as a gift or through a transfer to an entity in which more than 50% of the voting interests are owned by Family Members (or the Participant) in exchange for an interest in that entity. In the event of any attempt by a Participant to alienate, assign, pledge, hypothecate, or otherwise dispose of an Option or of any right thereunder, except as provided herein, or in the event of the levy of any attachment, execution, or similar process upon the rights or interest hereby conferred, the Corporation at its election may terminate the affected Option by notice to the Participant and the Option shall thereupon become null and void.

(f) Termination of Employment.

Each Option Agreement shall set forth the extent to which the Participant shall have the right to exercise the Option following termination of the Participant s employment or service with the Corporation and its Affiliates. Such provisions shall be determined in the sole

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discretion of the Administrator, need not be uniform among all Options issued pursuant to the Plan, and may reflect distinctions based on the reasons for termination of employment. Unless otherwise provided in the Option Agreement, the Administrator may, in its sole discretion, extend the post-termination exercise period with respect to an option (but not beyond the original term of such option).

(g) Rights as a Stockholder.

A Participant or a transferee of a Participant shall have no rights as a stockholder with respect to any Shares covered by his or her Option until the date of issuance of such Shares. Except as provided in Section 16, no adjustment shall be made for dividends, distributions or other rights for which the record date is prior to the date such Shares are issued.

(h) Limitation of Incentive Stock Option Awards.

If and to the extent that the aggregate Fair Market Value (determined as of the date the Option is granted) of the Shares with respect to which any Incentive Stock Options are exercisable for the first time by a Participant during any calendar year under this Plan and all other plans maintained by the Corporation, its parent or its Subsidiaries exceeds $100,000, the Options covering Shares in excess of such amount (taking into account the order in which the Options were granted) shall be treated as Nonstatutory Stock Options.

(i) Other Terms and Conditions.

The Option Agreement may contain such other terms and conditions, including restrictions or conditions on the vesting of the Option or the conditions under which the Option may be forfeited, as may be determined by the Administrator that are consistent with the Plan.

7. STOCK APPRECIATION RIGHTS.

Stock Appreciation Rights granted to Employees pursuant to the Plan may be granted alone, in addition to, or in conjunction with, Options. Stock Appreciation Rights shall be evidenced by written Stock Appreciation Right Agreements in such form as the Administrator shall determine and shall be subject to the following terms and conditions:

(a) Number of Shares.

Each Stock Appreciation Right shall state the number of Shares or Share Equivalents to which it pertains, which shall be subject to adjustment in accordance with Section 16.

(b) Calculation of Appreciation; Exercise Price.

The appreciation distribution payable on the exercise of a Stock Appreciation Right will be equal to the excess of (i) the aggregate Fair Market Value (on the date of exercise of the Stock Appreciation Right) of a number of Shares equal to the number of Shares or Share Equivalents in which the Participant is vested under such Stock Appreciation Right on such date, over (ii) an amount that will be determined by the Administrator on the date of grant of the Stock

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Appreciation Right but that shall not be less than 100% of the Fair Market Value of a Share on the date of grant (the Exercise Price).

(c) Term and Exercise of Stock Appreciation Rights.

Each Stock Appreciation Right shall state the time or times when may become exercisable. No Stock Appreciation Right shall be exercisable after the expiration of seven years from the date it is granted.

(d) Payment.

The appreciation distribution in respect of a Stock Appreciation Right may be paid in Common Stock or in cash, or any combination of the two, or in any other form of consideration as determined by the Administrator and contained in the Stock Appreciation Right Agreement.

(e) Limitations on Transferability.

A Stock Appreciation Right shall, during a Participant s lifetime, be exercisable only by the Participant. No Stock Appreciation Right or any right granted thereunder shall be transferable by the Participant by operation of law or otherwise, other than by will, the laws of descent and distribution. Notwithstanding the foregoing, (i) a Participant may designate a beneficiary to succeed, after the Participant s death, to all of the Participant s Stock Appreciation Rights outstanding on the date of death; (ii) a stand-alone Stock Appreciation Right or a Stock Appreciation Right granted in conjunction with a Nonstatutory Stock Option or any right granted thereunder may be transferable pursuant to a qualified domestic relations order as defined in the Code or Title I of the Employee Retirement Income Security Act; and (iii) any Participant, who is a senior executive officer recommended by the Chief Executive Officer and approved by the Administrator may voluntarily transfer any stand-alone Stock Appreciation Right or a Stock Appreciation Right granted in conjunction with a Nonstatutory Stock Option to a Family Member as a gift or through a transfer to an entity in which more than 50% of the voting interests are owned by Family Members (or the Participant) in exchange for an interest in that entity. In the event of any attempt by a Participant to alienate, assign, pledge, hypothecate, or otherwise dispose of a Stock Appreciation Right or of any right thereunder, except as provided herein, or in the event of the levy of any attachment, execution, or similar process upon the rights or interest hereby conferred, the Corporation at its election may terminate the affected Stock Appreciation Right by notice to the Participant and the Stock Appreciation Right shall thereupon become null and void.

(f) Termination of Employment.

Each Stock Appreciation Right Agreement shall set forth the extent to which the Participant shall have the right to exercise the Stock Appreciation Right following termination of the Participant s employment or service with the Corporation and its Affiliates. Such provisions shall be determined in the sole discretion of the Administrator, need not be uniform among all Stock Appreciation Right Agreements entered into pursuant to the Plan, and may reflect distinctions based on the reasons for termination of employment.

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(g) Rights as a Stockholder.

A Participant or a transferee of a Participant shall have no rights as a stockholder with respect to any Shares covered by his or her Stock Appreciation Right until the date of issuance of such Shares. Except as provided in Section 16, no adjustment shall be made for dividends, distributions or other rights for which the record date is prior to the date such Shares are issued.

(h) Other Terms and Conditions.

The Stock Appreciation Right Agreement may contain such other terms and conditions, including restrictions or conditions on the vesting of the Stock Appreciation Right or the conditions under which the Stock Appreciation Right may be forfeited, as may be determined by the Administrator that are consistent with the Plan.

8. RESTRICTED STOCK.

(a) Grants.

Subject to the provisions of the Plan, the Administrator shall have sole and complete authority to determine the Employees to whom, and the time or times at which, grants of Restricted Stock will be made, the number of shares of Restricted Stock to be awarded, the price (if any) to be paid by the recipient of Restricted Stock, the time or times within which such Awards may be subject to forfeiture, and all other terms and conditions of the Awards. The Administrator may condition the grant of Restricted Stock upon the attainment of specified performance objectives established by the Administrator pursuant to Section 13 or such other factors as the Administrator may determine, in its sole discretion.

The terms of each Restricted Stock Award shall be set forth in a Restricted Stock Agreement between the Corporation and the Participant, which Agreement shall contain such provisions as the Administrator determines to be necessary or appropriate to carry out the intent of the Plan. A book entry shall be made in the records of the Corporation transfer agent for each Participant receiving a Restricted Stock Award, alternatively, such Participant shall be issued a stock certificate in respect of such shares of Restricted Stock. If a certificate is issued, it shall be registered in the name of such Participant, and shall bear an appropriate legend referring to the terms, conditions, and restrictions applicable to such Award. The Administrator shall require that stock certificates evidencing such shares be held by the Corporation until the restrictions lapse and that, as a condition of any Restricted Stock Award, the Participant shall deliver to the Corporation a stock assignment separate from certificate relating to the stock covered by such Award.

(b) Restrictions and Conditions.

The shares of Restricted Stock awarded pursuant to this Section 8 shall be subject to the following restrictions and conditions:

(i) During a period set by the Administrator commencing with the date of such Award (the Restriction Period), the Participant shall not be permitted to sell, transfer, pledge, assign or encumber shares of Restricted Stock, other than pursuant to a qualified

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domestic relations order as defined in the Code or Title I of the Employee Retirement Income Security Act. Within these limits, the Administrator, in its sole discretion, may provide for the lapse of such restrictions in installments and may accelerate or waive such restrictions in whole or in part, based on service, performance, a Change in Control or such other factors or criteria as the Administrator may determine in its sole discretion.

(ii) Except as provided in this paragraph (ii) and paragraph (i) above, the Participant shall have, with respect to the shares of Restricted Stock, all of the rights of a stockholder of the Corporation, including the right to vote the shares and the right to receive any cash dividends. The Administrator, in its sole discretion, as determined at the time of Award, may provide that the payment of cash dividends shall or may be deferred and, if the Administrator so determines, invested in additional shares of Restricted Stock to the extent available under Section 5, or otherwise invested. Stock dividends issued with respect to Restricted Stock shall be treated as additional shares of Restricted Stock that are subject to the same restrictions and other terms and conditions that apply to the shares with respect to which such dividends are issued.

(iii) The Administrator shall specify the conditions under which shares of Restricted Stock may be forfeited and such conditions shall be set forth in the Restricted Stock Agreement.

(iv) If and when the Restriction Period applicable to shares of Restricted Stock expires without a prior forfeiture of the Restricted Stock, an appropriate book entry recording the Participant s interest in unrestricted Shares shall be entered on the records of the Corporation s transfer agent or, if appropriate, certificates for an appropriate number of unrestricted Shares shall be delivered promptly to the Participant, and the certificates for the shares of Restricted Stock shall be canceled.

9. RESTRICTED STOCK UNITS.

(a) Grants.

Subject to the provisions of the Plan, the Administrator shall have sole and complete authority to determine the Employees and Directors to whom, and the time or times at which, grants of Restricted Stock Units will be made, the number of Restricted Stock Units to be awarded, the price (if any) to be paid by the recipient of the Restricted Stock Units, the time or times within which such Restricted Stock Units may be subject to forfeiture, and all other terms and conditions of the Restricted Stock Unit Awards. The Administrator may condition the grant of Restricted Stock Unit Awards upon the attainment of specified performance objectives established by the Administrator pursuant to Section 13 or such other factors as the Administrator may determine, in its sole discretion.

The terms of each Restricted Stock Unit Award shall be set forth in a Restricted Stock Unit Award Agreement between the Corporation and the Participant, which Agreement shall contain such provisions as the Administrator determines to be necessary or appropriate to carry out the intent of the Plan. No book entry shall be made in the records of the Corporation s transfer agent for a Participant receiving a Restricted Stock Unit Award, nor shall such

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Participant be issued a stock certificate in respect of such Restricted Stock Units, and the Participant shall have no right to or interest in shares of Common Stock of the Corporation as a result of the grant of Restricted Stock Units.

(b) Restrictions and Conditions.

The Restricted Stock Units awarded pursuant to this Section 9 shall be subject to the following restrictions and conditions:

(i) At the time of grant of a Restricted Stock Unit Award, the Administrator may impose such restrictions or conditions on the vesting of the Restricted Stock Units, as the Administrator deems appropriate. During such vesting period, the Participant shall not be permitted to sell, transfer, pledge, assign or encumber the Restricted Stock Units, other than pursuant to a qualified domestic relations order as defined in the Code or Title I of the Employee Retirement Income Security Act. Within these limits, the Administrator, in its sole discretion, may provide for the lapse of such restrictions in installments and may accelerate or waive such restrictions in whole or in part, based on service, performance, a Change in Control or such other factors or criteria as the Administrator may determine in its sole discretion.

(ii) Dividend equivalents may be credited in respect of Restricted Stock Units, as the Administrator deems appropriate. Such dividend equivalents may be credited on behalf of the Participant to a deferred cash account (in a manner prescribed by the Administrator and in compliance with Code section 409A) or converted into additional Restricted Stock Units by dividing (1) the aggregate amount or value of the dividends paid with respect to that number of Shares equal to the number of Restricted Stock Units then credited by (2) the Fair Market Value per Share on the payment date for such dividend. The additional Restricted Stock Units credited by reason of such dividend equivalents will be subject to all of the terms and conditions of the underlying Restricted Stock Unit Award to which they relate.

(iii) The Administrator shall specify the conditions under which Restricted Stock Units may be forfeited and such conditions shall be set forth in the Restricted Stock Unit Agreement.

(c) Deferral Election.

Each recipient of a Restricted Stock Unit Award shall be entitled to elect to defer all or a percentage of any Shares he or she may be entitled to receive upon the lapse of any restrictions or vesting period to which the Award is subject. This election shall be made by giving notice in a manner and within the time prescribed by the Administrator and in compliance with Code section 409A.

10. OUTSIDE DIRECTOR AWARDS.

Each Outside Director may be granted a Restricted Stock Unit Award on the date of each annual stockholders meeting for up to 5,000 Share Equivalents, as determined by the Board. Such limitation is subject to adjustment as provided in Section 16. Each Restricted Stock Unit Award shall be fully vested on the date of grant; provided, however, that receipt of any Shares as payment for the Restricted Stock Unit Award shall be delayed until such time as the Outside

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Director s service with the Corporation terminates. Dividend equivalents may be credited in respect of Restricted Stock Units, as the Administrator deems appropriate. Such dividend equivalents may be credited on behalf of the Participant to a deferred cash account (in a manner prescribed by the Administrator and in compliance with Code section 409A) or converted into additional Restricted Stock Units by dividing (1) the aggregate amount or value of the dividends paid with respect to that number of Shares equal to the number of Restricted Stock Units then credited by (2) the Fair Market Value per Share on the payment date for such dividend. The additional Restricted Stock Units credited by reason of such dividend equivalents will be subject to all of the terms and conditions of the underlying Restricted Stock Unit Award to which they relate. Other terms and conditions of the Restricted Stock Unit Awards granted to Outside Directors shall be determined by the Board subject to the provisions of Section 9 and the Plan.

11. PERFORMANCE SHARES.

(a) Grants.

Subject to the provisions of the Plan, the Administrator shall have sole and complete authority to determine the Employees to whom, and the time or times at which, grants of Performance Shares will be made, the number of Performance Shares to be awarded, the price (if any) to be paid by the recipient of the Performance Shares, the time or times within which such Performance Shares may be subject to forfeiture, and all other terms and conditions of the Performance Shares.

The terms of Performance Shares shall be set forth in a Performance Share Agreement between the Corporation and the Participant, which Agreement shall contain such provisions as the Administrator determines to be necessary or appropriate to carry out the intent of the Plan. With respect to a Performance Shares, no book entry shall be made in the records of the Corporation s transfer agent nor shall certificate for shares of Common Stock be issued at the time the grant is made, and the Participant shall have no right to or interest in shares of Common Stock of the Corporation as a result of the grant of Performance Shares.

(b) Restrictions and Conditions.

(i) The Performance Shares awarded pursuant to this Section 11 shall be subject to the following restrictions and conditions: The Administrator may condition the grant of Performance Shares upon the attainment of specified performance objectives established by the Administrator pursuant to Section 13 or such other factors as the Administrator may determine, in its sole discretion or the Administrator may, at the time of grant of a Performance Share Award, set performance objectives in its discretion which, depending on the extent to which they are met, will determine the number of Performance Shares that will be paid out to the Participant. In either case, the time period during which the performance objectives must be met is called the Performance Period. After the applicable Performance Period has ended, the recipient of the Performance Shares will be entitled to receive the number of Performance Shares earned by the Participant over the Performance Period, to be determined as a function of the extent to which the corresponding performance objectives have been achieved, and which shares may be subject to additional vesting. After the grant of Performance Shares, the Administrator,

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in its sole discretion, may reduce or waive any performance objective for such Performance Shares.

12. OTHER SHARE-BASED AWARDS.

(a) Grants.

Other Awards of Shares and other Awards that are valued in whole or in part by reference to, or are otherwise based on, Shares (Other Share-Based Awards), may be granted either alone or in addition to or in conjunction with other Awards under this Plan. Awards under this Section 12 may include (without limitation) the grant of Shares conditioned upon some specified event, the payment of cash based upon the performance of the Common Stock or the grant of securities convertible into Common Stock.

Subject to the provisions of the Plan, the Administrator shall have sole and complete authority to determine the Employees to whom and the time or times at which Other Share-Based Awards shall be made, the number of Shares, Share Equivalents or other securities, if any, to be granted pursuant to Other Share-Based Awards, and all other conditions of the Other Share-Based Awards. The Administrator may condition the grant of an Other Share-Based Award upon the attainment of specified performance goals or such other factors as the Administrator shall determine, in its sole discretion. In granting an Other Share-Based Award, the Administrator may determine that the recipient of an Other Share-Based Award shall be entitled to receive, currently or on a deferred basis, interest or dividends or dividend equivalents with respect to the Shares or other securities covered by the Award, and the Administrator may provide that such amounts (if any) shall be deemed to have been reinvested in additional Shares or otherwise reinvested. The terms of any Other Share-Based Award shall be set forth in an Other Share-Based Award Agreement between the Corporation and the Participant, which Agreement shall contain such provisions as the Administrator determines to be necessary or appropriate to carry out the intent of the Plan.

(b) Terms and Conditions.

In addition to the terms and conditions specified in the Other Share-Based Award Agreement, Other Share-Based Awards shall be subject to the following:

(i) Any Other Share-Based Award may not be sold, assigned, transferred, pledged or otherwise encumbered, other than pursuant to a qualified domestic relations order as defined in the Code or Title I of the Employee Retirement Income Security Act, prior to the date on which the Shares are issued or the Award becomes payable, or, if later, the date on which any applicable restriction, performance or deferral period lapses.

(ii) The Other Share-Based Award Agreement shall contain provisions dealing with the disposition of such Award in the event of termination of the Employee s employment or the Director s service prior to the exercise, realization or payment of such Award, and the Administrator in its sole discretion may provide for payment of the Award in the event of the Participant s termination of employment or service with the Corporation or a Change in Control, with such provisions to take account of the specific nature and purpose of the Award.

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13. PERFORMANCE OBJECTIVES.

The Administrator shall determine the terms and conditions of Awards at the date of grant or thereafter; provided that performance objectives, if any, for each year related to an Award granted to a Covered Employee shall be established by the Administrator not later than the latest date permissible under Section 162(m). To the extent that such Awards are paid to Covered Employees, the performance criteria to be used shall be any of the following, either alone or in any combination, which may be expressed with respect to the Corporation or one or more operating units or groups, as the Compensation Committee of the Board may determine: cash flow; 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 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; net or gross sales; market share; economic value added; cost of capital; change in assets; expense reduction levels; debt reduction; productivity; stock price; customer satisfaction; employee satisfaction; and total shareholder return. In addition, such performance goals may be based upon the attainment of specified levels of the Corporation s performance under one or more of the measures described above relative to the performance of other corporations, may be (but need not be) different from year-to-year, and different performance objectives may be applicable to different Participants.

Performance objectives may be determined on an absolute basis or relative to internal goals or 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. The Administrator shall specify the manner of adjustment of any performance objective to the extent necessary to prevent dilution or enlargement of any Award as a result of extraordinary events or circumstances, as determined by the Administrator, or to exclude the effects of extraordinary, unusual, or non-recurring items; changes in applicable laws, regulations, or accounting principles; currency fluctuations; discontinued operations; non-cash items, such as amortization, depreciation, or reserves; asset impairment; or any recapitalization, restructuring, reorganization, merger, acquisition, divestiture, consolidation, spin-off, split-up, combination, liquidation, dissolution, sale of assets, or other similar corporate transaction.

14. ACCELERATION OF VESTING AND EXERCISABILITY.

The Administrator shall have the power to accelerate the time at which an Award may first be exercised or the time during which an Award or any part thereof will vest, notwithstanding the provisions in the Award stating the time at which it may first be exercised or the time during which it will vest.

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15. CHANGE IN CONTROL.

(a) An Award may be subject to additional acceleration of vesting and exercisability upon or after a Change in Control as may be provided in the applicable agreement and determined by the 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 shall occur.

(b) A Change in Control of the Corporation shall be deemed to have occurred if any of the events set forth in any one of the following paragraphs shall occur:

(i) Any person (as such term is used in sections 13(d) and 14(d) of the Exchange Act), excluding the Corporation or any of its affiliates, a trustee or any fiduciary holding securities under an employee benefit plan of the Corporation or any of its affiliates, an underwriter temporarily holding securities pursuant to an offering of such securities or a Corporation owned, directly or indirectly, by stockholders of the Corporation in substantially the same proportions as their ownership of the Corporation, is or becomes the beneficial owner (as defined in Rule 13d-3 under the Exchange Act), directly or indirectly, of securities of the Corporation representing 30% or more of the combined voting power of the Corporation s then outstanding securities; or

(ii) During any period of not more than two consecutive years, individuals who at the beginning of such period constitute the Board and any new director (other than a director designated by a Person who has entered into an agreement with the Corporation to effect a transaction described in clause (i), (iii) or (iv) of this paragraph) whose election by the Board or nomination for election by the Corporation s stockholders was approved by a vote of at least two-thirds (2/3) of the directors then still in office who either were directors at the beginning of the period or whose election or nomination for election was previously so approved, cease for any reason to constitute a majority thereof; or

(iii) The shareholders of the Corporation approve a merger or consolidation of the Corporation with any other Corporation, other than (A) a merger or consolidation which would result in the voting securities of the Corporation outstanding immediately prior thereto continuing to represent (either by remaining outstanding or by being converted into voting securities of the surviving entity), in combination with the ownership of any trustee or other fiduciary holding securities under an employee benefit plan of the Corporation, at least 50% of the combined voting power of the voting securities of the Corporation or such surviving entity outstanding immediately after such merger or consolidation, or (B) a merger or consolidation effected to implement a recapitalization of the Corporation (or similar transaction) in which no person acquires more than 50% of the combined voting power of the Corporation s then outstanding securities; or

(iv) The shareholders of the Corporation approve a plan of complete liquidation of the Corporation or an agreement for the sale or disposition by the Corporation of all or substantially all of the Corporation s assets.

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Notwithstanding the foregoing, no Change in Control shall be deemed to have occurred if there is consummated any transaction or series of integrated transactions immediately following which the holders of the Stock immediately prior to such transaction or series of transactions continue to have the same proportionate ownership in an entity which owns all or substantially all of the assets of the Corporation immediately prior to such transaction or series of transactions.

16. RECAPITALIZATION.

In the event that the Administrator, in its sole discretion, shall determine that any dividend or other distribution (whether in the form of cash, stock, or other property), recapitalization, stock split, reverse stock split, reorganization, merger, consolidation, spin-off, combination, repurchase, or share exchange, or other similar corporate transaction or event, affects the Common Stock such that an adjustment is appropriate in order to preserve (but not increase) the rights of participants under the Plan, then the Administrator shall make such equitable changes or adjustments as it deems necessary or appropriate to any or all of (i) the number and kind of shares which may thereafter be issued in connection with respect to Awards pursuant to Sections 4(b) and 5, (ii) the number and kind of shares issued in respect of outstanding Awards, and (iii) the Exercise Price relating to any Options or Stock Appreciation Right.

17. TERM OF PLAN.

Awards may be granted pursuant to the Plan until the termination of the Plan on May 24, 2015.

18. SECURITIES LAW REQUIREMENTS AND LIMITATION OF RIGHTS.

(a) Securities Law.

No Shares shall be issued pursuant to the Plan unless and until the Corporation has determined that: (i) it and the Participant have taken all actions required to register the Shares under the Securities Act of 1933 or perfected an exemption from registration; (ii) any applicable listing requirement of any stock exchange on which the Common Stock is listed has been satisfied; and (iii) any other applicable provision of state or federal law has been satisfied.

(b) Employment Rights.

Neither the Plan nor any Award granted under the Plan shall be deemed to give any individual a right to remain employed by the Corporation or an Affiliate or to remain in service as a Director. The Corporation and its Affiliates reserve the right to terminate the employment of any Employee at any time, with or without cause or for no cause, subject only to a written employment contract (if any), and the Board reserves the right to terminate a Director s membership on the Board for cause in accordance with the Corporation s Certificate of Incorporation.

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(c) Stockholders Rights.

Except as otherwise provided in the Plan, a Participant shall have no dividend rights, voting rights or other rights as a stockholder with respect to any Shares covered by his or her Award prior to an appropriate book entry recording the Participant s interest in Shares being entered on the records of the Corporation s transfer agent or, if appropriate, the issuance of a stock certificate for such Shares. No adjustment shall be made for cash dividends or other rights for which the record date is prior to the date when such book entry is made or such certificate is issued.

19. AWARDS IN FOREIGN COUNTRIES.

The Administrator shall have the authority to adopt such modifications, rules, procedures and subplans as may be necessary or desirable to facilitate compliance with the provisions of the laws and procedures of foreign countries in which the Corporation or its Affiliates may operate to assure the viability of the benefits of Awards made to Participants employed in such countries and to meet the intent of the Plan.

20. BENEFICIARY DESIGNATION.

Participants and their Beneficiaries may designate on the prescribed form one or more Beneficiaries to whom distribution shall be made of any Award outstanding at the time of the Participant s or Beneficiary s death. A Participant or Beneficiary may change such designation at any time by filing the prescribed form with the Administrator. If a Beneficiary has not been designated or if no designated Beneficiary survives the Participant, distribution will be made to the Participant s spouse, or if none, the Participant s children in equal shares, or if none, to the residuary beneficiary under the terms of the Participant s or Beneficiary s last will and testament or, in the absence of a last will and testament, to the Participant s or Beneficiary s estate as Beneficiary. Notwithstanding the foregoing, the Administrator may prescribe specific methods or restrictions on beneficiary designations made Participants or Beneficiaries located outside of the United States.

21. AMENDMENT OF THE PLAN.

The Board may suspend or discontinue the Plan at any time. The Compensation Committee of the Board may amend the Plan with respect to any Shares at the time not subject to Awards; provided, however, that only the Board may amend the Plan and submit the Plan to the stockholders of the Corporation for approval with respect to amendments that:

(a) Increase the number of Shares available for issuance under the Plan or increase the number of Shares available for issuance pursuant to Incentive Stock Options under the Plan;

(b) Materially expand the class of persons eligible to receive Awards;

(c) Expand the types of awards available under the Plan;

(d) Materially extend the term of the Plan;

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(e) Materially change the method of determining the Exercise Price or purchase price of an Award;
(f) Delete or limit the requirements of Section 22;
(g) Remove the administration of the Plan from the Administrator; or
(h) Amend this Section 21 to defeat its purpose.

22. NO AUTHORITY TO REPRICE.

Without the consent of the stockholders of the Corporation, except as provided in Section 16, the Administrator shall have no authority to effect either (i) the repricing of any outstanding Options or Stock Appreciation Rights under the Plan or (ii) the cancellation of any outstanding Options or Stock Appreciation Rights under the Plan and the grant in substitution therefor of new Options or Stock Appreciation Rights under the Plan covering the same or different numbers of Shares.

23. USE OF PROCEEDS FROM STOCK.

Proceeds from the sale of Common Stock pursuant to Awards shall constitute general funds of the Corporation.

24. NO OBLIGATION TO EXERCISE OPTION OR STOCK APPRECIATION RIGHT.

The granting of an Option or Stock Appreciation Right shall impose no obligation upon the Participant to exercise such Option or Stock Appreciation Right.

25. APPROVAL OF STOCKHOLDERS.

This Plan and any amendments requiring stockholder approval pursuant to Section 21 shall be subject to approval by affirmative vote of the stockholders. Such vote shall be taken at the first annual meeting of stockholders of the Corporation following the adoption of the Plan or of any such amendments, or any adjournment of such meeting.

26. GOVERNING LAW.

The law of the State of Delaware shall govern all question concerning the construction, validity and interpretation of the Plan, without regard to the state s conflict of laws rules.

27. INTERPRETATION.

The Plan is designed and intended to comply with Rule 16b-3 promulgated under the Exchange Act, Code section 162(m), and Code section 409A and Notice 2005-1 promulgated thereunder, and all provisions hereof shall be construed in a manner to so comply.

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28. WITHHOLDING TAXES.

(a) General.

To the extent required by applicable law, the recipient of any payment or distribution under the Plan shall make arrangements satisfactory to the Corporation for the satisfaction of any required income tax, social insurance, payroll tax or other tax related to withholding obligations that arise by reason of such payment or distribution. The Corporation shall not be required to make such payment or distribution until such obligations are satisfied.

(b) Other Awards.

The Administrator may permit a Participant who exercises an Option or Stock Appreciation Right or who vests in an other Award to satisfy all or part of his or her withholding tax obligations by having the Corporation withhold a portion of the Shares that otherwise would be issued to him or her under such Awards. Such Shares shall be valued at the Fair Market Value on the date when taxes otherwise would be withheld in cash. The payment of withholding taxes by surrendering Shares to the Corporation, if permitted by the Administrator, shall be subject to such restrictions as the Administrator may impose, including any restrictions required by rules of the Securities and Exchange Commission.

29. DEFINITIONS.

(a) Administrator means the Board, either of the Committees appointed to administer the Plan or, if applicable, an officer of the Corporation appointed to administer the Plan in accordance with Section 3(c).

(b) Affiliate means any entity, whether a corporation, partnership, joint venture or other organization that directly, or indirectly through one or more intermediaries, controls, is controlled by, or is under common control with the Corporation.

(c) Award means any award of an Option, Stock Appreciation Right, Restricted Stock, Restricted Stock Units, Performance Shares or an Other Share-Based Award under the Plan.

(d) Beneficiary means a person designated as such by a Participant or a Beneficiary for purposes of the Plan or determined with reference to Section 20.

(e) Board means the Board of Directors of the Corporation.

(f) Code means the Internal Revenue Code of 1986, as amended.

(g) Committee means the Compensation Committee of the Board or the Committee on Directors and Corporate Governance of the Board, or both, as applicable.

(h) Common Stock means the $0.01 par value common stock of the Corporation.

(i) Corporation means McKesson Corporation, a Delaware corporation.

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(j) Covered Employee means the Chief Executive Officer or any Employee whose total compensation for the taxable year is required to be reported to stockholders under the Exchange Act by reason of such Employee being among the four highest compensated officers for the taxable year (other than the chief executive officer).

(k) Director means a member of the Board.

(l) Employee means an individual employed by the Corporation or an Affiliate (within the meaning of Code section 3401 and the regulations thereunder).

(m) Exchange Act means the Securities Exchange Act of 1934, as amended.

(n) Exercise Price means the price per Share at which an Option or Stock Appreciation Right may be exercised.

(o) Fair Market Value of a Share as of a specified date means

(i) if the Common Stock is listed or admitted to trading on any stock exchange, the closing price on the date the Award is granted as reported by such stock exchange (for example, on its official web site, such as www.nyse.com), or

(ii) if the Common Stock is not listed or admitted to trading on a stock exchange, the mean between the lowest reported bid price and highest reported asked price of the Common Stock on the date the Award is granted in the over-the-counter market, as reported by such over-the-counter market (for example, on its official web site, such as www.otcbb.com), or if no official report exists, as reported by any publication of general circulation selected by the Corporation which regularly reports the market price of the Shares in such market.

(p) Family Member means any person identified as an immediate family member in Rule 16(a)-1(e) of the Exchange Act, as such Rule may be amended from time to time. Notwithstanding the foregoing, the Committee may designate any other person(s) or entity(ies) as a family member.

(q) Full Value Award means an Award that does not provide for full payment in cash or property by the Participant.

(r) Incentive Stock Option means an Option described in Code section 422(b).

(s) Nonstatutory Stock Option means an Option not described in Code section 422(b) or 423(b).

(t) Option means an Incentive Stock Option or Nonstatutory Stock Option granted pursuant to Section 6. Option Agreement means the agreement between the Corporation and the Participant which contains the terms and conditions pertaining to the Option.

(u) Other Share-Based Award means an Award granted pursuant to Section 12. Other Share-Based Award Agreement means the agreement between the Corporation and the

recipient of an Other Share-Based Award which contains the terms and conditions pertaining to the Other Share-Based Award.

(v) Outside Director means a Director who is not an Employee.

(w) Participant means an Employee or Director who has received an Award.

(x) Performance Shares means an Award denominated in Share Equivalents granted pursuant to Section 11 that may be earned in whole or in part based upon attainment of performance objectives established by the Administrator pursuant to Section 13. Performance Share Agreement means the agreement between the Corporation and the recipient of the Performance Shares which contains the terms and conditions pertaining to the Performance Shares.

(y) Plan means this McKesson Corporation 2005 Stock Plan.

(z) Restricted Stock means Shares granted pursuant to Section 8. Restricted Stock Agreement means the agreement between the Corporation and the recipient of the Restricted Stock which contains the terms, conditions and restrictions pertaining to the Restricted Stock.

(aa) Restricted Stock Unit means an Award denominated in Share Equivalents granted pursuant to Section 9 in which the Participant has the right to receive a specified number of Shares at or over a specified period of time. Restricted Stock Unit Agreement means the agreement between the Corporation and the recipient of the Restricted Stock Unit Award which contains the terms and conditions pertaining to the Restricted Stock Unit Award.

(bb) Share means one share of Common Stock, adjusted in accordance with Section 16 (if applicable).

(cc) Share Equivalent means a bookkeeping entry representing a right to the equivalent of one Share.

(dd) Stock Appreciation Right means a right, granted pursuant to Section 7, to receive an amount equal to the value of a specified number of Shares which will be payable in Shares or cash as established by the Administrator. Stock Appreciation Right Agreement means the agreement between the Corporation and the recipient of the Stock Appreciation Right which contains the terms and conditions pertaining to the Stock Appreciation Right.

(ee) Subsidiary means any corporation in an unbroken chain of corporations beginning with the Corporation if each of the corporations other than the last corporation in the unbroken chain owns stock possessing 50% or more of the total combined voting power of all classes of stock in one of the other corporations in such chain.

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30. EXECUTION.

This amended and restated 2005 Stock Plan was adopted on October 27, 2006.

McKESSON CORPORATION

By: /s/ Paul E. Kirincic

Paul E. Kirincic
Executive Vice President, Human Resources

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Appendix C

McKESSON CORPORATION
2000 EMPLOYEE STOCK PURCHASE PLAN
Amended and Restated as of November 1, 2004

1. PURPOSE

The McKesson Corporation 2000 Employee Stock Purchase Plan (the Plan) is intended to encourage the employees of McKesson Corporation (the Company) and certain of its subsidiaries to acquire a proprietary interest, or to increase their existing proprietary interest, in the Company. The Board of Directors of the Company (the Board) believes that employee ownership of the Company s stock will serve as an incentive, encouraging employees to continue their employment and to perform diligently their duties as employees. The Plan is intended to qualify as an employee stock purchase plan within the meaning of Section 423 of the Internal Revenue Code of 1986, as amended (the Code).

2. STOCK RESERVED FOR THE PLAN

The Company will reserve 11,100,000 shares of the Company s common stock, $0.01 par value per share (Stock), for purchase by employees under the Plan. The number of shares of Stock reserved for the Plan may further be adjusted as provided in Section 16. The shares of Stock reserved for the Plan may be shares now or hereafter authorized but unissued, shares that have been reacquired by the Company, or shares of treasury stock.

3. ADMINISTRATION

The Plan will be administered by the Compensation Committee of the Board (the Committee), consisting of members of the Board designated by the Board. The Board from time to time may remove members from, or add members to, the Committee. Vacancies on the Committee will be filled by the Board. Subject to the express provisions of the Plan, the Committee will have authority to interpret the Plan, to prescribe rules and regulations for administering the Plan, and to make all other determinations necessary or advisable in administering the Plan. The determinations of the Committee will be final and binding upon all persons, unless otherwise determined by the Board. A majority of the members of the Committee will constitute a quorum, and the Committee may act by vote of a majority of its members at a meeting at which a quorum is present, or without a meeting by a written consent signed by all members of the Committee. To the extent consistent with applicable law, the Committee may delegate its duties hereunder to a sub-committee, whose members need not be members of the Board.

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4. ELIGIBILITY

(a) Eligible Employees. Except as set forth in subsection (b) below, all employees of the Company, and all employees of any parent corporation, as defined in Code Section 424(e) (a Parent) or any subsidiary corporation as defined in Code Section 424(f) (a Subsidiary) of the Company that is designated by the Board as a participating Parent or Subsidiary, will be eligible to participate in the Plan. In addition, the Board may designate as a subsidiary any other entity controlled directly or indirectly by the Company which does not qualify as a subsidiary corporation as defined in Section 424(f) of the Code, and the employees of that subsidiary shall be eligible to participate in the Plan although the Plan will not qualify as an employee stock purchase plan within the meaning of Section 423 of the Code as to those employees. Such employees are referred to herein as Employees. No person who is not an Employee will be eligible to participate in the Plan.

(b) Excluded Employees. The following Employees will not be eligible to participate in the Plan:

(i) any Employee whose customary employment is 20 hours or less per week or for not more than 5 months in any calendar year; and

(ii) any Employee who, immediately after a right to purchase Stock is granted hereunder, would own shares of Stock, or of the stock of a Parent or Subsidiary, possessing 5 percent or more of the total combined voting power or value of all classes of such stock. In determining whether an Employee owns 5 percent of such shares, (A) the attribution of ownership rules of Code Section 424(d) will apply, and (B) an Employee will be deemed to own the shares of stock underlying any outstanding option which he has been granted (whether under the Plan or any other plan or arrangement); and

(iii) any Employee who as of the first day of any Purchase Period has not completed a period of employment of at least 60 days.

5. OFFERING PERIODS

The Plan will be implemented by a series of offerings (each an Offering Period or Purchase Period). An Offering Period shall begin on the first trading day that is on or after November 1, 2004 and shall end on the last trading day that is on or before March 31, 2005. The next Offering Period shall begin on the first trading day that is on or after April 1, 2005 and shall end on the last trading day that is on or before July 31, 2005. Thereafter, an Offering Period shall be three months in duration and shall begin on the first trading day that is on or after August 1, November 1, February 1 and May 1 and shall end on the last trading day of the month that is three months later. The first day of an Offering Period is referred to herein as an Offering Date and the last day of an Offering Period is referred to herein as a Purchase Date.

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6. ELECTION TO PARTICIPATE

(a) Initial Election. Each Employee who is eligible to participate in the Plan may become a participant (a Participant) by making an election, prior to any Offering Date and in accordance with procedures established by the Committee, authorizing specified regular payroll deductions over the next succeeding Purchase Period. Each election will be expressed as a percentage of the Employee s covered compensation (Compensation), which may not exceed 15 percent of the Employee s Compensation for any payroll period or be less than 1 percent of the Employee s Compensation for any payroll period (or such other maximum and minimum percentages as the Committee may determine). An Employee s Compensation is his or her compensation as defined in the McKesson Corporation Profit Sharing Investment Plan. Payroll deductions for a Participant will be made regularly and in equal amounts during the Purchase Period by the Company, and will be credited to a bookkeeping account established by the Company in the name of the Participant (the Cash Account). No interest will be paid on or credited to Cash Accounts. Except as provided in subsections (b) and (c) below, once a Participant is enrolled in the Plan, such Participant shall remain enrolled in the Plan until he or she discontinues participation or is no longer eligible to participate.

(b) Changes in Rate of Payroll Deductions. A Participant may discontinue making payroll deductions in accordance with Section 6(c). With respect to Purchase Periods beginning prior to April 1, 2005, a Participant may increase or decrease the amount of payroll deductions elected for a Purchase Period in accordance with procedures established by the Committee. With respect to Purchase Periods that begin on or after April 1, 2005, a Participant may not increase or decrease the amount of payroll deductions elected for a Purchase Period.

(c) Discontinuance of Contributions. Pursuant to procedures established by the Committee, a Participant may discontinue participation in the Plan for the current Purchase Period by providing notice to the Corporation. Upon such discontinuance, at the Participant s election, the balance of his Cash Account will be (i) returned to the Participant as soon as practicable, or (ii) held in the Cash Account until the end of the Purchase Period and applied to purchase Stock in accordance with Section 10. A Participant who discontinues payroll deductions may recommence his or her participation in the Plan as of the next Offering Date, provided he or she otherwise is eligible to participate and timely elects to participate in accordance with procedures established by the Committee.

7. INSUFFICIENT SHARES OF STOCK

If at any time the number of shares of Stock available for purchase under the Plan is insufficient to grant to each Participant the right to purchase the full number of shares to which he otherwise would be entitled, then each Participant will have the right to purchase that number of available shares of Stock that is equal to the total number of available shares of Stock multiplied by a fraction, the numerator of which is the amount of Compensation credited to the Participant s Cash Account for the Purchase Period, and

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the denominator of which is the total amount of Compensation credited to the Cash Accounts of all Participants for the Purchase Period.

8. ANNUAL LIMITATION ON RIGHTS TO PURCHASE STOCK

No right to purchase shares of Stock under the Plan will be granted to an Employee if such right, when combined with all other rights and options granted under all of the Code Section 423 employee stock purchase plans of the Company or any Parent or Subsidiary would permit the Employee to purchase shares of Stock with a Fair Market Value (determined at the time the right or option is granted) in excess of $25,000 for each calendar year in which the right or option is outstanding at any time, determined in accordance with Code Section 423(b)(8).

9. PURCHASE PRICE

(a) In General. For purchases that occur on or before March 31, 2005, the purchase price of each share of Stock on the Purchase Date will be the lesser of (i) 85 percent of the Fair Market Value of the Stock on the Offering Date, or (ii) 85 percent of the Fair Market Value of the Stock on the Purchase Date. For purchases that occur after March 31, 2005, the purchase price of each share of Stock on the Purchase Date will be 85 percent of the Fair Market Value of the Stock on the Purchase Date.

(b) Fair Market Value. The Fair Market Value of the Stock, as of any date, shall be the composite closing price of the Stock on such day on the New York Stock Exchange as reported by such stock exchange (for example, on its official website www.nyse.com). If no transaction is reported for a particular date, the Fair Market Value will be the closing price on the closest preceding date for which any transaction is reported. If the Stock is not traded on the NYSE, the Fair Market Value will be determined using a method established by the Committee.

10. PURCHASE OF STOCK

(a) Funds in Cash Account Used to Purchase Whole Shares of Stock. Subject to the share limitations set forth in Sections 7 and 8 above, as of each Purchase Date, the Committee will purchase from the Company using the funds in each Cash Account on such date, on behalf of each Participant having funds in his Cash Account, the number of whole shares of Stock determined by dividing the amount in such Cash Account on such date by the purchase price determined under Section 9.

(b) Fractional Shares. Fractional shares will be issued under the Plan.

(c) Return of Excess Contributions. Any additional amounts remaining in a Participant s Cash Account following the purchase of shares of Stock on any Purchase Date because of the application of one of the limitations set forth in Section 7 or 8 above shall be returned to the Participant immediately following the Purchase Date.

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11. STOCK ACCOUNTS

(a) Establishment of Accounts. As soon as reasonably practicable after each Purchase Date, the Company will deliver to a custodian selected by the Committee (the Custodian), in electronic form, the total number of shares purchased by all Participants in the Purchase Period. The Custodian will maintain a separate Stock Account for each Participant, which will be credited with the number of shares of Stock purchased by the Participant under the Plan.

(b) Withdrawals from Stock Accounts. A Participant may at any time withdraw any shares of Stock credited to his Stock Account. As soon as practicable after such request by a Participant, the Custodian will cause such shares to be transferred in electronic form to a broker designated by the Participant or will cause a certificate representing such shares to be delivered to the Participant.

(c) Rights as Shareholders. A Participant will have all of the rights of a stockholder of the Company with respect to all of the shares of Stock credited to his Stock Account, including the right to vote and receive dividends on such Shares.

12. TERMINATION OF EMPLOYMENT

(a) Termination Other Than Due to Death. If a Participant terminates employment with the Company or any Parent or Subsidiary during a Purchase Period for any reason other than death, then the Participant s participation in the Plan will immediately terminate and the balance of the Participant s Cash Account will be returned to the Participant as soon as reasonably practicable. For purposes of the Plan, a Participant who is on an approved leave of absence will not be considered to have terminated employment until the 91st day of such leave of absence or such longer period as the Participant s right to re-employment is guaranteed by law or contract.

(b) Termination Due to Death. If a Participant terminates employment with the Company or any Parent or Subsidiary during a Purchase Period due to death, then, at the election of the Participant s beneficiary, the balance of the Participant s Cash Account will be (i) delivered to the beneficiary in cash or (ii) held in the Cash Account until the end of the Purchase Period and applied to purchase Stock in accordance with Section 10.

13. DESIGNATION OF BENEFICIARY

In accordance with procedures established by the Committee, a Participant s beneficiary under the Plan shall be his or her surviving spouse, or if there is none, his or her surviving children in equal shares, or if there are none, his or her estate.

14. COMPLIANCE WITH SECURITIES LAW

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All shares of Stock issued under the Plan will be subject to such restrictions as the Committee may deem advisable under any applicable federal or state securities laws, and the Committee may cause a legend or legends making reference to such restrictions to be placed on the certificates representing such shares.

15. RIGHTS NOT TRANSFERABLE

Neither payroll deductions credited to a Participant s Cash Account nor any rights under the Plan may be assigned, transferred, pledged or otherwise disposed of in any way by the Participant (other than by will or the laws of descent and distribution or as provided in Section 13 hereof). Rights under the Plan are exercisable during the lifetime of the Participant only by the Participant.

16. ADJUSTMENT IN CASE OF CHANGES AFFECTING THE COMPANY S STOCK

In the event of a subdivision or consolidation of outstanding shares of Stock, the payment of a stock dividend thereon, stock split, reverse stock split, or in the event of any corporate transaction as defined in Proposed Treasury Regulation Section 1.424-1(a)(3) the number of shares reserved or authorized to be reserved under the Plan, the number and price of such shares subject to purchase pursuant to rights outstanding hereunder, the maximum number of shares each Participant may purchase during each Purchase Period (pursuant to Section 7) or during each calendar year (pursuant to Section 8), and the number of shares credited to Participants Stock Accounts, will be adjusted in such manner as may be deemed necessary or equitable by the Board to give proper effect to such event, subject to the limitations of Code Section 424.

17. FOREIGN EMPLOYEES

The Committee may provide for such special terms for Participants who are foreign nationals, or who are employed by the Company or a Parent or Subsidiary outside of the United States of America, as the Committee may consider necessary or appropriate to accommodate differences in local law, tax policy or custom. Moreover, the Committee may approve such supplements to or amendments, restatements, or alternative versions of, this Plan as it may consider necessary or appropriate for such purposes without thereby affecting the terms of this Plan as in effect for any other purpose; provided, however, that no such supplements, amendments, restatements or alternative versions will include any provisions that are inconsistent with the terms of this Plan, as then in effect, unless this Plan could have been amended to eliminate such inconsistency without further approval by the shareholders of the Company, or which would cause the Plan to fail to meet the requirements of Section 423 of the Code.

18. AMENDMENT OF THE PLAN

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The Board may amend the Plan in any respect; provided, however, that, any amendment (i) increasing the number of shares of Stock reserved under the Plan (other than as provided in Section 16), or (ii) any change in the designation of corporations whose employees may be eligible to participate in the Plan, other than a corporation who is a Parent or a Subsidiary, must be approved, within 12 months of the adoption of such an amendment, by the holders of a majority of the voting power of the outstanding shares of Stock.

19. TERMINATION OF THE PLAN

The Plan and all rights of Employees hereunder will terminate:

(a) as of the Purchase Date on which Participants purchase a number of shares of Stock that substantially exhausts the number of shares available for issuance under the Plan, to such an extent that the Committee determines that no subsequent offerings are practicable; or

(b) at any time upon action of the Board; provided, however, that if the Plan is terminated during any Purchase Period, any amounts in a Participant s Cash Account will be returned to the Participant.

20. EFFECTIVE DATE

This Amendment and Restatement will become effective as of November 1, 2004. For Offering Periods prior to November 1, 2004, the terms of the Plan as in effect from time to time are applicable.

21. GOVERNMENT AND OTHER REGULATIONS

(a) In General. The Plan, and the grant and exercise of the rights to purchase shares of Stock hereunder, and the Company s obligation to sell and deliver shares of Stock, will be subject to all applicable federal, state and foreign laws, rules and regulations, and to such approvals by any regulatory or government agency as may, in the opinion of counsel for the Company, be required.

(b) Withholding Obligations. Each Participant will, no later than the date as of which the value of any purchase right granted under the Plan first becomes eligible to be included in the gross income of the Participant for federal income tax purposes, pay to the Company, or make arrangements satisfactory to the Company, regarding payment of any federal, state, or local taxes of any kind required by law to be withheld with respect to such purchase right. The obligations of the Company under the Plan will be conditional on the making of such payments or arrangements and the Company will, to the extent permitted by law, have the right to deduct any such taxes from any payment of any kind otherwise due to the Participant.

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22. INDEMNIFICATION OF COMMITTEE

In addition to such other rights of indemnification as they have as directors or as members of the Committee, the members of the Committee will be indemnified by the Company against reasonable expenses (including, without limitation, attorneys fees) actually and necessarily incurred in connection with the defense of any action, suit or proceeding, or in connection with any appeal, to which they or any of them may be a party by reason of any action taken or failure to act under or in connection with the Plan or any right granted hereunder, and against all amounts paid by them in settlement thereof (provided such settlement is approved to the extent required by and in the manner provided by the Bylaws of the Company relating to indemnification of directors) or paid by them in satisfaction of a judgment in any such action, suit or proceeding, except in relation to matters as to which it will be adjudged in such action, suit or proceeding that such Committee member did not act in good faith and in a manner he reasonably believed to be in or not opposed to the best interests of the Company.

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YOUR VOTE IS IMPORTANT
VOTE BY INTERNET / TELEPHONE
24 HOURS A DAY, 7 DAYS A WEEK

INTERNET

https://www.proxypush.com/mck

Go to the website address listed above.

Have your proxy card ready.

Follow the simple instructions that appear on your computer screen.

OR

TELEPHONE
1-866-648-8046

Use any touch-tone telephone.

Have your proxy card ready.

Follow the simple recorded instructions.

OR

MAIL

Mark, sign and date your proxy card.

Detach your proxy card.

Return your proxy card in the postage-paid envelope provided.

Please cast your vote by telephone or via the Internet as instructed above, or complete, date, sign and mail this proxy card promptly in the enclosed business reply envelope.You can vote by phone or via the Internet anytime prior to July 25, 2007. If you do so, you do not need to mail in your proxy card.

ON-LINE DELIVERY OF PROXY MATERIAL

If you vote using the Internet, you may elect to receive proxy materials electronically next year in place of receiving printed materials. You will save the Company printing and mailing expenses, reduce the impact on the environment and obtain immediate access to the annual report, proxy statement and voting form when they become available. If you used a different method to vote, sign up anytime for electronic delivery using your Stockholder Account Number at the Internet website: *www.proxyconsent.com/mck*.

1-866-648-8046
CALL TOLL-FREE TO VOTE
6 **DETACH PROXY CARD HERE IF YOU ARE NOT VOTING BY TELEPHONE OR INTERNET** 6

Please Sign, Date and Return the Proxy Card Promptly Using the Enclosed Envelope.	**x Votes must be indicated (x) in Black or Blue ink.**

THE BOARD OF DIRECTORS RECOMMENDS A VOTE FOR EACH NOMINEE NAMED IN ITEM 1, AND FOR EACH OF ITEMS 2, 3, 4 AND 5.

1. Election of Directors nominees for election to the Company s Board of Directors for a one-year term, unless Item 2 does not pass, in which case the term will be for three years:

	FOR	AGAINST	ABSTAIN
John H. Hammergren	o	o	o
M. Christine Jacobs	o	o	o

	FOR	AGAINST	ABSTAIN
2. Approve amendments to the Company s Restated Certificate of Incorporation to declassify the Board of Directors.	o	o	o
3. Approve an amendment to the Company s 2005 Stock Plan to increase the number of shares of common stock reserved for issuance under the plan by 15,000,000.	o	o	o
4. Approve an amendment to the Company s 2000 Employee Stock Purchase Plan to increase the number of shares of common stock reserved for issuance under the plan by 5,000,000.	o	o	o
5. Ratify the appointment of Deloitte & Touche LLP as the Company s independent registered public accounting firm for the fiscal year ending March 31, 2008.	o	o	o

Please mark this box if you plan to attend the Annual Meeting. o

To change your address, please mark this box. o

To include any comments, please mark this box. o

S C A N L I N E

Note: Please sign exactly as name appears hereon. Joint owners should each sign. When signing as attorney, executor, administrator, trustee or guardian, please give title as such.

Date Share Owner sign here Co-Owner sign here

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ANNUAL MEETING OF STOCKHOLDERS
OF
McKESSON CORPORATION
8:30 A.M.
Wednesday, July 25, 2007
A.P. Giannini Auditorium
555 California Street
San Francisco, CA 94104
Please present this ADMISSION TICKET at the Annual Meeting of Stockholders as verification of your McKesson Corporation share ownership.

McKESSON CORPORATION
Proxy for Annual Meeting
8:30 A.M., July 25, 2007
Solicited on Behalf of the Board of Directors of the Corporation

The undersigned, whose signature appears on the reverse side, hereby constitutes and appoints John H. Hammergren, Laureen E. Seeger and Willie C. Bogan, and each of them, with full power of substitution, proxies to vote all stock of McKesson Corporation which the undersigned is entitled to vote at the Annual Meeting of Stockholders to be held at the A.P. Giannini Auditorium, 555 California Street, San Francisco, California on July 25, 2007 at 8:30 A.M. and any adjournment or postponement thereof, as specified upon the matters indicated on the reverse side, and in their discretion upon any other matter that may properly come before said meeting.

Your shares will not be voted unless you (1) vote by telephone, as instructed on the reverse side, (2) vote via the Internet, as instructed on the reverse side, or (3) sign and return this card.

This proxy, when properly executed, will be voted as directed, but if no direction is given, this proxy will be voted FOR each of items 1, 2, 3, 4 and 5.

Continued on the reverse side.

McKESSON CORPORATION
P.O. BOX 11291
NEW YORK, NY 10203-0291

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YOUR VOTE IS IMPORTANT
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Have your proxy card ready.

Follow the simple recorded instructions.

OR

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Detach your proxy card.

Return your proxy card in the postage-paid envelope provided.

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1-866-648-8046
CALL TOLL-FREE TO VOTE
ê DETACH PROXY CARD HERE IF YOU ARE NOT VOTING BY TELEPHONE OR INTERNET ê

Please Sign, Date and Return the Proxy Card Promptly Using the Enclosed Envelope.	**x Votes must be indicated (x) in Black or Blue ink.**

THE BOARD OF DIRECTORS RECOMMENDS A VOTE FOR EACH NOMINEE NAMED IN ITEM 1, AND FOR EACH OF ITEMS 2, 3, 4 AND 5.

1. Election of Directors nominees for election to the Company s Board of Directors for a one-year term, unless Item 2 does not pass, in which case the term will be for three years:

	FOR	AGAINST	ABSTAIN
John H. Hammergren	o	o	o
M. Christine Jacobs	o	o	o

	FOR	AGAINST	ABSTAIN
2. Approve amendments to the Company s Restated Certificate of Incorporation to declassify the Board of Directors.	o	o	o
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4. Approve an amendment to the Company s 2000 Employee Stock Purchase Plan to increase the number of shares of common stock reserved for issuance under the plan by 5,000,000.	o	o	o
5. Ratify the appointment of Deloitte & Touche LLP as the Company s independent registered public accounting firm for the fiscal year ending March 31, 2008.	o	o	o

Please mark this box if you plan to attend the Annual Meeting. o

To change your address, please mark this box. o

To include any comments, please mark this box. o

S C A N L I N E

Note: Please sign exactly as name appears hereon. Joint owners should each sign. When signing as attorney, executor, administrator, trustee or guardian, please give title as such.

Date Share Owner sign here Co-Owner sign here

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ANNUAL MEETING OF STOCKHOLDERS
OF
McKESSON CORPORATION
8:30 A.M.
Wednesday, July 25, 2007
A. P. Giannini Auditorium
555 California Street
San Francisco, CA 94104
Please present this ADMISSION TICKET at the Annual Meeting of Stockholders as verification of your McKesson Corporation share ownership.

McKESSON CORPORATION
PSIP Voting Card
Directions To Trustee, McKesson Corporation Profit-Sharing Investment Plan

To: Fidelity Management Trust Company

I direct you, as Trustee of the McKesson Corporation Profit-Sharing Investment Plan, to vote (in person or by proxy), as I have specified on the reverse side all shares of McKesson Corporation common stock allocated to my accounts under the plan, at the Annual Meeting of Stockholders of McKesson Corporation to be held on July 25, 2007. You may vote according to your discretion (or that of your proxy holder) on any other matter that may properly come before the meeting.

Your shares will not be voted unless you (1) vote by telephone, as instructed on the reverse side, (2) vote via the Internet, as instructed on the reverse side, or (3) sign and return this card.

This proxy, when properly executed, will be voted as directed, but if no direction is given, this proxy will be voted FOR each of items 1, 2, 3, 4 and 5.

Continued on the reverse side.

McKESSON CORPORATION
P.O. BOX 11181
NEW YORK, NY 10203-0181