CONNS INC
Form 10-Q/A
July 07, 2010

Table of Contents

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

FORM 10-Q/A
(AMENDMENT NO. 2)
QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended April 30, 2010 **Commission File Number 000-50421**

CONN S, INC.
(Exact name of registrant as specified in its charter)

A Delaware Corporation	**06-1672840**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number)

3295 College Street
Beaumont, Texas 77701
(409) 832-1696
(Address, including zip code, and telephone number, including area code, of registrant s principal executive offices)

NONE
(Former name, former address and former fiscal year, if changed since last report)

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

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

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

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

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

Indicate the number of shares outstanding of each of the issuer s classes of common stock, as of May 24, 2010:

Class	Outstanding
Common stock, $.01 par value per share	22,480,848

Table of Contents

EXPLANATORY NOTE

We are filing this amendment to our Quarterly Report on Form 10-Q for the fiscal quarter ended April 30, 2010, to include information about our retail and credit segments and provide updated risk factors. As a result of our adoption of new accounting principles that resulted in the consolidation of our finance subsidiary and the changes in the financial markets and availability of capital, we have expanded the operational reporting now being used by management to provide more detailed operating performance information for our retail and credit operations, including modification of the financial information reported to the chief decision maker and the board of directors. As such, we are including segment information in the footnotes to the financial statements and Management s Discussion and Analysis.

This amendment to the original Form 10-Q amends and restates only the information stated above. We have not updated any disclosures in this amendment to speak as of a later date than the original filing. All information contained in this amendment and the original Form 10-Q is subject to updating and supplementing as provided in the periodic reports filed subsequent to the original filing date with the Securities and Exchange Commission.

TABLE OF CONTENTS

		Page No.
PART I.	**FINANCIAL INFORMATION**	
Item 1.	Financial Statements	1
	Consolidated Balance Sheets as of January 31, 2010 and April 30, 2010	1
	Consolidated Statements of Operations for the three months ended April 30, 2009 and 2010	2
	Consolidated Statement of Stockholders Equity for the three months ended April 30, 2010	3
	Consolidated Statements of Cash Flows for the three months ended April 30, 2009 and 2010	4
	Notes to Consolidated Financial Statements	5
Item 2.	Management s Discussion and Analysis of Financial Condition and Results of Operations	14
Item 3.	Quantitative and Qualitative Disclosures About Market Risk	36
Item 4.	Controls and Procedures	36
PART II.	**OTHER INFORMATION**	
Item 1.	Legal Proceedings	37
Item 1A.	Risk Factors	37
Item 2.	Unregistered Sales of Equity Securities and Use of Proceeds	50
Item 4.	Submission of Matters to a Vote of Security Holders	50
Item 5.	Other Information	51
Item 6.	Exhibits	51
SIGNATURE		52

EX-12.1
EX-31.1
EX-31.2
EX-32.1
EX-99.1
EX-99.2
EX-99.3
EX-99.4
EX-99.5
EX-99.6

Table of Contents

Part I. FINANCIAL INFORMATION
Item 1. Financial Statements

Conn s, Inc.
CONSOLIDATED BALANCE SHEETS
(in thousands, except share data)

	January 31, 2010 (As adjusted see Note 1)	April 30, 2010 (unaudited)
Assets		
Cash and cash equivalents (includes balances of VIE of $104 and $107, respectively)	$ 12,247	$ 5,708
Other accounts receivable, net of allowance of $50 and $52, respectively	23,254	30,291
Customer accounts receivable, net of allowance of $19,204 and $18,087 respectively (includes balances of VIE of $279,948 and $262,403, respectively)	368,304	353,551
Inventories	63,499	88,901
Deferred income taxes	15,237	14,826
Federal income taxes recoverable	8,148	
Prepaid expenses and other assets	8,050	6,628
Total current assets	498,739	499,905
Long-term portion of customer accounts receivable, net of allowance of $16,598 and $15,454, respectively (includes balances of VIE of $241,971 and $224,193, respectively)	318,341	302,070
Property and equipment		
Land	7,682	7,490
Buildings	10,480	10,378
Equipment and fixtures	23,797	23,826
Transportation equipment	1,795	1,684
Leasehold improvements	91,299	91,320
Subtotal	135,053	134,698
Less accumulated depreciation	(75,350)	(78,335)
Total property and equipment, net	59,703	56,363
Non-current deferred income tax asset	5,485	6,404
Other assets, net (includes balances of VIE of $7,106 and $7,886, respectively)	10,198	12,287
Total assets	$ 892,466	$ 877,029
Liabilities and Stockholders Equity		
Current liabilities		
Current portion of long-term debt (includes balances of VIE of $63,900 and $100,000, respectively)	$ 64,055	$ 100,162
Accounts payable	39,944	55,238
Accrued compensation and related expenses	5,697	5,049
Accrued expenses	31,685	24,181
Income taxes payable	2,640	7,941

Deferred revenues and allowances	14,596	13,353
Total current liabilities	158,617	205,924
Long-term debt (includes balances of VIE of $282,500 and $220,000, respectively)	388,249	319,611
Other long-term liabilities	5,195	4,995
Fair value of interest rate swaps	337	251
Deferred gains on sales of property	905	874
Stockholders equity		
Preferred stock ($0.01 par value, 1,000,000 shares authorized; none issued or outstanding)		
Common stock ($0.01 par value, 40,000,000 shares authorized; 24,194,555 and 24,204,053 shares issued at January 31, 2010 and April 30, 2010, respectively)	242	242
Additional paid-in capital	106,226	106,835
Accumulated other comprehensive loss	(218)	(163)
Retained earnings	269,984	275,531
Treasury stock, at cost, 1,723,205 shares	(37,071)	(37,071)
Total stockholders equity	339,163	345,374
Total liabilities and stockholders equity	$ 892,466	$ 877,029

See notes to consolidated financial statements.

1

Table of Contents

Conn s, Inc.
CONSOLIDATED STATEMENTS OF OPERATIONS
(unaudited)
(in thousands, except earnings per share)

	Three Months Ended April 30,	
	2009	**2010**
	(As adjusted see Note 1)	
Revenues		
Product sales	$ 184,817	$ 150,365
Repair service agreement commissions, net	9,790	7,917
Service revenues	5,544	4,757
Total net sales	200,151	163,039
Finance charges and other	39,700	34,480
Total revenues	**239,851**	**197,519**
Cost and expenses		
Cost of goods sold, including warehousing and occupancy costs	145,870	114,157
Cost of parts sold, including warehousing and occupancy costs	2,587	2,372
Selling, general and administrative expense	62,738	60,743
Provision for bad debts	5,644	6,274
Total cost and expenses	**216,839**	**183,546**
Operating income	**23,012**	**13,973**
Interest expense, net	5,004	4,785
Other (income) expense, net	(8)	171
Income before income taxes	**18,016**	**9,017**
Provision for income taxes	**6,660**	**3,470**
Net income	**$ 11,356**	**$ 5,547**
Earnings per share		
Basic	$ 0.51	$ 0.25
Diluted	$ 0.50	$ 0.25
Average common shares outstanding		
Basic	22,447	22,475
Diluted	22,689	22,477

See notes to consolidated financial statements.

Table of Contents

Conn s, Inc.

CONSOLIDATED STATEMENT OF STOCKHOLDERS EQUITY

Three Months Ended April 30, 2010

(unaudited)

(in thousands, except descriptive shares)

	Common Stock Shares	Common Stock Amount	Additional Paid-in Capital	Other Compre-hensive Loss	Retained Earnings	Treasury Stock	Total
Balance January 31, 2010 (As adjusted, see Note 1)	24,194	$ 242	$ 106,226	$ (218)	$ 269,984	$ (37,071)	$ 339,163
Issuance of shares of common stock under Employee Stock Purchase Plan	10		48				48
Stock-based compensation			561				561
Net income					5,547		5,547
Adjustment of fair value of interest rate swaps net of tax of $31				55			55
Other comprehensive income				55			55
Total comprehensive income							5,602
Balance April 30, 2010	24,204	$ 242	$ 106,835	$ (163)	$ 275,531	$ (37,071)	$ 345,374

See notes to consolidated financial statements.

3

Table of Contents

Conn s, Inc.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(unaudited) (in thousands)

	Three Months Ended April 30,	
	2009 (As adjusted see Note 1)	**2010**
Cash flows from operating activities		
Net income	$ 11,356	$ 5,547
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	3,291	3,352
Amortization, net	110	766
Provision for bad debts	5,644	6,274
Stock-based compensation	630	561
Discounts and accretion on promotional credit	(804)	(766)
Provision for deferred income taxes	(946)	(192)
(Gains) losses on sales of property and equipment	(8)	171
Changes in operating assets and liabilities:		
Customer accounts receivable	12,731	25,521
Other accounts receivable	13,812	(7,037)
Inventory	4,992	(25,402)
Prepaid expenses and other assets	178	1,392
Accounts payable	(1,003)	15,294
Accrued expenses	(4,155)	(8,152)
Income taxes payable	3,309	13,132
Deferred revenue and allowances	(405)	(1,242)
Net cash provided by operating activities	**48,732**	**29,219**
Cash flows from investing activities		
Purchases of property and equipment	(3,800)	(390)
Proceeds from sales of property	19	204
Net cash used in investing activities	**(3,781)**	**(186)**
Cash flows from financing activities		
Proceeds from stock issued under employee benefit plans	59	48
Borrowings under lines of credit	82,933	61,013
Payments on lines of credit	(132,633)	(93,511)
Increase in deferred financing costs	(154)	(3,089)
Payment of promissory notes	(1)	(33)
Net cash used in financing activities	**(49,796)**	**(35,572)**
Net change in cash	**(4,845)**	**(6,539)**

Cash and cash equivalents		
Beginning of the year	11,909	12,247
End of period	**$ 7,064**	**$ 5,708**

See notes to consolidated financial statements.

Table of Contents

Conn s, Inc.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(unaudited)
April 30, 2010

1. Summary of Significant Accounting Policies

Basis of Presentation. The accompanying unaudited, condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States for complete financial statements. The accompanying financial statements reflect all adjustments that are, in the opinion of management, necessary for a fair statement of the results for the interim periods presented. All such adjustments are of a normal recurring nature, except as otherwise described herein. Operating results for the three month period ended April 30, 2010, are not necessarily indicative of the results that may be expected for the fiscal year ending January 31, 2011. The financial statements should be read in conjunction with the Company s (as defined below) audited consolidated financial statements and the notes thereto included in the Company s Current Report on Form 8-K filed on July 7, 2010.

The Company s balance sheet at January 31, 2010, has been derived from the audited financial statements at that date, revised for the retrospective application of the new accounting principles discussed below, but does not include all of the information and footnotes required by accounting principles generally accepted in the United States for a complete financial presentation. Please see the Company s Form 8-K for a complete presentation of the audited financial statements for the fiscal year ended January 31, 2010, together with all required footnotes, and for a complete presentation and explanation of the components and presentations of the financial statements.

Business Activities. The Company, through its retail stores, provides products and services to its customer base in seven primary market areas, including southern Louisiana, southeast Texas, Houston, South Texas, San Antonio/Austin, Dallas/Fort Worth and Oklahoma. Products and services offered through retail sales outlets include home appliances, consumer electronics, home office equipment, lawn and garden products, mattresses, furniture, repair service agreements, installment and revolving credit account programs, and various credit insurance products. These activities are supported through an extensive service, warehouse and distribution system. For the reasons discussed below, the Company has aggregated its results into two operating segments: credit and retail. The Company s retail stores bear the Conn s name, and deliver the same products and services to a common customer group. The Company s customers generally are individuals rather than commercial accounts. All of the retail stores follow the same procedures and methods in managing their operations. The Company s management evaluates performance and allocates resources based on the operating results of its retail and credit segments. With the adoption of the new accounting principles discussed below, which require the consolidation of the Company s variable interest entity engaged in receivables securitizations, it began separately evaluating the performance of its retail and credit operations. As a result, management believes it is appropriate to disclose separate financial information of its retail and credit segments. The separate financial information is disclosed in footnote 6 Segment Reporting .

Adoption of New Accounting Principles. The Company enters into securitization transactions to transfer eligible retail installment and revolving customer receivables and retains servicing responsibilities and subordinated interests. Additionally, the Company transfers the eligible customer receivables to a bankruptcy-remote variable interest entity (VIE). In June 2009, the FASB issued revised authoritative guidance to improve the relevance and comparability of the information that a reporting entity provides in its financial statements about:

a transfer of financial assets;

the effects of a transfer on its financial position, financial performance, and cash flows; and

a transferor s continuing involvement, if any, in transferred financial assets; and,

Improvements in financial reporting by companies involved with variable interest entities to provide more relevant and reliable information to users of financial statements by requiring an enterprise

Table of Contents

to perform an analysis to determine whether the enterprise s variable interest or interests give it a controlling financial interest in a variable interest entity. This analysis identifies the primary beneficiary of a variable interest entity as the enterprise that has both of the following characteristics:

a) The power to direct the activities of a variable interest entity that most significantly impact the entity s economic performance, and

b) The obligation to absorb losses of the entity that could potentially be significant to the variable interest entity or the right to receive benefits from the entity that could potentially be significant to the variable interest entity.

After the effective date, the concept of a qualifying special-purpose entity is no longer relevant for accounting purposes. Therefore, formerly qualifying special-purpose entities (as defined under previous accounting standards) should be evaluated for consolidation by reporting entities on and after the effective date in accordance with the applicable consolidation guidance. If the evaluation on the effective date results in consolidation, the reporting entity should apply the transition guidance provided in the pronouncement that requires consolidation. The new FASB-issued authoritative guidance was effective for the Company beginning February 1, 2010.

The Company determined that it qualifies as the primary beneficiary of its VIE based on the following considerations:

The Company directs the activities that generate the customer receivables that are transferred to the VIE,

The Company directs the servicing activities related to the collection of the customer receivables transferred to the VIE,

The Company absorbs all losses incurred by the VIE to the extent of its residual interest in the customer receivables held by the VIE before any other investors incur losses, and

The Company has the rights to receive all benefits generated by the VIE after paying the contractual amounts due to the other investors.

As a result, the Company s adoption of the provisions of the new guidance, effective February 1, 2010, resulted in the Company s VIE, which is engaged in customer receivable financing and securitization, being consolidated in the Company s balance sheet and the Company s statements of operations, stockholders equity and cash flows. Previously, the operations of the VIE were reported off-balance sheet. The Company has elected to apply the provisions of this new guidance by retrospectively restating prior period financial statements to give effect to the consolidation of the VIE, presenting the balances at their carrying value as if they had always been carried on its balance sheet. The retrospective application impacted the comparative prior period financial statements as follows:

For the three months ended April 30, 2009, Income before income taxes was reduced by approximately $0.3 million.

For the three months ended April 30, 2009, Net income was reduced by approximately $0.2 million.

For the three months ended April 30, 2009, Basic earnings per share was unchanged.

For the three months ended April 30, 2009, Diluted earnings per share was reduced by $0.01.

For the three months ended April 30, 2009, Cash flows from operating activities was increased by approximately $46.5 million.

For the three months ended April 30, 2009, Cash flows from financing activities was reduced by approximately $46.5 million.

As of January 31, 2010, the net of current assets and current liabilities increased approximately $25.4 million;

As of January 31, 2010, Customer accounts receivable, net, were increased approximately $488.5 million, Net deferred tax assets were increased approximately $3.0 million and Other assets were increased approximately $7.1 million;

As of January 31, 2010, Interests in the securitized assets of its VIE of approximately $157.7 million was eliminated;

As of January 31, 2010, current and long-term debt were increased approximately $63.9 million and $282.5 million, respectively; and

As of January 31, 2010, Retained earnings was decreased approximately $5.2 million.

Principles of Consolidation. The consolidated financial statements include the accounts of Conn s, Inc. and all of its wholly-owned subsidiaries (the Company), including the Company s VIE. The liabilities of the VIE and the assets specifically collateralizing those obligations are not available for the general use of the Company and have been parenthetically presented on the face of the Company s balance sheet. All material intercompany transactions and balances have been eliminated in consolidation.

Fair Value of Financial Instruments. The fair value of cash and cash equivalents, receivables and accounts payable approximate their carrying amounts because of the short maturity of these instruments. The fair value of the Company s long-term debt and the VIE s $170 million 2002 Series A variable funding note approximate their carrying amount based on the fact that the agreements were recently amended and the cost of the borrowings were revised to reflect current market conditions. The estimated fair value of the VIE s $150 million 2006 Series A medium term notes was approximately $141 million and $139 million as of April 30, 2010 and January 31, 2010, respectively, based on its estimate of the rates available at these dates, for instruments with similar terms and maturities. The Company s interest rate swaps are presented on the balance sheet at fair value.

Use of Estimates. The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

Earnings Per Share. The Company calculates basic earnings per share by dividing net income by the weighted average number of common shares outstanding. Diluted earnings per share include the dilutive effects of any stock options granted, as calculated under the treasury-stock method. The weighted average number of anti-dilutive stock options not included in calculating diluted EPS was 1.5 million and 2.7 million for the three months ended April 30, 2009 and 2010, respectively. The following table sets forth the shares outstanding for the earnings per share calculations:

The following table sets forth the shares outstanding for the earnings per share calculations:

	Three Months Ended April 30,	
	2009	**2010**
Common stock outstanding, net of treasury stock, beginning of period	22,444,240	22,471,350
Weighted average common stock issued to employee stock purchase plan	2,719	3,308
Shares used in computing basic earnings per share	22,446,959	22,474,658
Dilutive effect of stock options, net of assumed repurchase of treasury stock	242,204	2,787
Shares used in computing diluted earnings per share	22,689,163	22,477,445

Customer Accounts Receivable. Customer accounts receivable reported in the consolidated balance sheet includes receivables transferred to the Company s VIE and those receivables not transferred to the VIE. The Company records the amount of principal and accrued interest on Customer receivables that is expected to be collected within the next twelve months, based on contractual terms, in current assets on its consolidated balance sheet. Those amounts expected to be collected after 12 months, based on contractual terms, are included in long-term assets. Typically, customer receivables are considered delinquent if a payment has not been received on the scheduled due date. Additionally, the Company offers reage programs to customers with past due balances that have experienced a financial hardship; if they meet the conditions of the Company s reage policy. Reaging a customer s account can result in updating an account from a delinquent status to a current status. Generally, an account that is delinquent more than 120 days and for which no payment has been received in the past seven months will be charged-off against the allowance for doubtful accounts and interest accrued subsequent to the last payment will be reversed. The Company has a secured interest in the merchandise financed by these receivables and therefore has the opportunity to recover a portion of the charged-off amount.

Interest Income on Customer Accounts Receivable. Interest income is accrued using the Rule of 78 s method for installment contracts and the simple interest method for revolving charge accounts, and is reflected in Finance charges and other. Typically, interest income is accrued until the contract or account is paid off or charged-off and we provide an allowance for estimated uncollectible interest. Interest income is recognized on interest-free promotion credit programs based on the Company s historical experience related

to customers that fail to satisfy the requirements of the interest-free programs. Additionally, for sales on deferred interest and same as cash programs that exceed one year in duration, the Company discounts the sales to their fair value, resulting in a reduction in sales and customer receivables, and amortizes the discount amount to Finance charges and other over the term of the program. The amount of customer receivables carried on the Company s consolidated balance sheet that were past due 90 days or more and still accruing interest was $54.8 million and $44.7 million at January 31, 2010, and April 30, 2010, respectively.

Allowance for Doubtful Accounts. The Company records an allowance for doubtful accounts, including estimated uncollectible interest, for its Customer and Other accounts receivable, based on its historical net loss experience and expectations for future losses. The net charge-off data used in computing the loss rate is reduced by the amount of post-charge-off recoveries received, including cash payments, amounts realized from the repossession of the products financed and, at times, payments under credit insurance policies. Additionally, the Company separately evaluates the Primary and Secondary portfolios when estimating the allowance for doubtful accounts. The balance in the allowance for doubtful accounts and uncollectible interest for customer receivables was $35.8 million and $33.5 million, at January 31, 2010, and April 30, 2010, respectively. Additionally, as a result of the Company s practice of reaging customer accounts, if the account is not ultimately collected, the timing and amount of the charge-off is impacted. If these accounts had been charged-off sooner the historical net loss rates might have been higher.

Inventories. Inventories consist of finished goods or parts and are valued at the lower of cost (moving weighted average method) or market.

Other Assets. The Company has certain deferred financing costs for transactions that have not yet been completed and has not begun amortization of those costs. These costs are included in Other assets, net, on the balance sheet and will be amortized upon completion of the related financing transaction or expensed in the event the Company fails to complete such a transaction. The Company also has certain restricted cash balances included in Other assets. The restricted cash balances represent collateral for note holders of the Company s VIE, and the amount is expected to decrease as the respective notes are repaid. However, the required balance could increase dependent on certain net portfolio yield requirements. The balance of this restricted cash account was $6.0 million at January 31, 2010, and April 30, 2010.

Comprehensive Income.

Comprehensive income for the three months ended April 30, 2009 is as follows:

Net income	$ 11,356
Adjustment of fair value of interest rate swaps, net of tax of $44	(81)
Total comprehensive income	$ 11,275

Subsequent Events. Subsequent events have been evaluated through the date of issuance. No material subsequent events have occurred since April 30, 2010, that required recognition or disclosure in the Company s current period financial statements

Reclassifications. Certain reclassifications have been made in the prior year s financial statements to conform to the current year s presentation, by reclassifying the balance of construction-in-progress of approximately $0.9 million from Property and equipment Buildings to Property and equipment Leasehold improvements, on the consolidated balance sheet.

2. Supplemental Disclosure of Finance Charges and Other Revenue

The following is a summary of the classification of the amounts included as Finance charges and other for the three months ended April 30, 2009 and 2010 (in thousands):

	Three Months ended April 30,	
	2009	2010
Interest income and fees on customer receivables	$ 34,956	$ 30,393

Insurance commissions	4,630	3,837
Other	114	250
Finance charges and other	$ 39,700	$ 34,480

Table of Contents

3. Supplemental Disclosure of Customer Receivables

The following tables present quantitative information about the receivables portfolios managed by the Company (in thousands):

	Total Outstanding Balance of Customer Receivables		60 Days Past Due (1)		Reaged (1)	
	January 31, 2010	April 30, 2010	January 31, 2010	April 30, 2010	January 31, 2010	April 30, 2010
Primary portfolio:						
Installment	$ 555,573	$ 532,869	$ 46,758	$ 38,577	$ 93,219	$ 87,196
Revolving	41,787	36,193	2,017	1,884	1,819	1,762
Subtotal	597,360	569,062	4,197,646			

$
2,852,098

$
739,478

$
3,591,576

See Financial Notes

4

McKESSON CORPORATION PROFIT-SHARING INVESTMENT PLAN
STATEMENTS OF CHANGES IN NET ASSETS AVAILABLE FOR BENEFITS
(In thousands)

	Years Ended March 31,					
	2015			2014		
	Participant-Directed	Non-Participant Directed	Plan Total	Participant-Directed	Non-Participant Directed	Plan Total
INVESTMENT INCOME						
Net appreciation in fair value of investments	$266,131	$ 193,106	$459,237	$409,006	$ 304,763	$713,769
Dividends and interest	23,283	3,737	27,020	22,603	4,070	26,673
Total Investment Income	289,414	196,843	486,257	431,609	308,833	740,442
SECURITIES LITIGATION SETTLEMENT PROCEEDS	—	—	—	1,120	—	1,120
CONTRIBUTIONS						
Participants	185,472	—	185,472	166,636	—	166,636
Employer	81,420	—	81,420	71,124	—	71,124
Total Contributions	266,892	—	266,892	237,760	—	237,760
DEDUCTIONS						
Benefits paid to participants	281,514	65,266	346,780	249,912	52,372	302,284
Administrative expenses	944	101	1,045	971	61	1,032
Total Deductions	282,458	65,367	347,825	250,883	52,433	303,316
Increase in Net Assets Before Transfers and Mergers	273,848	131,476	405,324	419,606	256,400	676,006
Transfers to participant-directed investments	32,160	(32,160)	—	34,021	(34,021)	—
Merger of net assets from other plans	200,746	—	200,746	31,097	—	31,097
Increase in Net Assets	506,754	99,316	606,070	484,724	222,379	707,103
Net Assets Available for Benefits at Beginning of Year	2,852,098	739,478	3,591,576	2,367,374	517,099	2,884,473
Net Assets Available for Benefits at End of Year	$3,358,852	$ 838,794	$4,197,646	$2,852,098	$ 739,478	$3,591,576

See Financial Notes

5

McKESSON CORPORATION PROFIT-SHARING INVESTMENT PLAN
FINANCIAL NOTES

1. Plan Description

The following description of the McKesson Corporation Profit-Sharing Investment Plan (the “PSIP” or the “Plan”) is provided for general informational purposes only. Participants should refer to the Plan document for more complete information. The PSIP is a defined contribution plan covering all persons who have completed two months of service and are regular or part-time employees or are casual or temporary employees who have completed a year of service in which they worked at least 1,000 hours in a year at McKesson Corporation (the “Company” or “McKesson” or “Plan Sponsor”) or a participating subsidiary, except seasonal and collectively bargained employees (unless the collective bargaining agreement provides for participation). The Plan year is April 1 through March 31. The Plan is subject to the provisions of the Employee Retirement Income Security Act of 1974, as amended (“ERISA”). The Company controls and manages the operation and administration of the Plan.

Fidelity Management Trust Company (“Fidelity”) is the trustee and record-keeper of the Plan.

The Plan is comprised of participant-directed and non-participant directed investments, as described below:

A. Participant-Directed Investments

Contributions: The Plan qualifies as a safe harbor plan as described in Internal Revenue Code (the “Code”) Sections 401(k) (12) and 401(m) (11). Participants may make pre-tax and/or Roth 401(k) contributions from 1% to 75% of eligible pay, limited to $18,000 and $17,500 for calendar years 2015 and 2014, respectively. Participants 50 years of age or older may also elect to make additional pre-tax and/or Roth 401(k) catch-up contributions of up to 75% of pay, limited to $6,000 and $5,500 for calendar years 2015 and 2014, respectively. Total employer and employee contributions are limited to the lesser of $53,000 and $52,000 for the Plan years ended March 31, 2015 and 2014, respectively, or 100% of taxable compensation. Participants may also contribute amounts representing distributions from other eligible retirement plans.

Participant Accounts: Individual accounts are maintained for each Plan participant. Each participant’s account is credited with the contributions and an allocation of earnings and charged with withdrawals and an allocation of losses and administrative expenses paid by the Plan. Allocations are based on participant earnings, or account balances, as defined in the Plan document. The participant is entitled to a benefit upon separation from employment based upon the vested portion of the participant's account.

Vesting: Participant contributions and earnings are 100% vested at all times.

Investment Options: Upon enrollment in the PSIP, a participant may direct contributions in 1% increments to any of the investment options offered under the Plan and change their investment options at any time. At March 31, 2015, the Plan allows participants to direct their accounts into any one or combination of the following investment options:

- PSIP International Equity Portfolio is comprised of two common/collective trusts at March 31, 2015: 20% of the portfolio is invested in the Eaton Vance Parametric Emerging Markets Equity Commingled Fund and 80% of the portfolio is invested in the Fidelity® Diversified International Commingled Pool, which replaced the Fidelity Diversified International Fund - Class K (KDIKX) Mutual Fund during the year ended March 31, 2015.
- Fidelity BrokerageLink is an investment option that provides access to a self-directed brokerage account.
- SSgA Bond Index Fund is a commingled pool that seeks to provide investment results that correspond to the return of the Barclays Capital U.S. Aggregate Bond Index. This is a common/collective trust.
- SSgA S&P 500 Index Fund is a commingled pool that seeks to provide investment results that correspond to the return of the S&P 500 Index. This is a common/collective trust.
- Vanguard Target Retirement Trusts are 12 commingled pool options designed for investors expecting to retire around the year indicated in each option’s name. The trusts, which are the Plan’s default investment options, are managed to gradually become more conservative over time. These options are common/collective trusts.
- Fisher Investments Small Cap Value Portfolio invests primarily in stocks of value companies that are part of the Russell 2000 Value Index. This is a separately managed account.
-

PSIP Small Cap Growth Portfolio invests primarily in smaller growth U.S. companies that demonstrate the potential to meet certain strategic growth expectations as established by Weatherbie Capital, LLC, the investment manager. This is a separately managed account.

McKESSON CORPORATION PROFIT-SHARING INVESTMENT PLAN
FINANCIAL NOTES (Continued)

- Dodge & Cox Large Cap Value Portfolio primarily invests in the stock of large companies where the fund manager believes the long-term earnings prospects are not reflected in the current prices. This is a separately managed account.
- PSIP Large Cap Growth Portfolio is comprised of two separately managed accounts which invest primarily in the stock of large U.S. companies - 65% of the portfolio is managed by J.P. Morgan Asset Management, and 35% is managed by Brown Advisory.
- BNY Mellon Stable Value Portfolio (the "Stable Value Portfolio") invests in fixed income investments, insurance wrap contracts, and guaranteed investment contracts ("GICs"). This is a separately managed account.
- McKesson Employee Stock Fund (the "Employee Stock Fund") primarily represents investments in Company common stock with participant contributions and transfers from the McKesson Employer Stock Fund. See description of McKesson Employer Stock Fund in Section B, Non-Participant Directed Investments.

Loans: Participants may apply for one loan from the Plan at a time. The total amount loaned to an individual participant cannot exceed the lowest of: (i) 50% of such participant's vested account balance, (ii) $50,000 less the participant's highest outstanding loan balance under the PSIP in the 12 months preceding the loan date, or (iii) the value of the participant's account attributable to pre-tax, Roth, after-tax, catch-up, and rollover contributions. Most loans bear interest at the then current prime rate of interest on the loan date plus 1%. Loan interest rates ranged from 4.25% to 10.50% at March 31, 2015 and 2014. Generally, loans may be repaid over a period not to exceed five years, except for residential home loans, which may be repaid over a term not to exceed ten years. Certain loans under qualified plans of acquired companies that were merged into the Plan may have longer repayment terms. Principal repayments and interest are paid through payroll deduction. For participants who have been terminated or are on leave and are no longer receiving a paycheck, loan repayments may be made by electronic fund transfer or check. Notes receivable from participants totaled $47,984,000 and $44,759,000 at March 31, 2015 and 2014, respectively.

Payment of Benefits: Participants have the right to receive a full or partial distribution of their vested PSIP account balance at the time of retirement, death, disability, or termination of employment. In general, when requested by a participant, benefit payments are made in a lump sum cash amount, but participants also may elect a distribution in-kind in the form of McKesson common stock and/or in the form of installments. The Plan also provides for in-service withdrawals on account of financial hardship or attainment of age 59½. In service distributions cannot exceed a participant's vested account balance less applicable tax withholdings and penalties. Former employees may remain participants in the Plan and continue directing their investments without taking a distribution until age 70½.

Transfers from Other Qualified Plans: During the year ended March 31, 2015, $200,746,000 of net assets from the PSS World Medical, Inc. Savings Plan was merged into the PSIP. PSS World Medical, Inc., the sponsor of the PSS World Medical, Inc. Savings Plan, was acquired by McKesson in February 2013. During the year ended March 31, 2014, net assets from the MED3000 401(k) Plan totaling $31,097,000 were merged into the Plan. MED3000 Group, Inc., the sponsor of the MED3000 401(k) Plan, was acquired by McKesson in 2012.

B. Non-Participant Directed Investments

General: The McKesson Employer Stock Fund consists of an Employee Stock Ownership Plan ("ESOP") with shares of McKesson common stock that were allocated to participants through employer matching contributions made prior to April 2009 and not yet directed to other investment options by the participants. This fund is classified as "non-participant directed" because only the Company has the ability to direct contributions into this fund. Participants have the ability to transfer contributions from this fund to participant-directed investments, including the Employee Stock Fund. Total transfers to participant-directed investments for the years ended March 31, 2015 and 2014 were $32,160,000 and $34,021,000, respectively.

On October 9, 2009, the Plan received its share of the Consolidated Securities Litigation Action settlement proceeds as described in Note 7. Approximately $77 million of the proceeds was attributable to unallocated shares (the "Unallocated Proceeds") of McKesson common stock held by the Plan in an ESOP suspense account. The receipt of the Unallocated Proceeds by the Plan was a reimbursement for the loss in value of the Company's common stock held by the Plan in its ESOP suspense account during the Consolidated Securities Litigation Action class-holding period and not a contribution made by the Company to the Plan or ESOP. In accordance with Plan terms, in April 2010, the entire

$77 million of Unallocated Proceeds was allocated to all current Plan participants to fulfill the Plan’s obligation for the year. Of the $77 million in Unallocated Proceeds, the Plan allocated $51 million to the ESOP as a matching contribution and $26 million as a discretionary contribution. In October 2011, the Plan received and allocated $1 million to participant-directed accounts.

McKESSON CORPORATION PROFIT-SHARING INVESTMENT PLAN
FINANCIAL NOTES (Continued)

In October 2013, the Plan received and allocated to participant-directed accounts an additional $1,120,000 in residual settlement proceeds. There were no settlement proceeds received by the Plan during the year ended March 31, 2015.

C. Other

Employer Matching Contributions to Participant Accounts: Each pay period, the Plan provides for Company matching contributions to all participants who make elective deferrals in an amount equal to 100% of the first 3% of pay contributed as elective deferrals to the Plan and 50% of the next 2% of pay contributed as elective deferrals to the Plan. An additional annual matching contribution may be allocated to Plan participants at the discretion of the Company. The Plan also provides for a true-up matching employer contribution in an amount equal to the difference between (1) a participant's matching contributions determined based on the participant's compensation and eligible contributions for the entire Plan year and (2) the amount of the participant's matching contributions actually contributed to the Plan for the Plan year. Employer matching contributions were $81,420,000 and $71,124,000 for the years ended March 31, 2015 and 2014, respectively.

Vesting: In general, for the Plan years ended March 31, 2015 and 2014, employer contributions were 100% vested immediately. Dividends automatically reinvested in McKesson common stock are also 100% vested at all times. Certain participants from plans that were merged into the Plan may receive employer contributions that maintain their original vesting schedules.

Forfeitures: A rehired employee who has met certain levels of service prior to termination may be entitled to have previously forfeited amounts in the PSIP reinstated. Each Plan year, forfeited amounts are used to reinstate previously forfeited amounts of rehired employees, to pay other Plan administrative expenses, or to reduce employer contributions.

For the years ended March 31, 2015 and 2014, forfeitures from non-vested accounts of $107,000 and $34,000, respectively, were utilized to reduce employer contributions. At March 31, 2015 and 2014, forfeited non-vested accounts were $121,000 and $109,000, respectively.

Diversification out of McKesson Employer Stock Fund and McKesson Employee Stock Fund: Participants may divest their accounts of McKesson common stock and invest in other investment funds at any time without restriction.

Payment of Benefits: Distributions are made only upon a participant's retirement, death (in which case, payment shall be made to the participant's beneficiary), or other termination of employment with the Company and its affiliates. Distributions are made in cash, or if a participant elects a distribution in-kind, in the form of Company common stock plus cash for any fractional share.

McKesson Employer Stock Fund: The following is information regarding the allocated shares of McKesson common stock, at fair value, held as of March 31 (in thousands):

2015			2014		
Number of Shares	Cost Basis	Fair Value of Shares	Number of Shares	Cost Basis	Fair Value of Shares
3,678	$133,179	$831,913	4,154	$150,359	$733,439

The per share fair value of McKesson common stock at March 31, 2015 and 2014 was $226.20 and $176.57, respectively.

2. Significant Accounting Policies

Basis of Accounting: The financial statements of the Plan are prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP").

Investments held by a defined contribution plan are required to be reported at fair value. However, contract value is the relevant measurement attribute for that portion of the net assets available for benefits of a defined contribution plan attributable to fully benefit-responsive investment contracts. The contract value is the amount participants would receive if they were to initiate permitted transactions under the terms of the Plan. The Statement of Net Assets Available for Benefits presents the fair value of the investment contracts as well as the adjustment of the fully benefit-responsive investment contracts from fair value to contract value. The Statement of Changes in Net Assets Available for Benefits is prepared on a contract value basis.

8

McKESSON CORPORATION PROFIT-SHARING INVESTMENT PLAN
FINANCIAL NOTES (Continued)

Cash and Cash Equivalents: The Plan considers all highly liquid debt instruments with remaining maturities of less than three months at the date of purchase to be cash equivalents.
Use of Estimates: The preparation of financial statements in conformity with GAAP requires Plan management to make estimates and assumptions that affect the reported amount of net assets available for benefits and changes therein. Actual results could differ from those estimates.
Risks and Uncertainties: The Plan maintains various investment options including mutual funds, Fidelity BrokerageLink, common/collective trusts, separately managed accounts, BNY Mellon Stable Value Portfolio, and McKesson common stock. Investment securities, in general, are exposed to various risks, such as interest rate risk, credit risk, and overall market volatility. Due to the level of risk associated with certain investment securities, it is reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the financial statements.
Investment Valuation and Income Recognition: The Plan’s investments are stated at fair value or Net Asset Value ("NAV") as a practical expedient for fair value. Fair value of a financial instrument is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Investments in mutual funds are stated at quoted market prices, which represent the NAV of shares held by the Plan at year-end. Investments entered into through Fidelity BrokerageLink are primarily stated at quoted market prices. Investments in common/collective trusts are stated at NAV. Interests in separately managed accounts are valued based on the underlying net assets, which are actively traded and primarily valued using quoted market prices. Within the BNY Mellon Stable Value Portfolio, traditional GICs are stated at estimated fair value using discounted cash flows. Fixed maturity synthetic GICs, constant duration synthetic GICs, and separate account GICs are stated at estimated fair value based on the fair values of their underlying fixed income assets. Short term investment funds (“STIF”) represent a fund’s cash balance equal to NAV at $1, the face value of cash.
Shares of McKesson common stock are valued at quoted market prices on March 31, 2015 and 2014. Certain administrative expenses are allocated to the individual investment options based upon daily balances invested in each option and are reflected as a reduction of net appreciation in fair market value of investments. Consequently, these management fees and operating expenses are reflected as a reduction of investment return for such investments. All other activities are recorded in the Plan based on the elections of the individual participants in the Plan. Purchases and sales of securities are recorded on a trade-date basis. Interest income is recorded on the accrual basis. Dividends are recorded on the ex-dividend date. Net appreciation includes the Plan’s gains and losses on investments bought and sold as well as held during the year.
Administrative Expenses: Administrative expenses of the Plan are paid by the Plan. The Company, in its discretion, may pay all, a portion, or none of such expenses from time to time.
Benefits: Benefits are recorded when paid.
Notes Receivable: Notes receivable from participants are valued at the unpaid principal balance plus any accrued but unpaid interest. Delinquent participant loans are recorded as distributions based on the terms of the Plan document.
New Accounting Pronouncements: In July 2015, the Financial Accounting Standards Board (the “FASB”) issued Accounting Standards Update (“ASU”) No. 2015-12, Plan Accounting: (Part I) Fully Benefit-Responsive Investment Contracts, (Part II) Plan Investment Disclosures, (Part III) Measurement Date Practical Expedient, which amends Accounting Standards Codification (“ASC”) 960, Plan Accounting – Defined Benefit Pension Plans, ASC 962, Plan Accounting – Defined Contribution Pension Plans, and ASC 965, Plan Accounting – Health and Welfare Benefit Plans. Part I and Part II of the ASU simplify financial reporting requirements for benefit plans by eliminating or reducing certain investment disclosures. Part III provides an alternative method for measuring investments for plans having fiscal year-ends that do not fall on a month-end date. The new guidance is effective for reporting periods beginning after December 15, 2015 and shall be applied retrospectively for Part I and Part II and prospectively for Part III. Only Part I and Part II are applicable to the Plan. Upon adoption, the amended guidance is expected to have an impact on certain investment disclosures and no impact on net assets available for benefits.

9

McKESSON CORPORATION PROFIT-SHARING INVESTMENT PLAN
FINANCIAL NOTES (Continued)

In May 2015, the FASB issued ASU No. 2015-07, Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent), which amends ASC 820, Fair Value Measurement. Under this ASU, the carrying values of investments measured using the NAV per share practical expedient are no longer required to be categorized within the fair value hierarchy. The ASU also eliminates certain disclosure requirements for investments that are eligible for fair value measurement using the NAV per share practical expedient. The new guidance is effective for reporting periods beginning after December 15, 2016 and shall be applied retrospectively. Upon adoption, the amended guidance is expected to have a limited impact on certain fair value disclosures and no impact on net assets available for benefits.

3. Investments

The fair values of individual investments that represent 5% or more of the Plan's net assets at March 31 were as follows (in thousands):

	2015	2014
McKesson Corporation Stock (Employer and Employee Stock Fund) *	$1,126,710	$954,609
SSgA S&P 500 Index Fund	471,335	422,815
Dodge & Cox Large Cap Value Portfolio **	274,198	259,856
BNY Mellon Stable Value Portfolio **	250,161	242,692
PSIP Large Cap Growth Portfolio **	243,439	209,111
Fidelity BrokerageLink **	224,960	203,150

* Non-participant directed and participant-directed
** None of the underlying investments in the account exceed 5% of net assets available for benefits

The Stable Value Portfolio contains investment contracts with insurance companies and financial institutions with the objective of providing participants a stable return on investment and protection of principal from changes in market interest rates.

Traditional GICs are unsecured general account obligations of insurance companies. The obligation is backed by the general account assets of the insurance company that writes the investment contract. The traditional GIC crediting rate is based upon the rate that is agreed to when the insurance company writes the contract and is generally fixed for the life of the contract.

Separate account GICs are group annuity contracts that pay a rate of return that is reset periodically (typically quarterly), offer book value accounting, and provide benefit responsiveness for participant-directed withdrawals. The crediting rate reflects the experience of assets that are separated from the insurance company's general account assets. The liabilities associated with an insurance company separate account are paid from the assets held in that separate account. The insurance company's general account assets back the separate accounts to fulfill separate account obligations. Separate account assets cannot be used to satisfy general account liabilities. The fair value of the wrap contract is the present value of the wrap cost applying replacement fees less the present value of the wrap cost applying current contractual fees. The replacement fees are determined by a pricing matrix that incorporates the current underwriting standards used by issuers.

Fixed maturity synthetic GICs consist of an asset or pool of assets that are owned by the fund (or plan) and a benefit-responsive, book value wrap contract purchased for the portfolio. The wrap contract provides contract value accounting for the asset and assures that contract value, benefit-responsive payments will be made for participant-directed withdrawals.

Constant duration synthetic GICs consist of a portfolio of securities owned by the fund (or plan) and a benefit-responsive, book value wrap contract purchased for the portfolio. The wrap contract amortizes gains and losses of the underlying securities over the portfolio duration and assures that contract value payments will be made for participant-directed withdrawals.

10

McKESSON CORPORATION PROFIT-SHARING INVESTMENT PLAN
FINANCIAL NOTES (Continued)

The fixed maturity synthetic and constant duration synthetic GICs use wrap contracts in order to manage market risks and to alter the return characteristics of the underlying portfolio of securities owned by the Stable Value Portfolio to match certain fund objectives. There are no reserves against these contract values for credit risk of the contract issuer or otherwise. For both fixed maturity synthetic and constant duration synthetic GICs, the fair values of wrap contracts provided by issuers are valued using the combination of a cost and income approach. The methodology uses the cost approach to determine the replacement value of each contract based on a pricing matrix at March 31, 2015 and 2014. The methodology then uses the income approach to determine the present value of the fee payments related to the contract, using both the current contractual fees and the replacement fees generated by the matrix pricing. The fee payments over the duration of the contract are discounted by using comparable duration swap rates. The carrying value of the contract is the present value of the wrap cost applying replacement fees less the present value of the wrap cost applying current contractual fees.

The initial crediting rates for both the fixed maturity synthetic and constant duration synthetic GICs are established based on the market interest rates at the time the initial asset is purchased and are guaranteed to have an interest crediting rate of not less than zero percent. The fixed maturity synthetic GIC crediting rate is set at the start of the contract and typically resets on a quarterly basis. The constant duration synthetic GIC crediting rate resets every quarter based on the contract value, the market yield to maturity, the market value, and the average duration of the underlying assets. The crediting rate for constant duration synthetic GICs aims at converging the contract value with the market value; therefore, it will be affected by interest rate and market changes.

It is probable that withdrawals and transfers resulting from the following events will limit the ability of the portfolio to transact at book or contract value. Instead, fair value will likely be used in determining the payouts to the participants, should any of the following occur:

- Employer-initiated events — events within the control of the Plan or the Plan Sponsor which would have a material and adverse impact on the fund
- Employer communications designed to induce participants to transfer from the fund
- Competing fund transfer or violation of equity wash or equivalent rules in place
- Changes of qualification status of employer or Plan

Issuers may terminate the GICs and settle at other than contract value if there is a change in the qualification status of employer or Plan, a breach of material obligations under the contract, misrepresentation by the contract holder, or failure of the underlying portfolio to conform to the pre-established investment guidelines.

The average yield of the entire Stable Value Portfolio based on actual earnings was 2.08% and 2.00% at March 31, 2015 and 2014, respectively. The average yield of the portfolio based on the interest rate credited to participants was 2.01% and 1.89% at March 31, 2015 and 2014, respectively. To calculate the yield, the amount credited to participants for the last day of the period is annualized and divided by the fair value of the investment portfolio on that date.

As required by ASC 962-325-35, Plan Accounting – Defined Contribution Pension Plans, the Stable Value Portfolio is presented in the Statements of Net Assets Available for Benefits at fair value in the investments total and adjusted to contract value in determining the net assets available for benefits.

McKESSON CORPORATION PROFIT-SHARING INVESTMENT PLAN
FINANCIAL NOTES (Continued)

The portfolio holdings in the BNY Mellon Stable Value Portfolio as of March 31 are shown below (in thousands):

2015	Rating S&P/Moody's *	Investment at Fair Value	Wrap Contract at Fair Value	Adjustment to Contract Value
Cash/Cash Equivalents:				
Fidelity Management Trust Company (STIF)	Cash/Cash	$6,065	$—	$ —
Traditional GIC:				
Metropolitan Life Insurance Company	AA-/Aa3	4,037	—	(3)
Fixed Maturity Synthetic GIC:				
American General Life	AA+/Aaa	24,978	(15)	(183)
Constant Duration Synthetic GIC:				
Pacific Life	AA/Aa2	52,154	17	(1,792)
RGA Reinsurance Company	AA/Aa2	21,200	—	(587)
Prudential	AA/Aa1	53,873	19	(1,840)
Transamerica Premier Life	AA/Aa2	45,013	(30)	(855)
Separate Account GIC:				
New York Life	AA+/Aaa	21,892	—	(593)
Voya Retirement Insurance & Annuity Company	A/A2	20,958	—	(158)
Total		$250,170	$(9)	$ (6,011)

2014	Rating S&P/Moody's *	Investment at Fair Value	Wrap Contract at Fair Value	Adjustment to Contract Value
Cash/Cash Equivalents:				
Fidelity Management Trust Company (STIF)	Cash/Cash	$4,376	$—	$ —
Traditional GIC:				
Metropolitan Life Insurance Company	AA-/Aa3	4,034	—	—
Fixed Maturity Synthetic GIC:				
American General Life	AA+/Aaa	21,657	(19)	(287)
Constant Duration Synthetic GIC:				
Pacific Life	AA/Aa2	50,362	—	(1,228)
RGA Reinsurance Company	AA/Aa2	15,517	(5)	(356)
Prudential	AA/Aa1	61,524	—	(897)
Monumental Life (Aegon)	AA/Aa2	43,480	(45)	(151)
Separate Account GIC:				
ING Life & Annuity Company	A-/A3	20,573	—	(42)
New York Life	AA+/Aaa	21,238	—	(387)
Total		$242,761	$(69)	$ (3,348)

* Ratings represent those of the issuer in the case of traditional GICs and separate account GICs or a weighted average of the credit ratings of the underlying assets held in the case of fixed maturity synthetic GICs and constant duration synthetic GICs.

McKESSON CORPORATION PROFIT-SHARING INVESTMENT PLAN
FINANCIAL NOTES (Continued)

During the years ended March 31, 2015 and 2014, the Plan's net appreciation/(depreciation) in fair value of investments (including gains and losses on investments bought and sold as well as held during the year) was as follows (in thousands):

	2015	2014
Mutual funds *	$6,498	$14,724
Fidelity BrokerageLink	4,775	16,090
Common/collective trusts *	129,469	169,763
Separately managed accounts	60,875	125,654
BNY Mellon Stable Value Portfolio	885	(1,057)
McKesson Common Stock:		
Employer Stock Fund **	193,106	304,763
Employee Stock Fund	63,629	83,832
Total	$459,237	$713,769

* The PSIP International Equity Portfolio mutual fund, which represented 80% of the PSIP International Equity Portfolio at March 31, 2014, was replaced by a common/collective trust in July 2014.
** Non-participant directed

4. Fair Value Measurement

Fair value is defined as the price that would be received upon sale of an asset or paid upon transfer of a liability in an orderly transaction between market participants at the measurement date. When determining fair value, the Plan considers the principal or most advantageous market in which the Plan would transact, and the Plan considers assumptions that market participants would use when pricing the asset or liability, such as inherent risk, transfer restrictions, redemption restrictions, and risk of non-performance.

In addition to determining fair value, the Plan is required to establish a fair value hierarchy for valuation inputs. The hierarchy prioritizes the inputs into three levels based on the extent to which inputs used in measuring fair value are observable in the market. Each fair value measurement is reported in one of the three levels, which is determined by the lowest level input that is significant to the fair value measurement in its entirety. These levels are:

Level 1 — unadjusted quoted prices in active markets for identical assets or liabilities;

Level 2 — quoted prices for similar assets or liabilities in active markets,
quoted prices for identical or similar assets or liabilities in inactive markets,
inputs other than quoted prices that are observable for the asset or liability, and
inputs that are derived principally from or corroborated by observable market data by correlation or other means;

Level 3 — unobservable inputs to the valuation methodology that are significant to the measurement of the fair value of assets or liabilities.

McKESSON CORPORATION PROFIT-SHARING INVESTMENT PLAN
FINANCIAL NOTES (Continued)

The Plan's investments measured at fair value on a recurring basis consisted of the following types of instruments as of March 31 (in thousands):

	2015		
	Total	Level 1	Level 2
Fidelity BrokerageLink:			
Mutual funds	$150,623	$150,623	$—
Common and preferred stock	70,068	70,068	—
Fixed income investments	2,092	—	2,092
Other	2,177	1,768	409
Common/collective trusts *	1,808,939	—	1,808,939
Separately managed accounts:			
Mutual funds	15,907	15,907	—
Common and preferred stock	716,309	716,309	—
BNY Mellon Stable Value Portfolio	250,161	—	250,161
McKesson common stock funds	1,126,710	1,126,710	—
Total	$4,142,986	$2,081,385	$2,061,601

	2014		
	Total	Level 1	Level 2
Mutual funds *	$107,582	$107,582	$—
Fidelity BrokerageLink:			
Mutual funds	146,978	146,978	—
Common and preferred stock	50,782	50,782	—
Fixed income investments	3,033	—	3,033
Other	2,357	2,016	341
Common/collective trusts	1,370,090	—	1,370,090
Separately managed accounts:			
Mutual funds	16,485	16,485	—
Common and preferred stock	645,837	645,837	—
BNY Mellon Stable Value Portfolio	242,692	—	242,692
McKesson common stock funds	954,609	954,609	—
Total	$3,540,445	$1,924,289	$1,616,156

* The PSIP International Equity Portfolio mutual fund, which historically represented 80% of the PSIP International Equity Portfolio, was $107,582,000 at March 31, 2014 and was classified as a level 1 asset. In July 2014, the entire PSIP International Equity Portfolio mutual fund of $116,699,000 was replaced by a common/collective trust. The PSIP International Equity Portfolio common/collective trust is classified as a level 2 asset at March 31, 2015.

For the years ended March 31, 2015 and 2014, there were no investments classified as level 3 nor were there any significant transfers in or out of levels 1, 2, or 3. Below is a description of the valuation methodologies used for the fair value measurements.
Mutual funds are publicly traded investments which are valued using a NAV. The NAV of a mutual fund is a quoted price in an active market. The NAV is determined once a day after the closing of the exchange based upon the underlying assets in the fund, less the fund's liabilities, expressed on a per-share basis.
Common/collective trusts are valued using a NAV. The NAV of a common/collective trust is based on the market values of the underlying securities. The beneficial interest of each investor is represented in units. Units are issued and

redeemed daily at the fund's closing NAV.

McKESSON CORPORATION PROFIT-SHARING INVESTMENT PLAN
FINANCIAL NOTES (Continued)

Separately managed accounts are valued based on the fair values of the underlying securities, which are primarily valued using quoted market prices.
BNY Mellon Stable Value Portfolio includes fixed maturity synthetic and constant duration synthetic GICs, which consist primarily of underlying fixed income investments, commingled fixed income investments, and insurance wrap contracts. The fair values of the fixed income portfolios are the sum of the underlying assets' market values. Both fixed maturity synthetic and constant duration synthetic GICs contain insurance wrap contracts, which guarantee benefit-responsive payments for participant-directed transactions at contract value. The fair value of a wrap contract is the present value of the wrap cost applying replacement fees less the present value of the wrap cost applying current contractual fees. Separate account GICs are stated at fair value, which is based on the market value of the assets of the underlying portfolio. Fair values of traditional GICs are determined by calculating the present value of all future cash flows of the contract. Short term investments represent a fund's cash balance fair value equal to the face value of cash.
Investments in the Fidelity BrokerageLink and McKesson common stock are stated at quoted market prices.
The Plan invests in certain entities where the fair value is measured by NAV per share. There were no unfunded commitments, normal course of business restrictions, or other redemption restrictions for these investments. These investments are summarized below as of March 31 (in thousands):

	2015		
	Fair Value	Redemption Frequency	Redemption Notice Period
Common/collective trusts	$1,808,939	As needed	1-5 days
BNY Mellon Stable Value Portfolio:			
Constant duration synthetic contracts	172,246	As needed	3-4 days
Cash and cash equivalents (STIF)	6,065	As needed	1 day
Separate account contracts	42,850	*	*
Total	$2,030,100		

	2014		
	Fair Value	Redemption Frequency	Redemption Notice Period
Common/collective trusts	$1,370,090	As needed	1-5 days
BNY Mellon Stable Value Portfolio:			
Constant duration synthetic contracts	170,833	As needed	3-4 days
Cash and cash equivalents (STIF)	4,376	As needed	1 day
Separate account contracts	41,811	*	*
Total	$1,587,110		

* Participant-directed withdrawals are permitted as needed. Contract termination requires ten days notice for the New York Life contract and 30 days notice for the Voya Retirement Insurance & Annuity Company contract; during the year ended March 31, 2015, the Voya Retirement Insurance & Annuity Company contract replaced the ING Life & Annuity Company contract, which required 30 days notice for contract termination.

5. Federal Income Tax Status
On November 26, 2013, the Internal Revenue Service issued a favorable determination letter to the Plan indicating that, in its opinion, the terms of the Plan conform to the requirements of Section 401(a) of the Code. In addition, the Company and the Plan administrator believe that the Plan, in form and operation, complies with the applicable requirements of the Code and that the Plan and related trust continue to be tax-exempt. Therefore, no provision for income taxes has been included in the Plan's financial statements.

McKESSON CORPORATION PROFIT-SHARING INVESTMENT PLAN
FINANCIAL NOTES (Continued)

GAAP requires Plan management to evaluate tax positions taken by the Plan and recognize a tax liability (or asset) if the Plan has taken an uncertain position that more likely than not would not be sustained upon examination by the Internal Revenue Service. The Plan administrator has analyzed the tax positions taken by the Plan and has concluded that as of March 31, 2015, there are no uncertain tax positions taken or expected to be taken that would require recognition of a liability (or asset) or disclosure in the financial statements. The Plan is subject to routine audits by taxing jurisdictions; however, there are currently no audits for any tax periods in progress. The Plan administrator believes it is no longer subject to income tax examinations for years prior to 2012.

6. Plan Termination

The Company's Board of Directors reserves the right to terminate the Plan. If termination should occur, all participant accounts would immediately vest and each account would receive a distribution equal to the vested account balance.

7. Litigation

Accounting Litigation

Following the announcements by McKesson in April, May, and July of 1999 that McKesson had determined that certain software sales transactions in its Information Solutions segment, formerly HBO & Company ("HBOC"), were improperly recorded as revenue and reversed, numerous lawsuits had been filed against McKesson, HBOC, certain of McKesson's or HBOC's current or former officers or directors, and other defendants, including Bear Stearns & Co. Inc. ("Bear Stearns") and Arthur Andersen LLP ("Andersen"), and were consolidated into a single proceeding in the Northern District of California captioned, In re McKesson HBOC, Inc. Securities Litigation (No. C-99-20743 RMW) (the "Consolidated Securities Litigation Action"). On January 12, 2005, McKesson announced that it had reached an agreement to settle the claims in the Consolidated Securities Litigation Action. On February 24, 2006, the district court gave final approval to the McKesson settlement of the Consolidated Securities Litigation Action, and as a result, McKesson paid approximately $960 million into an escrow account established by the lead plaintiff in connection with the settlement. On April 13, 2007, the district court gave final approval to the settlement of related claims against Andersen brought pursuant to the Consolidated Securities Litigation Action. In that matter, the district court found the settlement of the claims against Andersen for the sum of $72.5 million in cash, plus accrued interest, was fair, reasonable, and adequate to the Plan participants who owned McKesson common stock during the Consolidated Securities Litigation Action class-holding period (the "Settlement Class"). On January 18, 2008, the trial judge gave his final approval to a settlement of the class action by the last remaining defendant, Bear Stearns. In consideration of obligations of Bear Stearns, McKesson paid $10 million to fund the Bear Stearns class settlement. The Bear Stearns settlement is final. On April 27, 2009, the court issued an order approving the distribution of the settlement funds. On October 2009, the Plan received approximately $119 million of the Consolidated Securities Litigation Action proceeds. Approximately $77 million of the proceeds was attributable to Unallocated Proceeds owned by the Plan in an ESOP suspense account. The receipt of the Unallocated Proceeds by the Plan was reimbursement for the loss in value of the Company's common stock held by the Plan in its ESOP suspense account during the Consolidated Securities Litigation Action class holding period and not a contribution made by the Company to the Plan or ESOP. The receipt of the Unallocated Proceeds is reported as "Securities Litigation Settlement Proceeds" in the non-participant directed column within the Statement of Changes in Net Assets Available for Benefits. In accordance with the Plan terms, the Plan distributed the Unallocated Proceeds to the current Plan participants after the close of the Plan year in April 2010.

Approximately $42 million of the proceeds was attributable to the allocated shares ("Allocated Proceeds") of McKesson common stock owned by the Settlement Class. The receipt of the Allocated Proceeds by the Plan is reported as "Securities Litigation Settlement Proceeds" in the participant-directed column within the Statement of Changes in Net Assets Available for Benefits. The portion of the settlement amount related to allocated shares was allocated to members of the Settlement Class on November 6, 2009. An account was established in the Plan for each member of the Settlement Class to hold such allocation and invest it in accordance with their current investment elections in effect. For participants without a current investment election, their account was invested in the Plan's default investment fund, an age appropriate Vanguard Target Retirement Fund. Participants are permitted to take a

distribution of such allocated amount in accordance with the terms of the Plan. In October 2011, the Plan received and allocated $1 million to participant-directed accounts.

In October 2013, the Plan received and allocated to participant-directed accounts an additional $1,120,000 in residual settlement proceeds. There were no settlement proceeds received by the Plan during the year ended March 31, 2015.

McKESSON CORPORATION PROFIT-SHARING INVESTMENT PLAN
FINANCIAL NOTES (Concluded)

8. Exempt Related Party Transactions

At March 31, 2015 and 2014, respectively, the Plan held approximately 4,964,000 and 5,393,000 common shares of McKesson Corporation, the Plan Sponsor, with a cost basis of $250,730,000 and $235,492,000. The shares were held within the Plan's Employer and Employee Stock Funds. At March 31, 2015 and 2014, the Allocated Employer Stock Fund held approximately 3,678,000 and 4,154,000 common shares, respectively. At March 31, 2015 and 2014, the Employee Stock Fund held approximately 1,286,000 and 1,239,000 common shares, respectively. These transactions qualify as exempt party-in-interest transactions.

McKesson declared dividends of $0.96 and $0.92 per share during the years ended March 31, 2015 and 2014, respectively. During the years ended March 31, 2015 and 2014, the Employer Stock Fund recognized dividend income from McKesson common shares of $3,733,000 and $4,068,000, respectively. During the years ended March 31, 2015 and 2014, the Employee Stock Fund recognized dividend income from McKesson common shares of $1,217,000 and $1,124,000, respectively.

Certain investment options are managed by Fidelity, which also serves as the Plan's record-keeper and trustee. Therefore, these transactions qualify as exempt party-in-interest transactions. Generally, investment options (other than mutual funds and publicly offered securities) may qualify as party-in-interest transactions if the issuer, investment manager, or trustee of the investment option is a plan fiduciary or service provider. Fees for investment management services are allocated to the participants with balances in those funds. In the Plan year ended March 31, 2015, Fidelity revised its fee structure to include a quarterly flat fee assessment per Plan participant.

9. Subsequent Event

In June 2015, McKesson sold its Care Management business, which has subsequently been renamed AxisPoint Health. On July 1, 2015, in connection with the divestiture, participants' assets of $14,642,000 were transferred out of the Plan and into the AxisPoint Health 401(k) Plan.

10. Reconciliation of Financial Statements to Form 5500

The following is a reconciliation of the Statements of Net Assets Available for Benefits and the Statements of Changes in Net Assets Available for Benefits at March 31, 2015 and 2014 to the Form 5500 (in thousands):

Statements of Net Assets Available for Benefits:

	2015	2014
Net assets available for benefits per the financial statements	$4,197,646	$3,591,576
Adjustment from contract value to fair value for fully benefit-responsive investment contracts	6,011	3,348
Net assets available for benefits per the Form 5500	$4,203,657	$3,594,924

Statements of Changes in Net Assets Available for Benefits:

	2015	2014
Increase in net assets per the financial statements	$606,070	$707,103
Change in adjustment from contract value to fair value for fully benefit-responsive investment contracts	2,663	(4,935)
Net increase in net assets available for benefits per the Form 5500	$608,733	$702,168

17

McKESSON CORPORATION PROFIT-SHARING INVESTMENT PLAN

FORM 5500, SCHEDULE H, PART IV, LINE 4i - SCHEDULE OF ASSETS (HELD AT END OF YEAR)
MARCH 31, 2015

Investment/Fund Name	Cost Basis	Shares/Units/Interest Rate	Current Value
*MCKESSON EMPLOYER STOCK FUND (allocated)	$133,179,334	3,677,777	$831,913,157
*MCKESSON EMPLOYEE STOCK FUND	117,550,965	1,286,047	294,796,891
			1,126,710,048
*PSIP INTERNATIONAL	148,410,356	13,525,200	145,873,426
*SSGA BOND INDEX	115,832,200	5,234,038	136,683,842
*SSGA S&P 500 INDEX	265,491,793	12,363,343	471,335,307
*VANGUARD TARGET INCOME	25,958,937	701,126	26,397,406
*VANGUARD TARGET 2010	22,455,102	576,974	22,836,612
*VANGUARD TARGET 2015	77,963,660	1,899,760	79,371,966
*VANGUARD TARGET 2020	171,079,090	4,012,565	174,386,078
*VANGUARD TARGET 2025	186,629,912	4,257,534	190,098,880
*VANGUARD TARGET 2030	182,254,083	4,039,564	185,456,362
*VANGUARD TARGET 2035	154,229,426	3,329,206	156,872,187
*VANGUARD TARGET 2040	109,838,527	2,331,559	111,565,109
*VANGUARD TARGET 2045	60,635,672	1,286,742	61,583,491
*VANGUARD TARGET 2050	31,970,780	677,934	32,479,813
*VANGUARD TARGET 2055	10,002,120	212,131	10,156,823
*VANGUARD TARGET 2060	3,783,795	133,385	3,841,479
			1,808,938,781
*DODGE & COX LARGE CAP VALUE PORTFOLIO			
ADT CORP	2,077,354	53,500	2,221,320
AEGON NV (NY REGD) NY REG SH	1,588,755	284,700	2,257,671
AOL INC	1,050,136	35,000	1,386,350
APACHE CORP	6,733,129	88,100	5,315,073
BAKER HUGHES INC	3,443,568	75,000	4,768,500
BANK OF AMERICA CORPORATION	5,053,507	443,000	6,817,770
BANK OF NEW YORK MELLON CORP	5,212,119	187,500	7,545,000
BB&T CORP	2,200,328	80,400	3,134,796
CADENCE DESIGN SYSTEMS INC	311,328	45,000	829,800
CAPITAL ONE FINANCIAL CORP	5,232,821	130,000	10,246,600
CARMAX INC	380,780	20,500	1,414,705
CELANESE CORP SER A	2,080,475	46,400	2,591,904
CHEVRON CORP	3,416,019	37,357	3,921,738
CIGNA CORP	1,937,345	28,000	3,624,320
CISCO SYSTEMS INC	2,266,252	85,000	2,339,625
COACH INC	2,578,358	50,000	2,071,500
COMCAST CORP CL A	2,559,322	127,435	7,196,254

CORNING INC	2,176,838	160,000	3,628,800
DANAHER CORP	2,709,951	33,000	2,801,700
DISH NETWORK CORP A	906,333	31,400	2,199,884
EBAY INC	3,321,520	74,000	4,268,320
EMC CORP	3,048,754	120,000	3,067,200
EXPRESS SCRIPTS HLDG CO	4,814,553	65,000	5,640,050
FEDEX CORP	2,901,552	36,700	6,072,015
GENERAL ELECTRIC CO	2,359,872	109,800	2,724,138
GLAXOSMITHKLINE PLC SPONS ADR	2,516,549	54,400	2,510,560
GOLDMAN SACHS GROUP INC	4,104,952	34,100	6,409,777
GOOGLE INC CL A	1,295,442	3,600	1,996,920
GOOGLE INC CL C	4,247,163	9,000	4,932,000
HEWLETT-PACKARD CO	9,042,687	322,500	10,049,100

McKESSON CORPORATION PROFIT-SHARING INVESTMENT PLAN

Investment/Fund Name	Cost Basis