MCKESSON CORP
Form 424B3
November 08, 2001

THE INFORMATION IN THIS PROSPECTUS SUPPLEMENT IS NOT COMPLETE AND MAY BE CHANGED. A REGISTRATION STATEMENT RELATING TO THESE SECURITIES HAS BEEN DECLARED EFFECTIVE BY THE SECURITIES AND EXCHANGE COMMISSION. WE ARE NOT USING THIS PROSPECTUS SUPPLEMENT TO OFFER TO SELL THESE SECURITIES OR TO SOLICIT OFFERS TO BUY THESE SECURITIES IN ANY PLACE WHERE THE OFFER OR SALE IS NOT PERMITTED.

FILED PURSUANT TO RULE 424(B)(3)
REGISTRATION NO. 333-50985

SUBJECT TO COMPLETION, DATED NOVEMBER 8, 2001

PRELIMINARY PROSPECTUS SUPPLEMENT
(To Prospectus dated June 30, 1998)

$500,000,000

McKesson Corporation Logo

$
% NOTES DUE 2006
Interest payable and
ISSUE PRICE: %

$
% NOTES DUE 2011
Interest payable and
ISSUE PRICE: %

The 2006 Notes will mature on , 2006. The 2011 Notes will mature on , 2011. Interest on the Notes will accrue from , 2001. We may redeem the Notes in whole or in part at any time at the redemption prices described on page S-62. The Notes will be issued in minimum denominations of $1,000 increased in multiples of $1,000.

SEE "RISK FACTORS" BEGINNING ON PAGE S-8 FOR A DISCUSSION OF CERTAIN RISKS THAT YOU SHOULD CONSIDER IN CONNECTION WITH AN INVESTMENT IN THE NOTES.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of the Notes or determined that this prospectus supplement or the accompanying prospectus is accurate or complete. Any representation to the contrary is a criminal offense.

	PRICE TO PUBLIC	DISCOUNTS AND COMMISSIONS
Per 2006 Note	%	%
Total	$	$
Per 2011 Note	%	%
Total	$	$

Neither series of Notes will be listed on any national securities exchange. Currently, there is no public market for either series of Notes.

We expect to deliver the Notes to investors through the book-entry system of The Depository Trust Company for the accounts of its participants on or about , 2001.

Sole Bookrunner Joint Lead Manager
JPMORGAN BANC OF AMERICA SECURITIES LLC
BANC ONE CAPITAL MARKETS, INC.
CREDIT SUISSE FIRST BOSTON
LEHMAN BROTHERS
TD SECURITIES
, 2001 WACHOVIA SECURITIES

You should rely only on the information contained in this prospectus supplement and the accompanying prospectus and the information to which we have referred you. We and the underwriters have not authorized anyone to provide you with any additional information.

This prospectus supplement and accompanying prospectus do not constitute an offer to sell, or the solicitation of an offer to purchase, the Notes offered by this prospectus supplement and the accompanying prospectus in any jurisdiction where the offer or sale is not permitted. Neither the delivery of this prospectus supplement and the accompanying prospectus nor any distribution of Notes pursuant to this prospectus supplement and the accompanying prospectus shall, under any circumstances, create any implication that there has been no change in the information set forth in or incorporated by reference into this prospectus supplement and the accompanying prospectus or in our affairs since the date of this prospectus supplement.

The following information concerning McKesson Corporation and the Notes supplements, and should be read in conjunction with, the information contained in the accompanying prospectus. To the extent this prospectus supplement and the accompanying prospectus are inconsistent, the information in this prospectus supplement will supersede the information in the accompanying prospectus. As used in this prospectus supplement, the terms "McKesson," "we," "us" and "our" refer to McKesson Corporation and its subsidiaries as a combined entity, unless the context otherwise requires.

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PROSPECTUS SUPPLEMENT

PROSPECTUS

WHERE YOU CAN FIND MORE INFORMATION

The following documents which we have filed with the Commission are hereby incorporated by reference in, and shall be deemed to be a part of, this prospectus supplement:

- Annual Report on Form 10-K for the fiscal year ended March 31, 2001, filed on June 1, 2001;

- Quarterly Report on Form 10-Q for the fiscal quarter ended June 30, 2001, filed on August 10, 2001; and

- Quarterly Report on Form 10-Q for the fiscal quarter ended September 30, 2001, filed on November 2, 2001.

All documents filed by us pursuant to Sections 13(a), 13(c), 14 or 15(d) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), subsequent to the date of this prospectus supplement and prior to the termination of the offering made hereby shall be deemed to be incorporated by reference into this prospectus supplement and to be a part thereof from the respective dates of filing of such documents. Any statement contained in this prospectus supplement or in a document incorporated or deemed to be incorporated by reference herein shall be deemed to be modified or superseded for purposes of this prospectus supplement to the extent that a statement contained herein, or in any other subsequently filed document which also is incorporated or deemed to be incorporated by reference in this prospectus supplement, modifies or supersedes such statement. Any such statement so modified or superseded shall not be deemed to constitute a part of this prospectus supplement except as so modified or superseded.

This prospectus supplement incorporates documents by reference which are not presented herein or delivered herewith. We will provide without charge to any person to whom this prospectus supplement is delivered, on the written or oral request of such person, a copy of any or all of the foregoing documents incorporated herein by reference, other than exhibits to such documents unless such exhibits are specifically incorporated by reference therein. Requests should be directed to our Corporate Secretary, McKesson Corporation, McKesson Plaza, One Post Street, San Francisco, California 94104. Our telephone number is (415) 983-8300.

SUMMARY

This summary contains basic information about us and our offering of the Notes. It does not contain all the information that may be important to you. You should read the following summary together with the more detailed information and financial statements and notes to the financial statements contained elsewhere or incorporated by reference in this prospectus supplement as described under the heading "Where You Can Find More Information." To fully understand this offering, you should read all of these documents.

THE COMPANY

We are the world's largest health care service and technology company and a Fortune 35 corporation. We deliver unique supply and information management solutions that reduce costs and improve quality for our health care customers.

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

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

Our principal executive offices are located at McKesson Plaza, One Post Street, San Francisco, California 94104. Our telephone number is (415) 983-8300.

THE OFFERING

PRINCIPAL AMOUNT.............	$500 million initial aggregate principal amount of Notes.

SECURITIES OFFERED...........	$ million initial principal amount of % Notes due 2006.
	
	$ million initial principal amount of % Notes due 2011.

MATURITY DATE.................	, 2006 for the 2006 Notes. , 2011 for the 2011 Notes.
INTEREST PAYMENT DATES........	and of each year, commencing , 2002.
REDEMPTION....................	At our option, we may redeem any or all of the Notes, in whole or in part, at any time, as described on page S-62 under the heading "Description of Notes -- Optional Redemption" in this prospectus supplement.
RANKING.......................	The Notes: - are unsecured; - rank equally with all existing and future unsecured and unsubordinated debt from time to time outstanding of McKesson; - are senior to any future subordinated debt from time to time outstanding; and - are effectively junior to any secured debt from time to time outstanding.
COVENANTS.....................	We will issue the Notes under an indenture containing covenants for your benefit. These covenants restrict our ability, with certain exceptions, to: - incur debt secured by liens; - engage in sale/leaseback transactions; or - merge or consolidate with another entity.
USE OF PROCEEDS...............	We estimate that we will receive net proceeds from this offering of approximately $ million, which we intend to use for general corporate purposes, which could include the repayment of current indebtedness.
FURTHER ISSUES................	We may create and issue further 2006 Notes and 2011 Notes ranking equally and ratably with the Notes of that series in all respects, so that such further notes shall be consolidated and form a single series with the Notes of that series and shall have the same terms as to status, redemption or otherwise as the Notes of that series.

SUMMARY SELECTED HISTORICAL CONSOLIDATED FINANCIAL DATA

The following table sets forth our summary selected historical consolidated financial data for each of the three years ended March 31, 2001 and for the six-month periods ended September 30, 2001 and 2000. Such data have been derived from, and should be read in conjunction with, our audited consolidated financial statements and our unaudited condensed consolidated interim financial statements and related notes, which are incorporated by reference herein. The results for the six-month periods are not necessarily indicative of the results to be expected for the full year or for any other interim period.

	SIX MONTHS ENDED SEPTEMBER 30, (UNAUDITED)		YE
	2001	2000	2001
	(IN MILLIONS, EXCEPT PE		
INCOME STATEMENT DATA:			
Revenues	$23,813.2	$19,583.1	$42,010.0
Gross profit(1)	1,327.5	1,138.3	2,431.0
Operating profit	376.3(2)	312.2(3)	370.0
Interest expense	54.0	56.1	111.6
Income from continuing operations before income taxes	248.0(7)	212.2(8)	15.8
Income taxes	60.5	83.6	52.3
Dividends on preferred securities of subsidiary trust, net of tax benefit	3.1	3.1	6.2
Income (loss) after taxes			
Continuing operations	184.4	125.5	(42.7
Discontinued operations	--	--	(5.6
Net income (loss)	184.4	125.5	(48.3
CASH FLOW DATA:			
Net cash provided (used) by operating activities	3.6	(160.5)	353.1
Net cash provided (used) by investing activities	(134.0)	(153.6)	(342.8
Net cash provided (used) by financing activities	(16.9)	(58.4)	(125.5
OTHER SUPPLEMENTAL DATA:			
EBIT(13,15)	302.0	268.3	127.4
EBIT(13,15), excluding unusual items(16)	351.2	266.1	585.7
Amortization of intangibles	0.7	25.5	66.2
EBITDA(14,15)	361.5	349.9	309.2
EBITDA(14,15), excluding unusual items(16)	410.7	347.7	767.5
Ratio of EBITDA(14,15) to interest expense	6.7x	6.2x	2.8

	SEPTEMBER 30, (UNAUDITED)		
	2001	2000	2001
			(IN MILLIONS)
BALANCE SHEET & OTHER DATA:			
Cash, cash equivalents and marketable securities	$ 293.1	$ 211.2	$ 445.6
Receivables	3,657.0	3,221.4	3,443.4
Inventories	5,654.8	4,467.5	5,116.4
Drafts and accounts payable	5,961.7	4,344.2	5,361.9
Current assets	9,751.3	8,069.1	9,164.0

Current liabilities	7,025.6	5,209.9	6,549.7
Working capital	2,725.7	2,859.2	2,614.3
Property, plant and equipment, net	579.2	556.6	595.3
Capital expenditures	43.1	59.6	158.9
Total assets	12,198.1	10,548.0	11,529.9
Total debt	1,216.8	1,241.4	1,229.7
Convertible preferred securities	196.0	195.9	195.9
Total stockholders' equity	3,684.2	3,667.8	3,492.9

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(1) Revenues less cost of sales; the six months ended September 30, 2001, fiscal 2000 and fiscal 1999 include Supply Solutions segment charges of $4.8 million, $0.8 million and $1.2 million for restructuring, asset impairment and other operating items.

(2) Includes Supply Solutions segment charges for asset impairments, severance and facility-closing costs of $29.1 million related to distribution center closures in the medical-surgical business, partially offset by proceeds of $2.8 million in settlements from third parties in the medical-surgical and medical management businesses. Also includes charges of $3.1 million for asset impairments offset by net reductions in severance and exit-related reserves of $4.3 million associated with prior year restructuring plans of the pharmaceutical and medical-surgical businesses. In addition, includes Information Solutions segment charges for a net impairment of $2.2 million related to purchased software and pre-tax losses of $18.4 million on the sales of two businesses.

(3) Includes a Supply Solutions segment $7.8 million pre-tax gain on the liquidation of an investment partially offset by charges of $0.5 million for severance in the pharmacy management business and $2.3 million for severance and facility closing costs in the medication management businesses. Also includes an Information Solutions segment charge of $2.1 million for the write-off of purchased in-process technology related to an acquisition.

(4) Includes Supply Solutions segment charges for asset impairments, severance and facility closing costs of $28.9 million (including $18.2 million for the restructure of the former iMcKesson business), partially offset by a $7.8 million gain from the liquidation of an investment. Also includes Information Solutions segment charges of $161.1 million for customer settlements and $134.5 million for asset impairments, severance and exit-related costs primarily related to the restructure of the former iMcKesson business.

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

(6) Includes $214.3 million of Supply Solutions and $181.6 million of Information Solutions segment charges for transaction costs, costs associated with employee benefits, primarily related to change of control provisions, employee severance, asset impairment write-downs, restructuring, integration and affiliation costs incurred, and system installation costs associated primarily with acquisitions.

(7) In addition to the items described in note 2 above, includes Corporate segment losses on equity investments of $5.7 million and costs associated with the accounting litigation of $1.5 million, partially offset by a $2.8 million reduction in prior year severance reserves and $0.9 million in settlement proceeds from an investment that was previously written off.

(8) In addition to the items described in note 3 above, includes costs associated with the accounting litigation of $0.7 million.

(9) In addition to the items described in note 4 above, includes Corporate segment charges of $33.9 million for asset impairments, severance and facility closing costs related to the restructure of the former iMcKesson business, $105.2 million for asset impairments of investments and $2.5 million in legal fees incurred in connection with our earlier restatement of prior years' financial results and resulting accounting litigation.

(10) In addition to items described in note 5 above, includes Corporate segment net gains of $259.2 million from the exchange and subsequent sale and donation of equity investments, partially offset by charges of $55.8 million for accounting, legal and other costs incurred in connection with

our earlier restatement of prior years' financial results and resulting accounting litigation, costs associated with former employees and other acquisition related costs.

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

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

(13) Income from continuing operations before interest expense, taxes and dividends on preferred securities of subsidiary trust.

(14) Income from continuing operations before interest expense, taxes, dividends on preferred securities of subsidiary trust, depreciation expense and amortization of intangibles.

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

(16) Unusual items include those which management believes are either one-time occurrences and/or events which are not related to normal, on-going operations or represent charges that are in excess of normal/historical amounts. See notes 1 to 10 above.

RATIO OF EARNINGS TO FIXED CHARGES

The following table sets forth the ratio of earnings to fixed charges for the periods indicated:

	SIX MONTHS ENDED SEPTEMBER 30,		YEAR ENDED MARCH 31,				
	2001	2000	2001	2000	1999	1998	1997
Ratio of Earnings to Fixed Charges.......	4.07x	3.49x	--	2.74x	1.85x	3.96x	2.47

The ratio of earnings to fixed charges was computed by dividing fixed charges (interest expense, the portion of rental expense under operating leases deemed by us to be representative of the interest factor and dividends on preferred securities of a subsidiary grantor trust) into earnings available for fixed charges (income from continuing operations plus fixed charges). The ratio of earnings to fixed charges was less than 1.0x in fiscal 2001. The deficiency in the ratio of earnings to fixed charges was $0.9 million. The ratios of earnings to fixed charges excluding the items described in notes 1 to 10 on pages S-5 and S-6 would have been 4.69x and 3.47x in the six-month periods ended September 30, 2001 and 2000, and 3.87x, 3.51x, 4.20x, 4.61x, and 5.14x in the years ended March 31, 2001, 2000, 1999, 1998, and 1997.

RISK FACTORS

In considering whether to purchase our Notes, you should carefully consider all the information contained in this prospectus supplement and the accompanying prospectus as well as the information we have incorporated by reference in this prospectus supplement. In particular, you should carefully consider the risk factors described below. In addition, please read "Forward-Looking Statements" on page S-12 of this prospectus supplement.

ADVERSE RESOLUTION OF PENDING LITIGATION REGARDING THE RESTATEMENT OF OUR HISTORICAL FINANCIAL STATEMENTS MAY CAUSE US TO INCUR MATERIAL LOSSES.

Subsequent to our April 28, 1999 restatement of financial results announcement, and as of October 31, 2001, 86 lawsuits have been filed against us, certain of our or HBO & Company's, or HBOC, current or former officers or directors, and other defendants. In addition, the United States Attorney's Office for the Northern District of California and the San Francisco District Office of the SEC have also commenced investigations in connection with the matters relating to the restatement of previously reported amounts.

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

THE RESTATEMENT OF OUR EARNINGS MAY NEGATIVELY IMPACT THE MANAGEMENT OF OUR BUSINESS.

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

CHANGES IN THE UNITED STATES HEALTHCARE ENVIRONMENT COULD HAVE A MATERIAL NEGATIVE IMPACT ON OUR REVENUES.

Our products and services are intended to function within the structure of the healthcare financing and reimbursement system currently being used in the United States. In recent years, the healthcare industry has changed significantly in an effort to reduce costs. These changes include increased use of managed care, cuts in Medicare reimbursement levels, consolidation of pharmaceutical and medical-surgical supply distributors, and the development of large, sophisticated purchasing groups.

We expect the healthcare industry to continue to change significantly in the future. Some of these changes, such as a reduction in governmental funding of healthcare services or adverse changes in legislation or regulations governing the privacy of patient information, or the delivery or pricing of pharmaceuticals and healthcare services or mandated benefits, may cause healthcare industry participants to greatly reduce the amount of our products and services they purchase or the price they are willing to pay for our products and services.

Changes in pharmaceutical manufacturers' pricing or distribution policies could also significantly reduce our income. Due to the diverse range of health care supply management and health care information technology products and services we offer, such changes may adversely impact us while not affecting some of our competitors that offer a more narrow range of products and services.

SUBSTANTIAL DEFAULTS IN PAYMENT OR A MATERIAL REDUCTION IN PURCHASES OF OUR PRODUCTS BY LARGE CUSTOMERS COULD HAVE A SIGNIFICANT NEGATIVE IMPACT ON OUR FINANCIAL CONDITION, RESULTS OF OPERATIONS AND LIQUIDITY.

Our recent strategy has been to build relationships with a limited number of large customers that are achieving rapid growth. During the fiscal year ended March 31, 2001, sales to our ten largest customers accounted for approximately 57% of our total revenues. Sales to our largest customer, Rite Aid Corporation, represented approximately 16% of our fiscal 2001 revenues. As a result, our sales and credit

concentration have significantly increased. Any defaults in payment or a material reduction in purchases from us by these large customers could have a significant negative impact on our financial condition, results of operations and liquidity.

THE ABILITY OF OUR INFORMATION SOLUTIONS BUSINESS TO ATTRACT AND RETAIN CUSTOMERS DUE TO CHALLENGES IN INTEGRATING SOFTWARE PRODUCTS AND TECHNOLOGICAL ADVANCES MAY SIGNIFICANTLY REDUCE OUR REVENUES.

Our Information Solutions business delivers enterprise-wide patient care, clinical, financial, managed care, payor and strategic management software solutions, as well as networking technologies, electronic commerce, outsourcing and other services to health care organizations throughout the United States and certain foreign countries. Challenges in integrating Information Solutions software products could impair our ability to attract and retain customers and may reduce our revenues or increase our expenses.

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

PROPRIETARY TECHNOLOGY PROTECTIONS MAY NOT BE ADEQUATE AND PROPRIETARY RIGHTS MAY INFRINGE ON RIGHTS OF THIRD PARTIES.

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

POTENTIAL PRODUCT LIABILITY CLAIMS ARISING FROM HEALTH CARE INFORMATION TECHNOLOGY BUSINESS PRODUCTS COULD RESULT IN MATERIAL LOSSES TO US.

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

SYSTEM ERRORS AND WARRANTIES IN INFORMATION SOLUTIONS BUSINESS PRODUCTS COULD

CAUSE UNFORESEEN LIABILITIES.

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

POTENTIAL REGULATION BY THE U.S. FOOD AND DRUG ADMINISTRATION, OR FDA, OF INFORMATION SOLUTIONS PRODUCTS AS MEDICAL DEVICES COULD IMPOSE INCREASED COSTS, DELAY THE INTRODUCTION OF NEW PRODUCTS AND HURT OUR BUSINESS.

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

NEW AND POTENTIAL FEDERAL REGULATIONS RELATING TO PATIENT CONFIDENTIALITY COULD DEPRESS THE DEMAND FOR OUR INFORMATION SOLUTIONS PRODUCTS AND IMPOSE SIGNIFICANT PRODUCT REDESIGN COSTS ON US.

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

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

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

OUR BUSINESS COULD BE HINDERED IF WE ARE UNABLE TO COMPLETE AND INTEGRATE ACQUISITIONS SUCCESSFULLY.

An element of our business is to pursue strategic acquisitions that either expand or complement our business. We routinely review such potential acquisition opportunities and have historically engaged in numerous acquisitions. Integration of acquisitions involves a number of special risks. Such risks include:

- the diversion of management's attention to the assimilation of the operations of businesses we have acquired;

- difficulties in the integration of operations and systems and the realization of potential operating synergies;

- difficulties in the integration of any acquired companies operating in a different sector of the health care industry;

- delays or difficulties in opening and operating larger distribution centers in a larger and more complex distribution network;

- the assimilation and retention of the personnel of the acquired companies;

- challenges in retaining the customers of the combined businesses; and

- potential adverse effects on operating results.

If we are unable to successfully complete and integrate strategic acquisitions in a timely manner, our business and our growth strategies could be negatively affected.

FORWARD-LOOKING STATEMENTS

This prospectus supplement and the accompanying prospectus and the documents incorporated by reference in this prospectus supplement contain forward-looking statements. These statements include statements relating to our plans, strategies, objectives, expectations, intentions and adequacy of resources, and are made pursuant to the safe harbor provisions of Section 27A of the Securities Act of 1933, as amended (the "Securities Act") and Section 21E of the Exchange Act.

The words "believes," "expects," "may," "will," "should," "seeks," "approximately," "intends," "plans," "estimates," or "anticipates" and similar expressions are intended to identify forward-looking statements. These forward-looking statements reflect our current views with respect to future events and financial performance and are subject to risks and uncertainties, including, among other things:

- the speed of the integration of businesses we acquire;

- the impact of continued competition in our industry;

- the success of strategic initiatives;

- the implementation of new technologies;

- continued industry consolidation;

- changes in customer mix, defaults or reduction in purchases by large customers;

- changes in pharmaceutical manufacturers' pricing and distribution policies;

- the resolution of pending litigation and government investigations regarding the restatement of our historical financial statements, including the impact of the restatement of our earnings;

- adequacy of intellectual property rights and protections;

- potential liability associated with our Information Solutions business products;

- the changing United States health care environment, including regulatory changes in the health care industry; and

- other factors discussed in or incorporated by reference in this prospectus supplement.

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CAPITALIZATION

The following table sets forth our short-term borrowings and total capitalization at September 30, 2001: (1) on an actual basis; and (2) on an as adjusted basis to reflect the issuance of the $500 million of Notes pursuant to this offering. The capitalization table should be read in conjunction with the audited consolidated financial statements and other financial information contained in our Annual Report on Form 10-K for the year ended March 31, 2001 and the unaudited condensed consolidated interim financial information contained in our Quarterly Reports on Form 10-Q for the quarters ended June 30, 2001 and September 30, 2001, including the notes thereto, which are incorporated by reference herein.

	SEPTEMBER 30, 2001	
	ACTUAL	AS ADJUSTED
	(IN MILLIONS)	
Short-term borrowings	--	--
Long-term debt and capital lease obligations (including current portion):		
Term debt	$1,195.2	$1,195.2
Notes offered hereby	--	500.0
Exchangeable subordinated debentures	6.5	6.5
Capital lease obligations	10.6	10.6
Other	4.5	4.5
Total	1,216.8	1,716.8
McKesson-obligated mandatorily redeemable preferred securities of subsidiary grantor trust whose sole assets are junior subordinated debentures of McKesson	196.0	196.0
Stockholders' Equity:		

Common stock, $.01 par value, 400.0 shares authorized, 287.1 shares issued	2.9	2.9
Additional paid-in capital	1,825.4	1,825.4
Other capital	(102.9)	(102.9)
Retained earnings	2,157.1	2,157.1
Accumulated other comprehensive losses	(82.8)	(82.8)
ESOP notes and guarantees	(80.1)	(80.1)
Treasury shares, 1.1 shares at cost	(35.4)	(35.4)
Total stockholders' equity	3,684.2	3,684.2
Total capitalization	$5,097.0	$5,597.0

USE OF PROCEEDS

We estimate that the net proceeds we will receive from this offering will be approximately $ million, after deducting underwriters' discounts and commissions and other offering expenses payable by us.

We expect to use the net proceeds from this offering for general corporate purposes, which could include the repayment of current indebtedness.

SELECTED HISTORICAL CONSOLIDATED FINANCIAL DATA

The following table sets forth our selected historical consolidated financial data for each of the five years ended March 31, 2001 and for the six-month periods ended September 30, 2001 and 2000. Such data have been derived from, and should be read in conjunction with, the audited consolidated financial statements and other financial information contained in our Annual Report on Form 10-K for the year ended March 31, 2001 and the unaudited condensed consolidated interim financial information contained in our Quarterly Reports on Form 10-Q for the quarters ended June 30, 2001 and September 30, 2001, including the notes thereto, which are incorporated by reference herein. The results for the six-month periods are not necessarily indicative of the results to be expected for the full year or for any other interim period. See "Where You Can Find More Information" in this prospectus supplement.

	SIX MONTHS ENDED SEPTEMBER 30,		YEARS ENDED		
	2001	2000	2001	2000	199
			(IN MILLIONS, EXCEPT PER SHARE DATA		
INCOME STATEMENT DATA					
Revenues	$23,813.2	$19,583.1	$42,010.0	$36,687.0	$29,9
Costs and expenses					
Cost of sales(2)	22,485.7	18,444.8	39,579.0	34,462.1	27,6
Selling, distribution, research and development and administration	1,020.6(3)	898.0(4)	2,223.0(5)	2,113.9(6)	2,0
Total	23,506.3	19,342.8	41,802.0	36,576.0	29,7
Operating income	306.9	240.3	208.0	111.0	2

Interest expense..............	(54.0)	(56.1)	(111.6)	(114.2)	(1
Loss on sales of businesses, net..........................	(18.4)(10)	--	--	--	
Gain (loss) on investments....	(5.7)(11)	7.8(12)	(120.9)(13)	269.1(14)	
Other income, net.............	19.2(15)	20.2	40.3	47.2	
Income from continuing operations before income taxes.......................	248.0	212.2	15.8	313.1	1
Income taxes..................	(60.5)(16)	(83.6)	(52.3)	(122.3)	(1
Dividends on preferred securities of subsidiary trust, net of tax benefit....	(3.1)	(3.1)	(6.2)	(6.2)	
Income (loss) after taxes					
Continuing operations........	184.4	125.5	(42.7)	184.6	
Discontinued operations......	--	--	(5.6)	23.2	
Discontinued operations -- Gain on sale of McKesson Water Products Company...................	--	--	--	515.9	
Discontinued operations -- Gain on sale of Armor All stock.........	--	--	--	--	
Net income (loss)............	$ 184.4	$ 125.5	$ (48.3)	$ 723.7	$
Earnings (loss) per common share					
Diluted					
Continuing operations......	$ 0.63	$ 0.44	$ (0.15)	$ 0.66	$
Discontinued operations....	--	--	(0.02)	0.08	
Discontinued operations -- Gain on sale of McKesson Water Products Company.........	--	--	--	1.83	
Discontinued operations -- Gain on sale of Armor All stock...................	--	--	--	--	
Total.................	$ 0.63	$ 0.44	$ (0.17)	$ 2.57	$
Diluted shares................	297.5	290.7	283.1	281.3	2
Earnings (loss) per common share					
Basic					
Continuing operations......	$ 0.65	$ 0.44	$ (0.15)	$ 0.66	$
Discontinued operations....	--	--	(0.02)	0.08	
Discontinued operations -- Gain on sale of McKesson Water Products Company.........	--	--	--	1.83	
Discontinued operations -- Gain on sale of Armor All stock...................	--	--	--	--	
Total.................	$ 0.65	$ 0.44	$ (0.17)	$ 2.57	$
Basic shares.................	284.5	282.8	283.1	281.3	2

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	SEPTEMBER 30,		MARCH 31		
	2001	2000	2001	2000	1999
BALANCE SHEET DATA					
Cash, cash equivalents and marketable securities	$ 293.1	$ 211.2	$ 445.6	$ 605.9	$ 261
Working capital	2,725.7	2,859.2	2,614.3	2,843.7	1,708
Total assets	12,198.1	10,548.0	11,529.9	10,372.9	9,020
Total debt	1,216.8	1,241.4	1,229.7	1,260.0	1,151
Convertible preferred securities of subsidiary trust	196.0	195.9	195.9	195.8	195
Stockholders' equity	3,684.2	3,667.8	3,492.9	3,565.8	2,881

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

(2) Includes Supply Solutions segment charges of $4.8 million, $0.8 million and $1.2 million for restructuring, asset impairments and other operating items in the six months ended September 30, 2001, fiscal 2000 and fiscal 1999.

(3) Includes Supply Solutions segment charges for asset impairments, severance and facility-closing costs of $29.1 million related to distribution center closures in the medical-surgical business, partially offset by proceeds of $2.8 million in settlements from third parties in the medical-surgical and medical management businesses. Also includes charges of $3.1 million for asset impairments offset by net reductions in severance and exit-related reserves of $4.3 million associated with prior year restructuring plans of the pharmaceutical and medical-surgical businesses. In addition, includes Information Solutions segment charges for a net impairment of $2.2 million related to purchased software. Also includes Corporate segment costs associated with the accounting litigation of $1.5 million, offset by a $2.8 million reduction in prior year severance reserves.

(4) Includes Supply Solutions charges of $0.5 million for severance in the pharmacy management business and $2.3 million for severance and facility closing costs in the medication management businesses. Also includes an Information Solutions segment charge of $2.1 million for the write-off of purchased in-process technology related to an acquisition and Corporate segment charges of $0.7 million for the accounting litigation.

(5) Includes Supply Solutions segment charges for asset impairments, severance and facility closing costs of $13.0 million (including $2.3 million for the restructure of the former iMcKesson segment). Also includes Information Solutions segment charges of $161.1 million for customer settlements and $134.1 million for asset impairments, severance and exit-related costs primarily related to the restructure of the former iMcKesson business. In addition, includes Corporate segment charges of $26.7 million for asset impairments, severance and facility closing costs related to the restructure of the iMcKesson business and $2.5 million in legal fees

incurred in connection with the accounting litigation, costs associated with former employees and other acquisition related costs.

(6) Includes Supply Solutions segment charges of $39.2 million for asset impairments, accounts receivable reserves and customer settlements primarily related to a prior year implementation of a contract system, and $2.9 million in severance and exit-related charges primarily associated with segment staff reductions, partially offset by income of $8.1 million related to reductions in prior year restructuring accruals. Also includes Information Solutions segment charges of $239.8 million for asset impairments, customer accounts receivables, severance and exit costs primarily associated with product streamlining and reorganization, $61.8 million for accounts receivable and customer settlements, $1.5 million for the write-off of purchased in-process technology, partially offset by income of $7.0 million related to a reduction in prior year accruals for acquisition-related activities. In addition, includes Corporate segment charges of $65.7 million for costs incurred in connection with our earlier restatement of prior years' financial results and resulting accounting litigation, costs

associated with former employees, the donation of equity investments and other acquisition related costs.

(7) Includes $213.1 million of Supply Solutions and $181.6 million of Information Solutions segment charges for transaction costs, costs associated with employee benefits, primarily related to change of control provisions, employee severance, asset impairment write-downs, restructuring, integration and affiliation costs incurred, and system installation costs associated primarily with acquisitions.

(8) Includes $16.7 million of Supply Solutions segment charges for the terminated merger with AmeriSource Health Corporation and $44.1 million in costs associated primarily with the integration and rationalization of acquisitions. Also includes $35.3 million of Information Solutions segment charges related to acquisitions.

(9) Includes Supply Solutions segment charges of $98.8 million for restructuring, asset impairment and other operating items, $48.2 million for the write-off of purchased in-process technology related to the acquisition of Automated Healthcare, Inc. and $6.4 million related to other acquisitions. Also includes Information Solutions segment charges of $68.1 million related to acquisitions.

(10) Reflects the loss on sales of two Information Solutions businesses.

(11) Reflects Corporate segment losses on equity investments.

(12) Reflects the gain on the liquidation of a Supply Solutions segment investment.

(13) Includes Supply Solutions net losses of $8.1 million, Information Solutions losses of $0.4 million and Corporate segment losses of $112.4 million.

(14) Reflects Corporate segment net gains from the exchange and subsequent sale of equity investments.

(15) Includes $0.9 million in settlement proceeds from an investment that was written off in prior years.

(16) Includes a $30.0 million tax benefit from the sale of an Information Solutions business.

(17) Includes a $4.6 million tax settlement.

FINANCIAL REVIEW

Management's discussion and analysis, referred to as the Financial Review, is intended to assist in the understanding and assessment of significant changes and trends related to our results of operations and financial position. This discussion and analysis should be read in conjunction with our consolidated financial statements and the related notes thereto, which are incorporated herein by reference. This discussion and analysis includes forward-looking statements that involve risks and uncertainties. You should review the "Risk Factors" section of this prospectus supplement for a discussion of the factors that could cause actual results to differ materially from the results described in or implied by the forward-looking statements contained herein.

BUSINESS SEGMENTS

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

SIX MONTHS ENDED SEPTEMBER 30, 2001 AND 2000

Results of Operations

The revenues and operating profits of our business segments are as follows:

	SIX MONTHS ENDED SEPTEMBER 30,		
	2001	2000	% CHANGE
	(DOLLARS IN MILLIONS)		
REVENUES:			
Supply Solutions			
Pharmaceutical Distribution & Services			
U.S. Health Care(1)	$ 20,421.5	$ 16,426.7	24%

International	1,427.0	1,275.8	12
Total Pharmaceutical Distribution & Services	21,848.5	17,702.5	23
Medical-Surgical Distribution & Services	1,484.4	1,434.0	4
Total Supply Solutions	23,332.9	19,136.5	22
Information Solutions			
Software	87.6	59.8	46
Services	358.6	350.6	2
Hardware	32.9	34.8	(5)
Total Information Solutions	479.1	445.2	8
Corporate	1.2	1.4	(14)
Total	$ 23,813.2	$ 19,583.1	22
OPERATING PROFIT (LOSS):			
Supply Solutions	$ 372.8(3)	$ 309.6(6)	20
Information Solutions	3.5(4)	2.6(7)	35
Total	376.3	312.2	21
Interest Expense(2)	(54.0)	(56.1)	(4)
Corporate	(74.3)(5)	(43.9)(8)	69
Income before income taxes and dividends on preferred securities of subsidiary trust	$ 248.0	$ 212.2	17

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(1) Includes warehouse sales of $6,348.0 million and $4,700.6 million.

(2) Corporate interest income has been reclassified from Interest -- net to the Corporate segment for all periods presented.

(3) Includes pre-tax charges of $5.1 million for asset impairments and $24.0 million for severance and exit-related activities related to a product rationalization and distribution center closures in the medical-surgical business, partially offset by proceeds of $2.8 million in settlements from third parties in the medical-surgical and medical management businesses. Also includes charges for asset impairments of $3.1 million, and net reductions in severance and exit-related reserves of $4.3 million associated with prior year restructuring plans of the pharmaceutical and medical-surgical businesses.

(4) Includes a net impairment charge of $2.2 million related to purchased software. Also includes pre-tax losses of $18.4 million on the sales of two businesses.

(5) Includes a pre-tax loss on equity investments of $5.7 million and costs associated with the accounting litigation of $1.5 million. Also includes a $2.8 million reduction in prior year severance reserves and the receipt of $0.9 million in settlement proceeds from an investment that was previously written off.

(6) Includes a $7.8 million pre-tax gain on the liquidation of an investment

partially offset by charges of $0.5 million for severance in the pharmacy management business and $2.3 million for severance and exit-related activities in the medication management business.

(7) Includes a $2.1 million charge for the write-off of purchased in-process technology related to an acquisition.

(8) Includes costs associated with the accounting litigation of $0.7 million.

Financial Results

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

Net income increased to $184.4 million, $0.63 per diluted share, from $125.5 million, $0.44 per diluted share. We elected to adopt Statement of Financial Accounting Standards, or SFAS No. 142, and accordingly discontinued the amortization of goodwill effective April 1, 2001. Excluding goodwill amortization of $23.5 million and a tax benefit on goodwill amortization of $1.5 million, net income as adjusted would have been $147.5 million and earnings per diluted share would have been $0.52 in the six months ended September 30, 2000.

The results include the following:

	SIX MONTHS ENDED SEPTEMBER 30,			
	2001		2000	
	PRE-TAX	AFTER-TAX	PRE-TAX	AFTER-T
	(IN MILLIONS)			
Income before unusual items and dividends on convertible preferred securities of subsidiary trust..............	$297.2	$188.7	$210.0	$128.1
Dividends on convertible preferred securities of subsidiary trust....................................	--	(3.1)	--	(3.1
Before unusual items..................................	297.2	185.6	210.0	125.0
Unusual items				
Supply Solutions....................................	(25.1)	(16.0)	5.0	3.0
Information Solutions................................	(20.6)	17.0	(2.1)	(2.1
Corporate..	(3.5)	(2.2)	(0.7)	(0.4
Income from operations................................	$248.0	$184.4	$212.2	$125.5

The results for the six months ended September 30, 2001 include unusual items that decreased after-tax income by $1.2 million. These unusual items included charges of $3.3 million for asset impairments and $15.2 million for severance and exit-related costs related to a product rationalization and distribution center closures in the medical-surgical business of the Supply Solutions segment. These charges were partially offset by proceeds of $1.7 million from the settlement of claims with third parties, in the medical-surgical and medical management businesses. The results also include charges of $2.0 million for asset impairments, and net reductions of $2.8 million in costs associated with prior year restructuring reserves in the pharmaceutical and medical-surgical businesses. During the six months ended September 30, 2001, the Information Solutions segment recorded a net charge of $1.4 million related to purchased software and sold two businesses for an after-tax gain of $18.4 million. In the Corporate segment, we recorded after-tax losses on equity investments of $3.6 million and costs associated with the accounting litigation of

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$1.0 million. These charges were offset in the six months by a reduction in prior year severance reserves of $1.8 million for executives of the former iMcKesson business and the receipt of $0.6 million in settlement proceeds representing a partial recovery from an investment that was written off in prior years.

The results for six months ended September 30, 2000 include unusual items that increased after-tax income by $0.5 million. These unusual items consisted of a $4.8 million gain on the liquidation of an investment partially offset by severance and exit-related costs of $1.8 million in the Supply Solutions segment, a $2.1 million write-off of purchased in-process technology related to an acquisition in the Information Solutions segment and $0.4 million in costs associated with the pending securities litigation.

Net income before unusual items increased to $185.6 million from $125.0 million in the six months ended September 30, 2001 and 2000, reflecting revenue growth and operating margin expansion in both the Supply Solutions and Information Solutions segments.

The effective income tax rate before unusual items for the six months ended September 30, 2001 declined from the effective income tax rate for the comparable prior year period due to the discontinuance of goodwill amortization, which is primarily non-tax-deductible, and tax planning initiatives. Unusual items included a $30.0 million tax benefit on the sale of the stock of an Information Solutions business.

Supply Solutions

The Supply Solutions segment includes the operations of our U.S. pharmaceutical distribution and services businesses, international pharmaceutical operations in Canada and Mexico, and medical-surgical distribution and services business. This segment accounted for 98% of consolidated revenues for the six months ended September 30, 2001 and 2000.

Pharmaceutical Distribution & Services revenues increased by 23% to $21.8 billion. This increase reflects growth in the U.S. direct delivery business of 20%, an increase in U.S. sales to customers' warehouses of 35% and an increase in international revenues of 12%. The revenue growth primarily reflects improved growth rates from a number of our largest U.S. retail drug chain customers and the impact of the implementation of certain distribution agreements which took full effect in the second quarter.

Medical-Surgical Distribution & Services revenues increased 4% to $1,484.4 million. The six months ended September 30, 2000 contained five more selling days than the current year's six-month period as a result of that business' fiscal calendar. Excluding the additional selling days in the prior year, six-month period revenues increased by 6%.

Supply Solutions operating profit increased $93.3 million or 31% to $397.9 million. Operating profit as a percent of revenues, which is calculated excluding warehouse sales, increased 23 basis points to 2.34% for the six months compared to prior year margins. Excluding goodwill amortization, operating profit increased 25% and the operating margin increased 14 basis points. The increase in the operating margin reflects productivity improvements in both back-office and field operations and expanded product sourcing activities.

Information Solutions

The Information Solutions segment includes revenues from software sales, services and hardware sales. This segment accounted for 2% of consolidated revenues for the six months ended September 30, 2001 and 2000. Information Solutions revenues increased 8% to $479.1 million from $445.2 million in the prior year six-month period. Software revenues increased 46% to $87.6 million from $59.8 million in the prior year six-month period, reflecting the recognition of previously deferred revenue as a result of our adoption of the percentage of completion accounting method for such revenues. Services revenues increased 2% to $358.6 million from $350.6 million. Hardware revenues decreased 5% to $32.9 million from $34.8 million.

Operating profit increased to $24.1 million in the current year six-month period from $4.7 million in the prior year six-month period. The operating profit margin increased to 5.03% in the first half compared to 1.06% in the prior year comparable period. Excluding goodwill amortization in the prior year period,

operating profit increased 63% and the operating margin increased 171 basis points in the six months compared to the respective prior year period. The increase is primarily the result of the increase in higher margin software revenue and operating expense management.

Interest Expense

Interest expense decreased to $54.0 million from $56.1 million in the prior year first half. The decrease is due to lower interest rates partially offset by an increase in average borrowings to support revenue growth in the current year.

Corporate

Corporate expenses increased to $70.8 million from $43.2 million in the prior year first half. The increase in Corporate expenses reflects expenses for the sale of receivables associated with an increase in working capital, higher benefit costs and our share in the losses of HealthNexis, an Internet-based company we formed with other health care companies in fiscal 2001. The Corporate segment also includes the reclassification of Corporate interest income of $1.3 million and 4.3 million from Interest -- net in the current and prior year six-month periods.

YEARS ENDED MARCH 31, 2001, 2000 AND 1999

Acquisitions

Fiscal Year 2001 Acquisitions and Investments

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

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

In fiscal 2001, we also completed a number of smaller acquisitions in the Supply Solutions and Information Solutions segments.

Fiscal Year 2000 Acquisitions

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

methodology, we recorded an impairment loss for the unamortized goodwill and intangibles balance as of March 31, 2001.

In fiscal 2000, we also made several smaller acquisitions and investments in the Supply Solutions and Information Solutions segments.

Fiscal Year 1999 Acquisitions

On January 12, 1999, we completed the acquisition of HBO & Company, or HBOC, a leading health care information technology company, by exchanging 177 million shares of our common stock for all of the issued and outstanding shares of common stock of HBOC. Each share of HBOC common stock was exchanged for 0.37 of a share of our common stock. This is referred to as the exchange ratio. The transaction was structured as a tax-free reorganization and was accounted for as a pooling of interests.

In addition, we completed several acquisitions in fiscal 1999 in the Supply Solutions and Information Solutions segments that were accounted for under the pooling of interests method as follows:

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

Also, in August 1998, we acquired J. Knipper and Company, a provider of direct mail, fulfillment and sales support services, including sample distribution to physician and pharmaceutical company sales representatives, for approximately 0.3 million shares of our common stock.

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

In October 1998, we acquired US Servis, Inc., a professional management company that provides outsourcing services for physician delivery systems and hospital business offices, for the equivalent, after application of the exchange ratio, of approximately 0.7 million shares of our common stock.

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

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

In fiscal 1999, we completed the acquisitions of the following companies in our Supply Solutions segment, each accounted for under the purchase method of accounting:

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

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

Divestiture

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

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Financial Results

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

The results of continuing operations include the following:

	YEARS ENDED MARCH 31,				
	2001		2000		1
	PRE-TAX	AFTER-TAX	PRE-TAX	AFTER-TAX	PRE-TAX
	(IN MILLIONS)				
Income from continuing operations Before unusual items and dividends on convertible preferred securities of subsidiary trust........................	$ 474.1	$ 289.2	$ 440.6	$ 271.2	$ 564.1
Dividends on convertible preferred securities of subsidiary trust...........	--	(6.2)	--	(6.2)	--
Before unusual items......................	474.1	283.0	440.6	265.0	564.1
Unusual items by segment					
Supply Solutions........................	(21.1)	(12.9)	(34.8)	(20.8)	(214.3)
Information Solutions...................	(295.6)	(226.5)	(296.1)	(177.9)	(181.6)
Corporate...............................	(141.6)	(86.3)	203.4	118.3	--
Income (loss) from continuing operations...	$ 15.8	$ (42.7)	$ 313.1	$ 184.6	$ 168.2

Fiscal 2001

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

Fiscal 2000

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

Fiscal 1999

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

Unusual Items

In fiscal 2001, we incurred charges for asset impairments, severance and exit costs primarily associated with the restructure of our former iMcKesson business. In fiscal 2001 and 2000, we incurred charges associated with product streamlining and reorganization in our Information Solutions segment including, provision for customer settlements in 2001, and asset impairments, customer settlements and severance in 2000. In both years, we recorded gains and losses for certain equity investments and costs incurred in connection with the HBOC accounting investigation, the restatement of historical (pre-acquisition) consolidated financial statements and the resulting pending securities litigation. In fiscal 2000 and 1999, we incurred charges for acquisition-related activities including transaction costs, employee benefit costs, severance, as well as costs for consolidation of facilities and administrative processes and certain operating charges.

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

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

Fiscal 2001 Unusual Items

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

Restatement-Related Costs Incurred. In April 1999, following the January 1999 acquisition of HBOC, we discovered improper accounting practices at HBOC. In July 1999, the audit committee of our board of directors completed an investigation into such matters, which resulted in the previously reported restatement of our historical consolidated financial statements related to HBOC (pre-acquisition) in fiscal 1999, 1998 and 1997. In fiscal 2001, we incurred legal fees totaling $2.5 million, in connection with the pending securities litigation arising out of the restatement.

(Gain) Loss on Investments. We recorded an other than temporary impairment loss of $105.6 million on our WebMD warrants and other equity and venture capital investments as a result of significant declines in

the market values of these investments. We also recorded a $7.8 million gain on the liquidation of another investment.

Restructuring, Asset Impairments and Customer Settlements. In May 2000, we announced the formation of a new business unit, iMcKesson, to focus on healthcare applications using the Internet and other emerging technologies. iMcKesson included selected net assets from the former e-Health, Supply Solutions and Information Solutions segments and fiscal 2001 acquisitions of strategic investments and businesses.

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

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

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

In the fourth quarter of fiscal 2001, we reviewed the operations and cost structure of our pharmaceutical services business resulting in the planned closures of two offices. We recorded $1.4 million in asset impairments and $1.6 million in exit-related costs primarily related to remaining lease obligations subsequent to termination of operations. We also reduced prior year reserves for exit-related activities by $1.3 million.

In addition, our Information Solutions segment recorded a $161.1 million charge for customer settlements, consisting of forgiveness of accounts receivable, customer credits and refunds, associated with pre-July 1999 software contracts. These customer settlements generally relate to product replacements as well as requirements for certain customers to upgrade hardware and software to accommodate new product releases.

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

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

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

As a result of the previously discussed restructuring activities, future operating results and cash flows will be impacted. Development and support activities for certain discontinued products associated with the

former iMcKesson business will be phased out within twelve months. Although future revenues associated with the discontinued products will be reduced or eliminated, we do not anticipate they will materially impact our future operating results or cash flows. In addition, we anticipate reduced product development expenses as a result of terminating certain product licensing agreements and gradual reductions in payroll expenses and occupancy costs as the former iMcKesson operations wind down. Closure of the medical management call center is not anticipated to significantly impact future revenues (customers will be serviced out of the remaining call centers) but payroll cost savings are anticipated. Closure of the pharmaceutical distribution center, pharmaceutical services facilities and consolidations of the medical-surgical customer service centers are not expected to have a material impact on our fiscal 2002 operating results.

Other Merger-Related Items. We recorded a charge of $2.1 million in the Information Solutions segment to write off the portion of the purchase price of MediVation allocated to purchased in-process technology for which feasibility had not been established as of the acquisition date.

Fiscal 2000 Unusual Items

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

Restatement-Related Costs Incurred. In fiscal 2000, we incurred costs in connection with the previously discussed HBOC accounting investigation, the restatement of the historical consolidated financial statements and the resulting pending litigation, and recorded charges of $18.9 million for accounting and legal fees and other costs.

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

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

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

In the fourth quarter of fiscal 2000, we reviewed the operations and cost structure of the Supply Solutions' medical-surgical business. This resulted in the planned closure of a sales office and a workforce reduction.

We recorded $0.6 million in charges for exit-related activities. Also in fiscal 2000, we reassessed prior years' restructuring plans resulting in the decision to retain one of the six pharmaceutical distribution centers identified for closure in fiscal 1999 and to reduce the number of medical-surgical distribution center closures. In addition, we announced and completed the closure of one additional pharmaceutical distribution center in fiscal 2000. We recorded income of $6.9 million as a result of reducing prior year accruals for exit-related costs, offset in part, by additional asset impairments of $1.5 million. We also recorded asset impairments for our medical-management business of $0.2 million for obsolete equipment associated with discontinued products.

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

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

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

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

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

Other Operating Items. Other operating items include charges of $61.8 million in the Information Solutions segment for accounts receivable and customer settlements, a $1.1 million non-cash charge for the write-off of internal-use computer software that was abandoned and a $1.2 million charge related to the settlement of a software patent infringement claim that was paid during the year. The Supply Solutions segment recorded a charge of $31.5 million for asset impairments and receivables related primarily to a prior year implementation of a contract system, and a $6.7 million charge for customer accounts receivable in the medical management business.

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

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Fiscal 1999 Unusual Items

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

Transaction Costs. Total unusual items include $84.6 million of transaction costs incurred in connection with the acquisitions described above, primarily consisting of professional fees such as investment banking, legal and accounting fees. This amount includes $6.6 million of transaction costs related to terminated transactions of which $5.0 million related to the terminated merger with AmeriSource Health Corporation. Approximately $83.6 million was paid in fiscal 1999, with a balance of $1.0 million paid in fiscal 2000.

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

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

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

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

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

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

Other Merger-related Costs. The Information Solutions segment incurred costs totaling $13.8 million in fiscal 1999 due to an acquired company which had receivables outstanding from HBOC competitors that became uncollectible and were written off after the HBOC transaction.

Acquisition-related Integration Costs. Acquisition-related integration costs of $32.3 million consist of $1.9 million incurred for salaries and benefits of our integration and affiliation team members and $30.4 million of other direct costs associated with the integration and rationalization of recent acquisitions in the Supply Solutions and Information Solutions segments.

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

Results of Operations

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

Supply Solutions

The following table identifies significant performance indicators of the Supply Solutions segment:

	2001	2000	1999
		(IN MILLIONS)	
Revenues			
Excluding sales to customers' warehouses			
Pharmaceutical Distribution & Services			
U.S. Health Care	$24,853	$21,994	$17,612
International	2,645	2,220	1,946
Total pharmaceutical	27,498	24,214	19,558
Medical-Surgical Distribution & Services	2,849	2,706	2,292
Subtotal	30,347	26,920	21,850
Sales to customers' warehouses	10,730	8,746	6,813
Total	$41,077	$35,666	$28,663
Revenue Growth			
Excluding sales to customers' warehouses			

Pharmaceutical Distribution & Services			
U.S. Health Care	13%	25%	21%
International	19	14	20
Total pharmaceutical	14	24	21
Medical-Surgical Distribution & Services	5	18	22
Total excluding sales to customers' warehouse	13	23	21
Total	15	24	38
Operating Profit	$ 686.2	$ 571.3	$ 574.1
Percentage change	20%	(0.5)%	37%
Gross profit margin(1)	6.7	7.0	7.6
Operating expense margin(1)	4.4	4.9	5.0
Operating profit as a percent of revenues(1)	2.3	2.1	2.6
Depreciation	$ 76.3	$ 72.1	$ 60.2
Amortization of intangibles	32.1	31.1	25.1
Capital expenditures	90.9	99.0	105.0
Capital employed at year-end			
Committed capital(2)			
Operating working capital(3)	$ 3,282	$ 3,328	$ 2,661
Other -- net	225	208	66
Total	3,507	3,536	2,727
Intangibles	997	1,017	1,028
Total	$ 4,504	$ 4,553	$ 3,755
Returns			
Committed capital(4)	19.6%	16.3%	19.9%
Total capital employed(5)	14.6	13.8	15.6

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

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

(3) Receivables and inventories net of related payables.

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

(5) Operating profit divided by average capital employed.

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

	2001	2000	1999
Pharmaceutical Distribution & Services			
Existing businesses	13.6%	23.5%	20.1%
Acquisitions	--	0.3	0.5

Total	13.6%	23.8%	20.6%
Medical-Surgical Distribution & Services			
Existing businesses	5.3%	6.6%	14.4%
Acquisitions	--	11.5	7.6
Total	5.3%	18.1%	22.0%

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

	2001	2000	1999
Customer mix -- pharmaceutical distribution revenues(1)			
Independents	24.5%	25.5%	28.7%
Retail chains	42.4	42.4	38.5
Institutions	33.1	32.1	32.8
	100.0%	100.0%	100.0%

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

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

The operating profit margin increased in fiscal 2001, reflecting margin expansion in the U.S. pharmaceutical distribution and services business due to gross margin initiatives and productivity improvements in both back-office and field operations and in the Canadian pharmaceutical business reflecting new customers, sales growth and operational efficiencies. This impact was partially offset by a

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

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

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

The Supply Solutions segment requires a substantial investment in operating working capital, which consists of customer receivables and inventories net of related trade payables. Operating working capital is susceptible to large variations during the year as a result of inventory purchase patterns and seasonal demands. Inventory purchase activity is a function of sales activity, new customer build-up requirements and the desired level of investment inventory. Operating working capital at March 31, 2001 was flat relative to 2000. An increase in receivables, reflecting sales