MCKESSON CORP
Form 11-K
September 27, 2005

File No. 001-13252
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 11-K

(Mark One)

þ **ANNUAL REPORT PURSUANT TO SECTION 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934 (FEE REQUIRED)**
For the plan year ended March 31, 2005
OR

o **TRANSITION REPORT PURSUANT TO SECTION 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934 (NO FEE REQUIRED)**
For the transition period from ____________________ to ____________________

A. Full title of the plan and address of the plan, if different from that of the issuer named below:
McKesson Corporation Profit-Sharing Investment Plan

B. Name of issuer of the securities held pursuant to the plan and the address of its principal executive office:
McKesson Corporation
McKesson Plaza
One Post Street
San Francisco, CA 94104
(415) 983-8300

McKESSON CORPORATION
PROFIT-SHARING INVESTMENT PLAN

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All other schedules required by section 2520.103-10 of the Department of Labor s Rules and Regulations for the Reporting and Disclosure under the Employee Retirement Income Security Act of 1974 have been omitted because they are not applicable.

EXHIBITS:

23.1 Consent of Independent Registered Public Accounting Firm

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

McKesson Corporation Profit-Sharing Investment Plan
San Francisco, California

We have audited the accompanying statements of net assets available for benefits of the McKesson Corporation Profit-Sharing Investment Plan (the Plan) as of March 31, 2005 and 2004, and the related statements of changes in net assets available for benefits for the years then ended. These financial statements are the responsibility of the Plan s management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the procedures that are appropriate in the effectiveness of the Plan s internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such financial statements present fairly, in all material respects, the net assets available for benefits of the Plan as of March 31, 2005 and 2004, and the changes in net assets available for benefits for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplemental schedule listed in the Table of Contents is presented for the purpose of additional analysis and is not a required part of the basic financial statements, but is supplementary information required by the Department of Labor s Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974. This supplemental schedule is the responsibility of the Plan s management. Such supplemental schedule has been subjected to the auditing procedures applied in our audit of the basic 2005 financial statements and, in our opinion, is fairly stated in all material respects when considered in relation to the basic financial statements taken as a whole.

Deloitte & Touche LLP
San Francisco, California
September 23, 2005

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McKESSON CORPORATION
PROFIT-SHARING INVESTMENT PLAN
STATEMENTS OF NET ASSETS AVAILABLE FOR BENEFITS
AS OF MARCH 31, 2005 AND 2004 (IN THOUSANDS)

	2005			2004		
	Participant Directed	Non-Participant Directed	Plan Total	Participant Directed	Non-Participant Directed	Plan Total
ASSETS:						
Cash and cash equivalents:						
Allocated	$	$ 922	$ 922	$	$	$
Unallocated		184	184		464	464
Total cash and cash equivalents		1,106	1,106		464	464
Investments:						
Participant Directed Investments	915,125		915,125	814,630		814,630
McKesson Corporation common stock:						
Allocated		336,090	336,090		285,250	285,250
Unallocated		103,631	103,631		107,325	107,325
Total investments	915,125	439,721	1,354,846	814,630	392,575	1,207,205
Receivables:						
Contributions		3,064	3,064			
Dividends and interest on:						
Allocated		533	533		526	526
Unallocated		173	173		263	263
Due from broker for securities sold allocated					446	446
Total receivables		3,770	3,770		1,235	1,235
Total assets	915,125	444,597	1,359,722	814,630	394,274	1,208,904
LIABILITIES:						
		3,600	3,600		3,600	3,600

Line of credit On unallocated stock						
ESOP promissory notes payable On unallocated stock		32,544	32,544		48,907	48,907
Accrued interest expense On unallocated stock		1,421	1,421		2,088	2,088
Accrued other		603	603		464	464
Total liabilities		38,168	38,168		55,059	55,059
NET ASSETS AVAILABLE FOR BENEFITS	$ 915,125	$ 406,429	$ 1,321,554	$ 814,630	$ 339,215	$ 1,153,845

See notes to financial statements.

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McKESSON CORPORATION
PROFIT-SHARING INVESTMENT PLAN
STATEMENTS OF CHANGES IN NET ASSETS AVAILABLE FOR BENEFITS
FOR THE YEARS ENDED MARCH 31, 2005 AND 2004 (IN THOUSANDS)

	2005			2004		
	Participant Directed	Non-Participant Directed	Plan Total	Participant Directed	Non-Participant Directed	Plan Total
INVESTMENT INCOME:						
Net appreciation in fair value of investments	$ 45,572	$ 89,887	$ 135,459	$ 159,083	$ 74,268	$ 233,351
Dividends and interest	16,563	3,172	19,735	12,588	3,326	15,914
Investment income	62,135	93,059	155,194	171,671	77,594	249,265
CONTRIBUTIONS:						
Participants	74,290		74,290	66,751		66,751
Employer		23,899	23,899		12,344	12,344
Total contributions	74,290	23,899	98,189	66,751	12,344	79,095
DEDUCTIONS:						
Benefits paid to participants	69,784	20,530	90,314	58,678	19,072	77,750
Interest expense		4,896	4,896		4,356	4,356
Administrative fees	1,047		1,047	1,007		1,007
Total deductions	70,831	25,426	96,257	59,685	23,428	83,113
INCREASE IN NET ASSETS BEFORE INTERFUND TRANSFERS AND MERGERS	65,594	91,532	157,126	178,737	66,510	245,247
INTERFUND TRANSFERS	24,318	(24,318)		21,259	(21,259)	
TRANSFER OF NET ASSETS FROM OTHER PLANS	10,583		10,583	1,733		1,733
	100,495	67,214	167,709	201,729	45,251	246,980

INCREASE IN NET ASSETS						
Net assets at beginning of year	814,630	339,215	1,153,845	612,901	293,964	906,865
Net assets at end of year	$ 915,125	$ 406,429	$ 1,321,554	$ 814,630	$ 339,215	$ 1,153,845

See notes to financial statements.

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McKESSON CORPORATION
PROFIT-SHARING INVESTMENT PLAN
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED MARCH 31, 2005 AND 2004

1. PLAN DESCRIPTION

The following brief description of the McKesson Corporation Profit-Sharing Investment Plan (the PSIP or the Plan) is provided for general information purposes only. Participants should refer to the Plan document for more complete information. The PSIP is a defined contribution plan covering all persons who have completed two months of service and are regular or part-time employees, or are casual employees who have completed a year of service in which they worked at least 1,000 hours in a year, at McKesson Corporation (the Company or McKesson) or a participating subsidiary, except those covered by a collectively bargained pension plan. The Plan is subject to the provisions of the Employee Retirement Income Security Act of 1974, as amended (ERISA). Certain administrative costs incurred by the PSIP are paid by the Company.

Fidelity Management Trust Company (Fidelity) is the trustee of the Plan.

The Plan is comprised of Participant Directed and Non-Participant Directed Investments, as described below:

A. ***Participant Directed Investments***

Contributions For the years ended March 31, 2005 and 2004, participants were allowed to make basic contributions ranging from 1%-4% of compensation for employees of McKesson Information Solutions LLC (MIS), a subsidiary of the Company, and Medical Management Group employees, or 1%-6% for all other Company employees. Participants who made basic contributions of 6% (4% for MIS and Medical Management Group participants) could elect to make supplemental contributions of up to an additional 14% of compensation (16% for MIS and Medical Management Group participants). A participant s pretax contributions generally were limited to $14,000 per year for calendar year 2005 and $13,000 for calendar year 2004. Total contributions are limited to the lesser of $42,000 for calendar year 2005 ($41,000 for calendar year 2004) or 100% of taxable compensation per calendar year. Participants 50 years of age or older may also elect to make catch-up contributions of up to 67% of pay. Pretax catch-up contributions are limited to $4,000 per year for calendar year 2005 and $3,000 for calendar year 2004. Additional limits may apply to individuals classified as highly compensated employees. Participants may also contribute amounts representing distributions from other qualified plans.

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

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

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McKESSON CORPORATION
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FOR THE YEARS ENDED MARCH 31, 2005 AND 2004

Investment Options Upon enrollment in the PSIP, a participant may direct contributions in 1% increments to any of the investments within the Plan. The following are descriptions from each fund s prospectus or fund manager s report:

Standish Mellon Stable Value Fund (formerly Certus Stable Value Fund) invests in fixed-income investments issued by life insurance companies and financial institutions. This is a separately managed account, not a mutual fund.

Dodge & Cox Large Cap Value Fund invests in the common stock of companies when the fund managers believe the long-term earnings prospects are not reflected in the current price. This is a separately managed account, not a mutual fund.

Fidelity Magellan Fund is a growth mutual fund that seeks capital appreciation and normally invests in common stocks.

Fidelity Diversified International Fund invests primarily in a diversified portfolio of equity securities of companies located outside of the United States. This fund replaced Putnam International Equity Fund Y on January 9, 2004.

MFS Institutional Large Cap Growth Fund invests primarily in common stocks, with a goal of long-term capital growth.

SSgA Balanced Fund (formerly State Street Balanced Fund) is a custom mix of commingled pools that invests 60% in SSgA S&P 500 Index Fund and 40% in SSgA Bond Market Index Fund.

SSgA Bond Index Fund (formerly State Street Bond Index Fund) is a commingled pool that seeks to provide investment results that correspond to the total return of the bonds in the Lehman Brothers Aggregate Bond Index.

SSgA S&P 500 Index Fund (formerly State Street S&P 500 Index Fund) is a commingled pool that invests in stocks in the benchmark S&P 500 Index and attempts to duplicate the investment results of that index.

Wellington Management Small Cap Portfolio invests in stocks within the market capitalization range of the Russell 2000 Index. This is a separately managed account, not a mutual fund, which seeks long-term growth by investing in the stocks of small companies.

McKesson Corporation Employee Company Stock Fund (the Employee Stock Fund) represents shares invested in Company common stock.

Mutual Fund Window provides access to approximately 270 mutual fund options from more than 20 investment companies.

Brokerage Link provides access to a discount brokerage account which allows participants to develop a self-directed brokerage option. Commissions and transaction fees are charged to the participant s account. Effective January 1, 2005, Fidelity waived the account maintenance fees.

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Loans Participants may apply for a loan from the Plan. The total amount owed to the Plan by an individual participant cannot exceed the lowest of 50% of such participant s vested account balance, $50,000 as adjusted for certain items specified in the Plan document, or the value of the participant s account attributable to basic, supplemental, catch-up and rollover contributions. The loans bear interest at the then current prime rate of interest at the loan date plus 1%. Contractual interest rates ranged from 5% to 11% in fiscal 2005 and 2004. Loans may be repaid over a period not to exceed 5 years, except for residential loans, which must not exceed a term of 10 years. Principal repayments and interest are paid through payroll deductions. For participants who have been terminated or are on leave and are no longer receiving a paycheck, loan repayments may be made via monthly coupon payments.

Payment of Benefits Participants have the right to receive a total distribution of the value of their vested accounts from the PSIP at the time of retirement, death, disability or termination of employment. In general, benefit payments are made in a lump sum cash amount. Former employees may remain participants in the Plan.

Transfers from Other Qualified Plans In fiscal 2005 and 2004, the following net assets available for benefits were merged into the Plan (in thousands):

	Effective Date	Transferred Amount
Fiscal 2005:		
Moore Medical 401(k) Plan	January 31, 2005	$ 10,583
Fiscal 2004:		
SI/Baker 401(k) Plan	February 2, 2004	$ 1,733

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FOR THE YEARS ENDED MARCH 31, 2005 AND 2004

B. ***Non-Participant Directed Investments***

General The McKesson Corporation Employer Company Stock Funds (Allocated and Unallocated) (the Employer Stock Funds) consist of a leveraged Employee Stock Ownership Plan (ESOP). In fiscal year 2005, employer contributions were funded with 822,000 shares from the ESOP and $3,065,000 in cash. In fiscal 2004, 1,463,000 shares from the ESOP were used to fund all employer contributions for the year.

ESOP I In January 1985, the Company amended the Plan to add a leveraged ESOP for the benefit of persons eligible to participate in the PSIP. In July 1986, the PSIP purchased from the Company 2,000,000 shares of Company common stock, par value $0.01, for $30,250,000, originally financed by a ten-year term loan from a bank, guaranteed by the Company. Additionally, in connection with a fiscal 1995 transaction involving a reorganization and a sale of a business unit of the Company (the PCS Transaction), the ESOP purchased 1,087,754 additional common shares in fiscal 1996. In fiscal 1997, the Company extended the existing term of the outstanding loan balance from its original maturity to fiscal 2005. The loan was paid in full on August 29, 2004.

ESOP II The loan supporting the October 1987 purchase of Company common stock by the ESOP was paid in full as of March 31, 2003.

ESOP III In June 1989, the Company amended the Plan to add an additional leveraged ESOP. In June 1989, the Plan purchased from the Company 2,849,003 shares of McKesson Corporation Series B ESOP Convertible Preferred Stock ($43.875 stated value) for $125,000,000, financed by a twenty-year term loan from the Company. During fiscal 1995, in connection with the PCS Transaction, all shares of Series B ESOP Convertible Preferred Stock held by the Plan were converted into 5,440,914 shares of Company common stock. In fiscal 1996, in connection with the PCS Transaction, the ESOP purchased 6,259,080 additional shares of Company common stock.

Employer Matching Contributions and Participants Accounts Effective the last business day of each month throughout the fiscal year, participant accounts are credited with matching Company contributions, in the form of the Company s common stock based on a percentage of the participants basic contributions. An additional annual matching contribution may be granted at the discretion of the Company. In fiscal 2005 and 2004, employees were eligible for matching Company contributions of up to 3.6% of their eligible compensation.

Retirement Share Plan Contribution The Retirement Share Plan (RSP) provided for the contribution to each eligible participant a percentage of the participant s compensation. Such percentage depended on the participant s combined age and years of service, or RSP points as defined in the Plan document. Employees hired after December 31, 1999, were not eligible to participate in the RSP. At the Company s election, this contribution could be made in the form of cash or shares of Company common stock. This benefit was discontinued after March 31, 2004.

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PSIP-PLUS Contribution The PSIP-PLUS contribution was a per capita contribution of up to 30 shares of Company common stock per year made to certain employees who contributed at least 2% of their total compensation to the PSIP. Employees hired after December 31, 1999, were not eligible for the PSIP-PLUS. This benefit was discontinued after March 31, 2004.

Employer Contributions Dividends on unallocated ESOP I, and on allocated and unallocated ESOP III shares, of Company common stock, are used to pay the obligations under the ESOP loans. Under the terms of the loan agreements, the Company is required to make cash contributions to each ESOP to the extent that the dividends are not sufficient to service the debt. To pay down such debt obligations, cash contributions amounted to $20,834,000 and $12,344,000 in the years ended March 31, 2005 and 2004.

Vesting Employer contributions made before April 1, 2005 vest over five years of service (20% annually over five years). Generally, 100% vesting is provided upon retirement, disability, death, termination of the Plan, or a substantial reduction in work force initiated by the Company for affected participants. Dividends automatically reinvested in McKesson common stock on and after January 1, 2003 are also 100% vested at all times.

Forfeitures A rehired employee who has met certain levels of service prior to termination may be entitled to have forfeited interests in the PSIP reinstated. Each plan year, forfeited interests are used to reinstate previously forfeited amounts of rehired employees and to pay other Plan expenses as appropriate. Forfeitures for the years ended March 31, 2005 and 2004 were $1,289,000 and $1,266,000.

Diversification of Stock Fund Participants who completed five years of service could elect to transfer 50% of the Company contribution that was invested in the McKesson Corporation Employer Company Stock Fund (Allocated) to one or more of the other investment funds offered. After ten years of service, participants could elect to transfer up to 75% of the portion of their account representing the Company contributions. Participants who reached age 50 and completed five years of service were allowed to transfer up to 100% of their balance related to the Company contributions, in one percent increments or in whole dollars.

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

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FOR THE YEARS ENDED MARCH 31, 2005 AND 2004

McKesson Corporation Employer Company Stock Funds (Allocated and Unallocated) The following ESOP information regarding the shares of McKesson Corporation common stock held is as of March 31 (in thousands):

	2005			2004		
	Number of Shares	Cost Basis	Fair Value of Shares	Number of Shares	Cost Basis	Fair Value of Shares
Allocated	8,903	$ 236,838	$ 336,090	9,480	$ 245,701	$ 285,250
Unallocated	2,745	51,719	103,631	3,567	67,338	107,325
Total	11,648	$ 288,557	$ 439,721	13,047	$ 313,039	$ 392,575

The per share fair market value of McKesson Corporation common stock at March 31, 2005 and 2004 was $37.75 and $30.09.

The following is a reconciliation of the allocated and unallocated net assets of the Non-Participant Directed Investments at fair value for the years ended March 31 (in thousands):

	2005			2004		
	Allocated	Unallocated	Total	Allocated	Unallocated	Total
Net Assets (beginning of year)	$ 285,758	$ 53,457	$ 339,215	$ 231,822	$ 62,142	$ 293,964
Net Appreciation	70,292	19,595	89,887	47,639	26,629	74,268
Dividends and Interest	2,359	813	3,172	1,932	1,394	3,326
Employer Contributions		23,899	23,899		12,344	12,344
Benefits Paid to Participants	(20,530)		(20,530)	(19,072)		(19,072)
Interest Expense		(4,896)	(4,896)		(4,356)	(4,356)
Allocation of 1,463 shares, at market				44,696	(44,696)	
Allocation of 822 shares, at market	26,446	(26,446)				
Transfers	(24,318)		(24,318)	(21,259)		(21,259)
Net Assets (end of year)	$ 340,007	$ 66,422	$ 406,429	$ 285,758	$ 53,457	$ 339,215

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McKESSON CORPORATION
PROFIT-SHARING INVESTMENT PLAN
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEARS ENDED MARCH 31, 2005 AND 2004

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Reclassifications Certain prior year amounts have been reclassified to conform to the current year presentation.

Cash Equivalents The Plan considers all highly liquid debt instruments purchased with remaining maturities of less than three months to be cash equivalents.

Use of Estimates The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires Plan management to make estimates and assumptions that affect the reported amount of net assets available for benefits and changes therein. Actual results could differ from those estimates.

Risk & Concentration The Plan utilizes various investment instruments, including mutual funds and investment contracts. Investment securities, in general, are exposed to various risks, such as interest rate, credit, and overall market volatility. Due to the level of risk associated with certain investment securities, it is reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the financial statements.

Investment Valuation and Income Recognition Investments are stated at fair value which is based on independent valuations or publicly quoted market prices, except for investments in the Standish Mellon Stable Value Fund which are stated at contract value (or cost) plus accrued interest. Contract value represents contributions made under the contracts, plus earnings, less partic