

MCKESSON CORP
Form 11-K
September 27, 2006

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

FORM 11-K

(Mark One)

- ANNUAL REPORT PURSUANT TO SECTION 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934 (FEE REQUIRED)**

For the plan year ended March 31, 2006

OR

- TRANSITION REPORT PURSUANT TO SECTION 13 OR 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
Telephone (415) 983-8300**
-

**McKESSON CORPORATION PROFIT-SHARING INVESTMENT PLAN
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EXHIBITS:

23.1 Consent of Independent Registered Public Accounting Firm

EXHIBIT 23.1

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

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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, 2006 and 2005, 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. The Plan is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on 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, 2006 and 2005, 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 schedule is the responsibility of the Plan s management. Such schedule has been subjected to the auditing procedures applied in our audit of the basic 2006 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 27, 2006

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McKESSON CORPORATION PROFIT-SHARING INVESTMENT PLAN
STATEMENTS OF NET ASSETS AVAILABLE FOR BENEFITS
MARCH 31, 2006 AND 2005 (IN THOUSANDS)

| | 2006 | | | 2005 | | |
|---|-------------------------|-----------------------------|------------|-------------------------|-----------------------------|------------|
| | Participant Directed | Non-Participant Directed | Plan Total | Participant Directed | Non-Participant Directed | Plan Total |
| ASSETS: | | | | | | |
| Cash and cash equivalents: | | | | | | |
| Allocated | \$ | \$ 2,997 | \$ 2,997 | \$ | \$ 922 | \$ 922 |
| Unallocated | | 117 | 117 | | 184 | 184 |
| Total cash and cash equivalents | | 3,114 | 3,114 | | 1,106 | 1,106 |
| Investments: | | | | | | |
| Mutual funds and brokerage link | 550,418 | | 550,418 | 392,079 | | 392,079 |
| Common/ collective trusts | 220,347 | | 220,347 | 211,360 | | 211,360 |
| Separately managed accounts | 162,652 | | 162,652 | 145,693 | | 145,693 |
| Funds held in insurance companies | 113,602 | | 113,602 | 111,371 | | 111,371 |
| Participant loans | 19,786 | | 19,786 | 18,268 | | 18,268 |
| McKesson Corporation common stock: | | | | | | |
| Allocated | | 437,711 | 437,711 | | 336,090 | 336,090 |
| Unallocated | | 95,754 | 95,754 | | 103,631 | 103,631 |
| Employee stock fund | 53,253 | | 53,253 | 36,354 | | 36,354 |
| Total investments | 1,120,058 | 533,465 | 1,653,523 | 915,125 | 439,721 | 1,354,846 |
| Receivables: | | | | | | |
| Contributions | | | | | 3,064 | 3,064 |
| Dividends and interest on: | | | | | | |
| Allocated | | 511 | 511 | | 533 | 533 |
| Unallocated | | 121 | 121 | | 173 | 173 |
| Due from broker for securities sold allocated | | 132 | 132 | | | |
| Total receivables | | 764 | 764 | | 3,770 | 3,770 |
| Total assets | 1,120,058 | 537,343 | 1,657,401 | 915,125 | 444,597 | 1,359,722 |

LIABILITIES:

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| | | | | | | |
|--|--------------|------------|--------------|------------|------------|--------------|
| Line of credit on unallocated stock | | 3,600 | 3,600 | | 3,600 | 3,600 |
| ESOP promissory notes payable on unallocated stock | | 20,983 | 20,983 | | 32,544 | 32,544 |
| Accrued interest expense on unallocated stock | | 909 | 909 | | 1,421 | 1,421 |
| Accrued other | | 1,052 | 1,052 | | 603 | 603 |
| Total liabilities | | 26,544 | 26,544 | | 38,168 | 38,168 |
| NET ASSETS AVAILABLE FOR BENEFITS | | | | | | |
| | \$ 1,120,058 | \$ 510,799 | \$ 1,630,857 | \$ 915,125 | \$ 406,429 | \$ 1,321,554 |

See notes to financial statements.

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**McKESSON CORPORATION PROFIT-SHARING INVESTMENT PLAN
STATEMENTS OF CHANGES IN NET ASSETS AVAILABLE FOR BENEFITS
YEARS ENDED MARCH 31, 2006 AND 2005 (IN THOUSANDS)**

| | 2006 | | | 2005 | | |
|--|-------------------------|-----------------------------|----------------|-------------------------|-----------------------------|----------------|
| | Participant Directed | Non-Participant Directed | Plan Total | Participant Directed | Non-Participant Directed | Plan Total |
| INVESTMENT INCOME: | | | | | | |
| Net appreciation in fair value of investments | \$ 106,303 | \$ 156,742 | \$ 263,045 | \$ 45,572 | \$ 89,887 | \$ 135,459 |
| Dividends and interest | 32,589 | 3,284 | 35,873 | 16,563 | 3,172 | 19,735 |
| Investment income | 138,892 | 160,026 | 298,918 | 62,135 | 93,059 | 155,194 |
| CONTRIBUTIONS: | | | | | | |
| Participants | 96,508 | | 96,508 | 74,290 | | 74,290 |
| Employer | | 14,261 | 14,261 | | 23,899 | 23,899 |
| ERISA litigation settlement proceeds | 13,654 | | 13,654 | | | |
| Total contributions | 110,162 | 14,261 | 124,423 | 74,290 | 23,899 | 98,189 |
| DEDUCTIONS: | | | | | | |
| Benefits paid to participants | 83,254 | 26,923 | 110,177 | 69,784 | 20,530 | 90,314 |
| Interest expense | | 2,850 | 2,850 | | 4,896 | 4,896 |
| Administrative fees | 1,011 | | 1,011 | 1,047 | | 1,047 |
| Total deductions | 84,265 | 29,773 | 114,038 | 70,831 | 25,426 | 96,257 |
| INCREASE IN NET ASSETS BEFORE INTERFUND TRANSFERS AND MERGERS | | | | | | |
| INTERFUND TRANSFERS | 164,789 | 144,514 | 309,303 | 65,594 | 91,532 | 157,126 |
| TRANSFER OF NET ASSETS FROM OTHER PLANS | 40,144 | (40,144) | | 24,318 | (24,318) | |
| | | | | 10,583 | | 10,583 |
| INCREASE IN NET ASSETS | 204,933 | 104,370 | 309,303 | 100,495 | 67,214 | 167,709 |
| Net assets at beginning of year | 915,125 | 406,429 | 1,321,554 | 814,630 | 339,215 | 1,153,845 |
| Net assets at end of year | \$ 1,120,058 | 510,799 | 1,630,857 | \$ 915,125 | \$ 406,429 | \$ 1,321,554 |

See notes to financial statements.

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**McKESON CORPORATION PROFIT-SHARING INVESTMENT PLAN
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED MARCH 31, 2006 AND 2005**

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 employees 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").

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 Certain Plan provisions were amended to enable the Plan to qualify as a safe harbor plan as described in Internal Revenue Code sections 401(k) (12) and 401(m) (11). Effective April 1, 2005, participants may make pretax contributions from 1% to 20% of eligible pay, limited to \$15,000 for calendar year 2006 and \$14,000 for calendar year 2005. Total contributions are limited to the lesser of \$44,000 for calendar year 2006 (\$42,000 for calendar year 2005) or 100% of taxable compensation per calendar year. Participants 50 years of age or older may also elect to make pretax catch-up contributions of up to 67% of pay, limited to \$5,000 for calendar year 2006 and \$4,000 for calendar year 2005. Participants may also contribute amounts representing distributions from other qualified plans.

Prior to April 1, 2005, 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). Additional limits applied to individuals classified as highly compensated employees.

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.

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 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.

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

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McKesson Corporation Profit-Sharing Investment Plan
Notes to Financial Statements (Continued)
Years Ended March 31, 2006 and 2005

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

SSgA 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 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 260 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.

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 2006 and 2005. 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. Participant loans totaled \$19,786,000 and \$18,268,000 on March 31, 2006 and 2005.

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 Plan In fiscal 2005, the net assets of the Moore Medical 401(k) Plan totaling \$10,583,000 were merged into the Plan.

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 2006, employer contributions were funded with 908,000 shares from the ESOP. In fiscal 2005, employer contributions were funded with 822,000 shares from the ESOP and \$3,064,000 in cash.

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.

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,

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NOTES TO FINANCIAL STATEMENTS (CONTINUED)
YEARS ENDED MARCH 31, 2006 AND 2005**

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. In fiscal 2005, employees were eligible for matching Company contributions of up to 3.6% of their eligible compensation. Effective April 1, 2005, the Plan provides for Company matching contributions to all participants who make elective deferrals in an amount equal to 100% of the employee's deferral for the first 3% of pay deferred, and 50% of the employee's deferral for the next 2% of pay deferred. An additional annual matching contribution may be granted at the discretion of the Company. For the plan year ended March 31, 2006, an additional match of \$0.037 for every dollar contributed, up to the first 5% of pay contributed, was allocated to eligible plan participants.

The Internal Revenue Code requires that shares be released for employer contributions according to a formula based on debt service payments. In fiscal 2007, the Company identified certain errors in calculating the number of shares to be released which resulted in an over release for fiscal 2006. To correct this error, the Company intends, subject to the board of directors' approval, to contribute 26,000 additional shares to the Plan in fiscal 2007.

Employer Contributions Dividends on unallocated 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 the extent that the dividends are not sufficient to service the debt. To pay down such debt obligations, cash contributions amounted to \$14,261,000 and \$20,834,000 in the years ended March 31, 2006 and 2005.

Vesting Employer contributions made on or after April 1, 2005, are 100% vested immediately. 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, 2006 and 2005 were \$1,272,000 and \$1,289,000.

Diversification of Stock Fund Effective April 1, 2005, participants may transfer Company contributions to other investment funds as soon as they are made. In addition, participants may diversify past Company contributions without restrictions. Prior to April 1, 2005, 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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McKESON CORPORATION PROFIT-SHARING INVESTMENT PLAN
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
YEARS ENDED MARCH 31, 2006 AND 2005

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):

| | 2006 | | | 2005 | | |
|-------------|------------------------|------------|----------------------------|------------------------|------------|----------------------------|
| | Number of Shares | Cost Basis | Fair Value of Shares | Number of Shares | Cost Basis | Fair Value of Shares |
| Allocated | 8,397 | \$242,395 | \$437,711 | 8,903 | \$236,838 | \$336,090 |
| Unallocated | 1,837 | 34,606 | 95,754 | 2,745 | 51,719 | 103,631 |
| Total | 10,234 | \$277,001 | \$533,465 | 11,648 | \$288,557 | \$439,721 |

The per share fair market value of McKesson Corporation common stock at March 31, 2006 and 2005 was \$52.13 and \$37.75.

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):

| | 2006 | | | 2005 | | |
|-------------------------------------|-----------|-------------|-----------|-----------|-------------|-----------|
| | Allocated | Unallocated | Total | Allocated | Unallocated | Total |
| Net Assets (beginning of year) | \$340,007 | \$ 66,422 | \$406,429 | \$285,758 | \$ 53,457 | \$339,215 |
| Net appreciation | 122,410 | 34,332 | 156,742 | 70,292 | 19,595 | 89,887 |
| Dividends and interest | 2,737 | 547 | 3,284 | 2,359 | 813 | 3,172 |
| Employer contributions | | 14,261 | 14,261 | | 23,899 | 23,899 |
| Benefits paid to participants | (26,923) | | (26,923) | (20,530) | | (20,530) |
| Interest expense | | (2,850) | (2,850) | | (4,896) | (4,896) |
| Allocation of 822 shares, at market | | | | 26,446 | (26,446) | |
| Allocation of 908 shares, at market | 42,213 | (42,213) | | | | |
| Transfers | (40,144) | | (40,144) | (24,318) | | (24,318) |
| Net Assets (end of year) | \$440,300 | \$ 70,499 | \$510,799 | \$340,007 | \$ 66,422 | \$406,429 |

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.

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

Use of Estimates The preparation of financial statements in conformity with 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 and Uncertainties The Plan utilizes various investment instruments, including mutual funds, common collective trusts, separately managed accounts 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 in mutual funds are stated at quoted market prices, which represent the net asset value of shares held by the Plan at year-end. Investments in the brokerage link are stated at quoted market prices. Investments in common collective trusts are stated at quoted redemption values. Interests in separately managed funds are valued based on the underlying net assets. Funds held in insurance companies are stated at contract value (or cost) plus accrued interest. Contract value represents contributions made under the contracts, plus earnings, less participant

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McKESON CORPORATION PROFIT-SHARING INVESTMENT PLAN
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
YEARS ENDED MARCH 31, 2006 AND 2005

withdrawals and administrative expenses. Participant loans are valued at the outstanding loan balance. Shares of McKesson Corporation common stock are valued at quoted market prices on March 31, 2006 and 2005. Certain administrative expenses are allocated to the individual funds based upon daily balances invested in each fund and are reflected as a reduction of net appreciation in fair market value of investments and are not separately reflected. Consequently, these management fees and operating expenses are reflected as a reduction of investment return for such investments. All other activity is recorded in the Plan based on the elections of the individual participants in the Plan. Purchases and sales of securities are recorded on a trade-date basis. Realized gains and losses from security transactions are reported on the average cost method. Interest income is recorded on the accrual basis. Dividends are recorded on the ex-dividend date.

Administrative Fees Administrative fees of the Plan are paid by either McKesson or the Plan, as provided by the Plan document.

Benefits Benefits are recorded when paid.

3. INVESTMENTS

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

| | 2006 | 2005 |
|--|-------------|-------------|
| McKesson Corporation Employer (Allocated and Unallocated) * and Employee Company Stock Funds | \$586,718 | \$476,075 |
| SSgA S&P 500 Index | 159,392 | 155,948 |
| Dodge & Cox Large Cap Value Fund | 123,576 | 114,841 |
| Standish Mellon StableValue Fund | 113,602 | 111,371 |

* Non-Participant
Directed

The Standish Mellon Stable Value Fund contains benefit-responsive guaranteed investment contracts with several insurance companies carried at contract value plus accrued interest totaling \$10,210,000 at March 31, 2006. The guaranteed rates range from 3.63% to 5.66% and the contracts mature at various dates through April 2008. The Standish Mellon Stable Value Fund also includes synthetic investment contracts that are benefit-responsive and are carried at contract value plus accrued interest totaling \$96,578,000 at March 31, 2006. There are no reserves against these contract values for credit risk of the contract issuer or otherwise. Certain of the contracts contain limitations on contract value guarantees for liquidation other than to pay benefits. The contracts mature at various dates through November 2011. The Plan's investment guidelines require these contracts to be with companies rated AA- or better, with no more than 10% of the pool invested with one traditional Guaranteed Income Contract issuer and no more than 40% invested with any one synthetic wrap provider.

During fiscal 2006 and 2005, the Plan's investments (including gains and losses on investments bought and sold, as well as held during the year) appreciated in value as follows (in thousands):

| | 2006 | 2005 |
|------------------------------------|-------------|-------------|
| Common collective trusts | \$ 20,862 | \$ 11,774 |
| Mutual funds | 49,259 | 13,458 |
| Separately Managed Accounts | 21,999 | 12,423 |
| McKesson Corporation Common Stock: | | |

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| | | |
|--|-----------|-----------|
| Employer Company Stock Fund (Allocated and Unallocated)* | 156,742 | 89,887 |
| Employee Company Stock Fund | 14,183 | 7,917 |
| Total | \$263,045 | \$135,459 |

* Non-Participant
Directed

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McKESSON CORPORATION PROFIT-SHARING INVESTMENT PLAN
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
YEARS ENDED MARCH 31, 2006 AND 2005

4. LINE OF CREDIT

In fiscal 1998, the Plan obtained a \$35 million line of credit with ABN AMRO Bank N.V. in order to refinance a portion of the principal payable under the ESOP loans and reduce the number of shares that would be released to fund the employee benefits. In fiscal 2006 and 2005, the Plan released only the shares required to fund the annual ESOP benefits. The line of credit bears interest at London Interbank Offered Rate (LIBOR) multiplied by the applicable LIBOR adjustment. The line of credit matures on June 1, 2009. On March 31, 2006 and 2005, interest rates were 4.28% and 2.50% on the outstanding balance totaling \$3,600,000. At March 31, 2006 and 2005, the line of credit was collateralized by 225,874 unallocated shares of McKesson Corporation common stock.

5. ESOP PROMISSORY NOTES PAYABLE

The ESOP promissory note supporting the July 1986 stock purchase was payable to a bank in increasing annual installments (ranging from 2% to 3% of original principal) over an 18-year term that ended in fiscal 2005 (see Note 1, B). The interest rate was LIBOR plus 0.4%, with an option to the Plan to fix the LIBOR rate for a period ranging from 1 month to 1 year. The note was paid in full in August 2004 and all shares of McKesson common stock were released for employer contributions.

The ESOP promissory note supporting the June 1989 stock purchase is payable to the Company in annual installments plus interest at 8.6% over a twenty-year term ending in fiscal 2010. On March 31, 2006, the outstanding balance of the note was \$20,983,000 (\$32,544,000 at March 31, 2005). This note is collateralized by 1,610,955 unallocated shares of McKesson Corporation common stock (2,519,312 at March 31, 2005). In July 2005 and April 2004, additional principal payments of \$6,000,000 and \$9,000,000 were made to enable the release of additional shares for employer contributions, and each of the scheduled subsequent loan repayment installments was reduced. Future minimum principal payments required on this note (including a \$5,000,000 additional payment in July 2006) are as follows (in thousands):

| Fiscal year | Amount |
|-------------|---------------|
| 2007 | \$ 9,630 |
| 2008 | 4,257 |
| 2009 | 4,630 |
| 2010 | 2,466 |
| Total | \$ 20,983 |

6. FEDERAL INCOME TAX STATUS

The Internal Revenue Service (IRS) has determined and informed the Company by letter dated January 21, 2004, that the Plan is qualified and the trust established under the Plan is tax-exempt, in accordance with the applicable sections of the Internal Revenue Code. This was in response to the Plan s sponsor s request for an updated determination letter to incorporate certain regulatory changes to the Plan as required by the Uruguay Round Agreements Act, the Uniformed Services Employment and Reemployment Rights Act of 1994, the Small Business Job Protection Act of 1996, the Taxpayer Relief Act of 1997, the IRS Restructuring and Reform Act of 1998, and the Community Renewal Tax Relief Act of 2000 (collectively referred to as GUST). The Company and the Plan administrator believe that the Plan is currently designed and operated in compliance with the applicable requirements of the Internal Revenue Code and the Plan and related trust continue to be tax-exempt. Therefore no provision for income taxes has been included in the Plan s financial statements.

During fiscal year 2002, the Department of Labor (the DOL) initiated a review of the Plan s operations. The DOL has not issued any report on its findings. The Plan s Sponsor is cooperating with the DOL and will address matters, if any, requiring corrective action.

7. PLAN TERMINATION

The Company's Board of Directors reserves the right to terminate the Plan. If termination should occur, all participant accounts will immediately vest and each account would receive a distribution equal to the vested account balance. In addition, the unallocated common stock would be liquidated to repay the ESOP promissory notes payable. If the stock liquidation is insufficient to satisfy the notes payable, the Company is obligated to fund the difference.

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**McKESSON CORPORATION PROFIT-SHARING INVESTMENT PLAN
 NOTES TO FINANCIAL STATEMENTS (CONTINUED)
 YEARS ENDED MARCH 31, 2006 AND 2005**

8. PENDING LITIGATION

The Plan's report on Form 11-K for the year ended March 31, 2005, included a description of an action in the United States District Court for the Northern District of California captioned *In re McKesson HBOC, Inc. ERISA Litigation* (N.D. Cal. C-00-20030 RMW) (the "ERISA Action"). The ERISA Action was brought on behalf of two putative classes: an HBOC Sub-Class, and a McKesson Sub-Class. The HBOC Sub-Class included all participants in the former HBO & Company Profit-Sharing and Savings Plan (the "HBOC Plan") and their beneficiaries in the period from March 31, 1996 to April 1, 1999 (the date of the merger of the HBOC Plan into the Plan), for whose benefit the HBOC Plan held and acquired HBO & Company ("HBOC") stock (and, after January 12, 1999, McKesson stock). The McKesson Sub-Class included all participants in the Plan (excluding employees of HBOC who became participants in the Plan by virtue of the merger of the HBOC Plan into the Plan on or about April 1, 1999) whose accounts were invested in McKesson stock at any time, who maintained an account balance under the Plan as of April 27, 1999, which included McKesson stock, and who had not received a distribution from the Plan as of April 27, 1999.

Plaintiffs' Consolidated Amended Complaint (the "CAC"), filed December 31, 2002, named as defendants HBOC, the HBOC Administrative Committee, certain members of the HBOC Administrative Committee, certain former officers, directors or employees of HBOC, the HBOC Board of Directors, the Company, certain current or former officers or directors of the Company and the Plan (as a nominal defendant only), and contained thirteen causes of action, referred to as "Counts." Counts one through six were asserted on behalf of the HBOC Plan for the benefit of the HBOC Sub-Class and alleged that HBOC or alleged fiduciaries of the HBOC Plan breached their fiduciary duties and engaged in transactions prohibited by ERISA. Counts seven through thirteen were asserted on behalf of the Plan for the benefit of the McKesson Sub-Class and alleged that McKesson or alleged fiduciaries of the Plan breached their fiduciary duties by, among other things, (i) failing to adequately investigate the potential effects of the January 12, 1999, merger transaction with HBOC (the "Merger") on the Plan, (ii) failing to adequately determine whether the Plan's heavy concentration in McKesson stock was appropriate in light of the Merger, (iii) failing to diversify the Plan's holding of McKesson stock in light of the Merger, (iv) placing themselves in a conflicted position which prevented them from acting with complete loyalty to the Plan, (v) failing to diversify the Plan's McKesson stock in light of the Company's announcement on April 28, 1999, that certain software sales transactions at its Information Technology Business Unit were improperly recorded as revenue because they were subject to contingencies and were reversed, and (vi) failing to contribute cash, as opposed to Company stock, to the Plan in the Company's annual contribution for the Plan year ended March 31, 1999.

On May 6, 2005, the Company reached an agreement to settle all claims for the benefit of the HBOC Sub-Class for approximately \$18.2 million, in exchange for releases in favor of all defendants, including releases of claims the HBOC Sub-Class might have under ERISA, the federal securities laws, or which relate to the holding, voting or acquisition of McKesson or HBOC securities. The Court granted final approval to that settlement on September 9, 2005, holding that it was fair, adequate and reasonable to the HBOC Sub-Class. In November 2005, the Plan received the ERISA Action settlement for the HBOC Sub-Class, less attorneys' fees, totaling \$13,654,000.

Also on September 9, 2005, the Court granted that portion of the Company's previously-reported motion to dismiss, which related to the claims by the Plan for the benefit of the McKesson Sub-Class. The Court dismissed with prejudice all counts asserted for the benefit of the McKesson Sub-Class against the alleged fiduciaries of the Plan, including the Company, except the Court did not dismiss a portion of one of Plaintiffs' counts that alleged the Company breached its fiduciary duties under ERISA to the Plan participants by contributing Company stock, as opposed to cash, to the Plan in the Company's annual contribution for the Plan fiscal year ended March 31, 1999.

In March of 2006, the Company reached an agreement to settle that portion of the ERISA Action that purports to assert claims on behalf of the McKesson Sub-Class for \$18.5 million, plus certain accrued interest, minus certain costs and expenses such as plaintiffs' attorneys fees. The Court granted final approval to that settlement on September 1, 2006, holding that it was fair, adequate and reasonable to the McKesson Sub-Class. That settlement accomplishes the release of all remaining claims against all defendants in the ERISA Action.

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**McKESSON CORPORATION PROFIT-SHARING INVESTMENT PLAN
NOTES TO FINANCIAL STATEMENTS (CONCLUDED)
YEARS ENDED MARCH 31, 2006 AND 2005**

9. RELATED-PARTY TRANSACTIONS

At March 31, 2006 and 2005, the Plan held approximately 11,243,000 and 12,603,000 common shares of McKesson Corporation, the Plan's sponsor. The shares are held within the McKesson Corporation Employer and Employee Stock Funds and the Leveraged ESOP. At March 31, 2006 and 2005, the Employer Stock Funds held approximately 8,397,000 and 8,903,000 common shares and the Leveraged ESOP held 1,837,000 and 2,745,000 common shares as collateral for the ESOP loans. At March 31, 2006 and 2005, the Employee Stock Fund held approximately 1,009,000 and 955,000 shares.

McKesson Corporation declared dividends of \$0.24 per share for both fiscal 2006 and 2005. During the years ended March 31, 2006 and 2005, the Employer Stock Funds recorded dividend income from McKesson Corporation common shares of approximately \$3,156,000 and \$3,172,000. During each of the years ended March 31, 2006 and 2005, the Employee Company Stock Fund recorded dividend income from McKesson Corporation common shares of approximately \$238,000 and \$246,000.

Certain investment options are managed by Fidelity, which also serves as the Plan's record-keeper and trustee. Therefore, these transactions qualify as party-in-interest transactions. Fees for investment management services are allocated to the participants with balances in those funds.

10. SUBSEQUENT EVENTS:

In April 2006, changes to plan investment options were made. The Plan's Mutual Fund Window offering was updated to mirror Fidelity's Mutual Fund Window offering. Furthermore, Fidelity Magellan Fund was moved out of the core investment options group and into the Mutual Fund Window.

In July 2006, the net assets from the D&K Healthcare Resources, Inc. Profit Sharing Plan and Trust totaling \$14,242,000 were merged into the Plan.

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McKESSON CORPORATION PROFIT-SHARING INVESTMENT PLAN
FORM 5500, SCHEDULE H, PART IV, LINE 4i SCHEDULE OF ASSETS (HELD AT END OF YEAR)
MARCH 31, 2006

| Investment/Fund Name | Cost Basis | Shares/Units | Fair Value |
|----------------------------------|-------------------|---------------------|-------------------|
| BROKERAGELINK | \$ 10,008,665 | 16,473,739 | \$ 11,339,981 |
| SSGA BOND INDEX | 12,532,666 | 1,003,114 | 16,350,755 |
| SSGA BALANCED | 37,744,489 | 3,792,888 | 44,604,365 |
| WELLINGTON MGMT SMCAP | 23,962,376 | 2,167,407 | 39,076,189 |
| SSGA S&P 500 INDEX | 106,978,131 | 8,153,057 | 159,392,265 |
| DODGE & COX LARGE CAP VALUE FUND | 77,005,521 | 6,827,415 | 123,576,219 |
| PIMCO TOT RETURN ADM | 5,760,616 | 539,925 | 5,577,428 |
| TMPL FOREIGN SM CO A | 387,449 | 20,712 | 464,353 |
| ABF BALANCED PA | 806,499 | 60,785 | 844,302 |
| ABF LARGE CAP VAL PA | 2,295,962 | 120,395 | 2,511,446 |
| ABF INTL EQUITY PA | 201,473 | 10,349 | 232,343 |
| ABF SH TERM BOND PA | 97,299 | 10,603 | 92,456 |
| MUTUAL DISCOVERY A | 1,069,932 | 47,098 | 1,347,008 |
| BARON GROWTH | 9,539,633 | 233,400 | 11,786,683 |
| BARON ASSET FUND | 794,704 | 14,374 | 884,588 |
| MSI US LG CAP GRTH B | 113,128 | 6,949 | 134,116 |
| CALV NEWVIS SM CP A | 38,989 | 2,206 | 39,523 |
| CALVERT SIF BALNCD A | 42,434 | 1,612 | 46,803 |
| CALVERT SIF:EQUITY A | 21 | 1 | 21 |
| CALVERT CAP ACC A | 36,578 | 1,653 | 43,051 |
| CALVERT INTL EQTY A | 24,358 | 1,308 | 30,012 |
| FMA SMALL COMPANY IS | 391,690 | 19,717 | 441,063 |
| FPA CRESCENT | 3,505,357 | 156,777 | 4,149,900 |
| RHJ MICRO CAP | 1,647,295 | 82,202 | 1,745,979 |
| LOOMIS SM CAP VAL R | 168,367 | 6,341 | 178,932 |
| OLDMUT EMRG GROWTH Z | 140,046 | 11,270 | 178,397 |
| ARIEL FUND | 5,762,070 | 122,793 | 6,646,786 |
| ARIEL APPRECIATION | 3,804,985 | 90,519 | 4,307,821 |
| LB CORE BOND NB INV | 308,917 | 29,967 | 290,378 |
| ALGER CAP APPREC I | 444,568 | 37,846 | 568,449 |
| ALGER MIDCAP GRTH I | 2,240,790 | 145,855 | 2,642,885 |
| ALGER SMALL CAP I | 456,642 | 25,827 | 612,874 |
| FKLN SMMIDCAP GRTH A | 525,761 | 17,458 | 707,752 |
| DREY FNDRS BALNCED F | 73,694 | 9,103 | 80,654 |
| DREY FNDRS EQ GRTH F | 75,293 | 16,165 | 87,779 |
| DREY FNDRS GROWTH F | 93,068 | 9,483 | 109,056 |
| DREY FNDRS MC GRTH F | 205,699 | 52,039 | 284,132 |
| DREY FNDRS WW GRTH F | 20,526 | 1,614 | 24,759 |
| OLDMUT GROWTH Z | 154,573 | 8,202 | 190,373 |
| AIM DYNAMICS INV | 166,423 | 11,696 | 236,139 |
| AIM SM CO GRTH INV | 156,627 | 12,597 | 188,068 |
| TEMPLETON FOREIGN A | 5,880,052 | 554,679 | 7,488,172 |
| JANUS FLEXIBLE BOND | 1,234,296 | 128,477 | 1,196,122 |

| | | | |
|----------------------|-----------|--------|-----------|
| DREY FNDRS DISCVRY F | 234,794 | 9,192 | 295,433 |
| MSI INTL MAGNUM B | 21,115 | 1,856 | 26,096 |
| MUTUAL SHARES CL A | 1,460,990 | 65,673 | 1,662,179 |
| MANAGERS SPECIAL EQ | 44,979 | 497 | 47,580 |
| MSI GLOBAL VAL EQ B | 36,482 | 2,321 | 43,004 |
| MSIFT BALANCED ADV | 36,086 | 3,284 | 40,656 |
| MSIFT CP FX INC ADV | 424,085 | 36,649 | 418,167 |
| MSIFT HIGH YIELD ADV | 18,182 | 3,433 | 18,196 |
| MSIFT MIDCAP GTH ADV | 416,513 | 21,721 | 574,085 |
| MSIFT VALUE ADVISER | 281,794 | 17,944 | 315,453 |
| MSI SM CO GROWTH B | 167,990 | 14,467 | 200,217 |

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McKESSON CORPORATION PROFIT-SHARING INVESTMENT PLAN
FORM 5500, SCHEDULE H, PART IV, LINE 4i SCHEDULE OF ASSETS (HELD AT END OF YEAR)
MARCH 31, 2006

| Investment/Fund Name | Cost Basis | Shares/Units | Fair Value |
|-----------------------------|-------------------|---------------------|-------------------|
| MSI ACTIVE INTL B | 50,330 | 4,682 | 64,664 |
| MSI EMERGING MKTS B | 547,241 | 24,683 | 706,927 |
| NB FOCUS TRUST | 163,605 | 6,482 | 170,081 |
| NB GENESIS TR CL | 6,838,434 | 166,535 | 8,609,839 |
| NB MANHATTAN TRUST | 61,654 | 6,312 | 85,021 |
| NB PARTNERS TRUST | 845,435 | 39,585 | 898,982 |
| NB SOCIALLY RESP TR | 318,137 | 21,916 | 355,704 |
| OAKMARK FUND I | 591,786 | 14,377 | 610,143 |
| ALLNZ CCM CAP AP ADM | 369,712 | 23,181 | 476,823 |
| ALLNZ CCM MID CP ADM | 451,030 | 20,224 | 583,454 |
| PIM GLBBND AD UNHDGD | 534,973 | 53,362 | 506,942 |
| PIMCO HIGH YIELD ADM | 1,366,184 | 140,808 | 1,375,693 |
| PIMCO LOW DUR ADM | 389,134 | 38,256 | 378,735 |
| PIMCO LT US GOVT ADM | 1,099,716 | 100,542 | 1,053,679 |
| WFA ULTRA ST INC INV | 111,497 | 12,080 | 110,168 |
| WFA SHRTTERM BND INV | 106,559 | 11,904 | 101,068 |
| WFA DISCOVERY INV | 402,953 | 20,192 | 455,536 |
| WFA GROWTH INV | 342,530 | 19,576 | 450,842 |
| WFA COMMON STOCK Z | 255,765 | 11,973 | 281,843 |
| WFA OPPORTUNITY INV | 558,165 | 14,110 | 664,581 |
| WFA LG CAP GRTH INV | 180,037 | 8,432 | 212,570 |
| WFA GOVT SECURTY INV | 726,666 | 67,056 | 688,670 |
| TEMPLETON DEV MKTS A | 1,255,251 | 63,876 | 1,655,024 |
| TEMPLETON GROWTH A | 2,049,378 | 96,363 | 2,332,957 |
| TMPL GLOBAL BOND A | 1,613,849 | 156,326 | 1,647,677 |
| TEMPLETON WORLD A | 1,225,799 | 72,657 | 1,359,414 |
| USAA CORNERSTONE | 172,546 | 6,708 | 180,171 |
| USAA GNMA TRUST | 197,373 | 19,898 | 188,235 |
| USAA INCOME FUND | 1,027,100 | 83,252 | 998,186 |
| USAA INCOME STOCK | 307,243 | 19,283 | 307,367 |
| USAA INTERNATIONAL | 152,170 | 7,250 | 185,819 |
| USAA GROWTH FUND | 104,708 | 8,093 | 125,679 |
| USAA EMERGING MKTS | 210,739 | 23,257 | 408,162 |
| AIM CONSTELLATION A | 21,716 | 945 | 24,796 |
| CS CAP APPREC COM | 92,400 | 5,472 | 96,695 |
| CS MID CAP GRTH COM | 89,984 | 3,727 | 131,380 |
| RS EMERGING GROWTH | 38,171 | 1,275 | 46,226 |
| ARTISAN INTL | 710,668 | 29,590 | 828,528 |
| MSI INTL EQUITY B | 43,374 | 2,070 | 44,812 |
| NB GUARDIAN TRUST | 28,837 | 2,409 | 35,004 |
| DWS INTERNATIONAL S | 51,521 | 1,079 | 60,311 |
| DOMINI SOCIAL EQUITY | 163,395 | 5,904 | 182,552 |
| DWS GLOBAL OPPTS S | 71,776 | 1,884 | 82,127 |

| | | | |
|----------------------|---------|--------|---------|
| AM CENT ULTRA INV | 37,101 | 1,276 | 38,503 |
| TCW SM CAP GRTH N | 37,464 | 2,253 | 44,812 |
| TCW AGGR GRTH EQ N | 2,408 | 198 | 2,771 |
| MSI LGCP REL VAL B | 31,726 | 2,827 | 32,254 |
| AIM GBL AGGR GRTH A | 27,382 | 1,393 | 33,632 |
| MANAGERS BOND FUND | 380,588 | 15,630 | 373,255 |
| MANAGERS CAP APPREC | 84 | 3 | 92 |
| MANAGERS VALUE | 22,312 | 749 | 21,939 |
| RS SMALLER CO GROWTH | 74,048 | 3,399 | 79,169 |
| TCW SELECT EQUITY N | 240,783 | 12,869 | 250,815 |
| CS LARGE CAP VALUE A | 26,307 | 1,334 | 26,520 |
| AIM BASIC VALUE A | 12,245 | 376 | 13,508 |

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McKESSON CORPORATION PROFIT-SHARING INVESTMENT PLAN
FORM 5500, SCHEDULE H, PART IV, LINE 4i SCHEDULE OF ASSETS (HELD AT END OF YEAR)
MARCH 31, 2006

| Investment/Fund Name | Cost Basis | Shares/Units | Fair Value |
|--------------------------------------|-------------------|---------------------|-------------------|
| GRTMORE MDCPGR LDR A | 21,758 | 1,612 | 24,473 |
| GARTMORE VAL OPPTS A | 3,535 | 240 | 3,735 |
| LM VALUE TRUST FI CL | 457,929 | 6,630 | 497,708 |
| ARTISAN MID CAP INV | 311,334 | 10,409 | 345,682 |
| CS SMALL CAP VAL COM | 831,875 | 38,992 | 935,806 |
| OAKMARK EQ & INC I | 1,087,292 | 44,894 | 1,143,900 |
| ROYCE LOW PR STK SER | 504,205 | 31,732 | 570,215 |
| VK GROWTH & INCOME A | 769,777 | 36,984 | 767,410 |
| DWS/D HIGH RTN EQ A | 613,399 | 13,908 | 646,708 |
| AIM MIDCAP CORE EQ A | 95,799 | 3,246 | 97,355 |
| WEST ASSET CORE FI | 27,764 | 2,444 | 27,011 |
| MFS INST LG CAP GRTH | 2,807,430 | 483,250 | 3,189,449 |
| ALLNZ NFJ SMCPVAL AD | 1,088,100 | 35,622 | 1,125,997 |
| LD ABBETT MIDCPVAL P | 469,227 | 21,320 | 469,458 |
| COL/ACORN SELECT Z | 858,867 | 38,916 | 955,381 |
| COL CONS HIGH YLD Z | 11,720 | 1,367 | 11,562 |
| CRM MID CAP VAL INV | 491,424 | 18,503 | 532,320 |
| ABF SM CAP VAL PA | 675,040 | 33,565 | 732,061 |
| AM CEN LG CO VAL INV | 20,662 | 3,198 | 21,490 |
| STANDISH MELLON STABLEVALUE FUND | 113,601,904 | 112,980,805 | 113,601,904 |
| * MCKESSON EE STK FUND | 34,896,711 | 1,496,233 | 53,253,828 |
| * MCKESSON ER STK FUND (allocated) | 242,395,167 | 8,396,522 | 437,710,708 |
| * MCKESSON ER STK FUND (unallocated) | 34,605,858 | 1,836,829 | 95,753,896 |
| * FID FIDELITY | 1,121,375 | 40,033 | 1,337,097 |
| * FID PURITAN | 2,250,548 | 123,647 | 2,393,797 |
| * FID TREND | 172,640 | 3,448 | 206,563 |
| * FID SEL COMPUTERS | 635 | 17 | 637 |
| * FID SEL ELECTRONICS | 50,364 | 1,076 | 49,838 |
| * FID SEL FOOD & AG | 34,006 | 667 | 35,440 |
| * FID VALUE STRATEGIES | 97,935 | 2,880 | 95,774 |
| * FID GINNIE MAE | 1,854,498 | 167,686 | 1,790,887 |
| * FIDELITY MAGELLAN | 57,365,145 | 531,687 | 59,974,295 |
| * FID CONTRAFUND | 5,302,537 | 86,249 | 5,738,999 |
| * FID EQUITY INCOME | 2,752,208 | 55,300 | 3,024,378 |
| * FID GROWTH COMPANY | 3,103,538 | 59,255 | 4,028,775 |
| * FIDELITY INVST GR BD | 907,382 | 121,536 | 883,565 |
| * FID GROWTH & INCOME | 49,821,385 | 1,281,881 | 45,865,718 |
| * FID SEL SOFTWARE | 38,754 | 758 | 42,884 |
| * FID INTERMED BOND | 6,594,116 | 639,271 | 6,494,992 |
| * FID SEL AIR TRANSPRT | 10,889 | 289 | 13,277 |
| * FID CAPITAL & INCOME | 2,642,678 | 321,873 | 2,748,797 |
| * FID VALUE | 8,127,083 | 121,078 | 9,795,184 |
| * FID MORTGAGE SEC | 162,759 | 14,609 | 159,535 |

| | | | |
|------------------------|-----------|-----------|-----------|
| * FID SEL GOLD | 739,092 | 22,013 | 858,280 |
| * FID SEL BIOTECH | 396,386 | 6,460 | 429,597 |
| * FID SEL ENERGY SVCS | 2,566,266 | 38,132 | 2,817,179 |
| * FID SEL INSURANCE | 65,184 | 1,004 | 68,646 |
| * FID SEL RETAILING | 11,444 | 221 | 11,563 |
| * FIDELITY US GOVT RES | 1,896,807 | 1,896,807 | 1,896,807 |
| * FIDELITY GOVT INCOME | 1,098,402 | 107,121 | 1,065,854 |
| * FIDELITY CASH RESRVE | 6,521,516 | 6,521,516 | 6,521,516 |
| * FID SEL ENERGY | 3,958,631 | 91,261 | 4,766,545 |
| * FID SEL LEISURE | 31,062 | 409 | 35,272 |
| * FID SEL HEALTHCARE | 657,725 | 4,801 | 665,282 |
| * FID SEL TECHNOLOGY | 314,056 | 4,958 | 330,603 |

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McKESSON CORPORATION PROFIT-SHARING INVESTMENT PLAN
FORM 5500, SCHEDULE H, PART IV, LINE 4i SCHEDULE OF ASSETS (HELD AT END OF YEAR)
MARCH 31, 2006

| Investment/Fund Name | Cost Basis | Shares/Units | Fair Value |
|-----------------------------|-------------------|---------------------|-------------------|
| * FID SEL UTILITIES GR | 76,288 | 1,785 | 83,448 |
| * FID SEL FINANCIAL | 119,041 | 1,019 | 123,057 |
| * FID SEL DEFENSE | 976,941 | 13,401 | 1,109,615 |
| * FID SEL BROKERAGE | 651,629 | 9,119 | 704,108 |
| * FID SEL CHEMICAL | 162,185 | 2,405 | 170,589 |
| * FID INDEPENDENCE | 270,366 | 16,009 | 339,390 |
| * FID OTC PORTFOLIO | 234,269 | 7,386 | 295,442 |
| * FID OVERSEAS | 570,158 | 15,975 | 714,544 |
| * FID SEL TELECOMM | 16,370 | 389 | 17,246 |
| * FID SEL HOME FINANCE | 17,819 | 325 | 16,924 |
| * FID LEVERAGED CO STK | 2,621,210 | 106,462 | 3,038,437 |
| * FID EUROPE | 826,808 | 25,885 | 1,033,599 |
| * FID PACIFIC BASIN | 517,561 | 22,735 | 633,621 |
| * FID REAL ESTATE INVS | 7,759,496 | 287,998 | 10,180,722 |
| * FID BALANCED | 8,740,599 | 511,586 | 10,027,086 |
| * FID INTL DISCOVERY | 4,013,134 | 154,573 | 5,371,424 |
| * FID CAP APPRECIATION | 3,629,446 | 146,099 | 3,991,416 |
| * FID CONVERTIBLE SEC | 885,892 | 43,293 | 1,039,034 |
| * FID CANADA | 5,381,859 | 148,394 | 6,827,628 |
| * FIDELITY UTILITIES | 429,655 | 33,396 | 523,315 |
| * FID BLUE CHIP GROWTH | 29,223,520 | 660,514 | 29,174,886 |
| * FID ASSET MANAGER | 8,121,983 | 503,429 | 8,306,571 |
| * FID DISCIPLINED EQTY | 424,851 | 16,426 | 476,179 |
| * FIDELITY LOW PR STK | 14,147,470 | 410,294 | 18,200,624 |
| * FID WORLDWIDE | 210,002 | 12,095 | 250,132 |
| * FID EQUITY INCOME II | 15,185,205 | 667,933 | 15,830,005 |
| * FID STOCK SELECTOR | 63,286 | 2,832 | 73,732 |
| * FID ASSET MGR GRTH | 580,062 | 40,874 | 640,092 |
| * FIDELITY EMERG MRKTS | 2,570,873 | 152,828 | 3,224,676 |
| * FIDELITY AGGR GROWTH | 1,693,075 | 106,879 | 2,023,217 |
| * FID DIVERSIFIED INTL | 30,273,240 | 1,111,757 | 39,667,497 |
| * FID ASSET MGR INCOME | 558,093 | 45,301 | 592,081 |
| * FID DIVIDEND GROWTH | 5,270,886 | 195,718 | 5,902,870 |
| * FID NEW MARKETS INC | 4,116,958 | 295,126 | 4,326,554 |
| * FID EXP & MULTINATL | 2,964,015 | 151,276 | 3,317,478 |
| * FID FOCUSED STOCK | 323,084 | 31,853 | 390,522 |
| * FID GLOBAL BALANCED | 344,153 | 17,209 | 379,972 |
| * FID AGGRESSIVE INTL | 454,565 | 29,430 | 526,499 |
| * FID SM CAP INDEPEND | 775,255 | 39,834 | 903,026 |
| * FID MID CAP STOCK | 5,505,808 | 244,322 | 7,361,409 |
| * FID LARGE CAP STOCK | 495,611 | 35,666 | 584,926 |
| * FID DISCOVERY | 473,404 | 46,729 | 571,497 |
| * FID SMALL CAP STOCK | 2,867,568 | 171,929 | 3,589,875 |

| | | | |
|------------------------|-----------|---------|-----------|
| * FID EUROPE CAP APP | 444,068 | 22,063 | 564,590 |
| * FIDELITY NORDIC | 390,618 | 13,929 | 481,257 |
| * FID ASSET MGR AGGR | 537,270 | 50,766 | 639,651 |
| * FID LATIN AMERICA | 4,845,916 | 171,447 | 6,454,985 |
| * FID JAPAN | 1,579,360 | 101,532 | 1,908,796 |
| * FID SOUTHEAST ASIA | 683,720 | 35,719 | 836,902 |
| * FID CHINA REGION | 1,070,925 | 63,028 | 1,312,870 |
| * FID SEL BUS SV & OUT | 11,401 | 767 | 13,606 |
| * FID SEL MED EQ & SYS | 423,791 | 17,317 | 423,397 |
| * FID FOUR IN ONE IDX | 492,339 | 20,431 | 565,334 |
| * FID JAPAN SMALLER CO | 1,757,180 | 125,259 | 2,037,970 |
| * FID GROWTH & INC II | 550,936 | 59,248 | 630,399 |

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McKESSON CORPORATION PROFIT-SHARING INVESTMENT PLAN
FORM 5500, SCHEDULE H, PART IV, LINE 4i SCHEDULE OF ASSETS (HELD AT END OF YEAR)
MARCH 31, 2006

| Investment/Fund Name | Cost Basis | Shares/Units | Fair Value |
|-----------------------------|-------------------|---------------------|-------------------|
| * FID STRATEGIC INCOME | 1,805,592 | 172,528 | 1,799,464 |
| * FID FREEDOM INCOME | 249,525 | 23,035 | 264,677 |
| * FID FREEDOM 2000 | 91,442 | 7,707 | 95,566 |
| * FID FREEDOM 2010 | 2,963,816 | 223,303 | 3,231,197 |
| * FID FREEDOM 2020 | 4,765,408 | 352,946 | 5,424,773 |
| * FID FREEDOM 2030 | 2,315,043 | 169,050 | 2,674,372 |
| * FID SM CAP RTMT | 830,224 | 59,290 | 1,058,918 |
| SPTN TOTAL MKT INDEX | 2,830,657 | 89,358 | 3,266,038 |
| SPTN EXTND MKT INDEX | 632,093 | 20,682 | 787,166 |
| SPARTAN INTL INDEX | 911,849 | 27,949 | 1,090,006 |
| * FID SHORT TERM BOND | 946,762 | 106,134 | 936,101 |
| * FID INTM GOVT INCOME | 298,237 | 29,397 | 291,327 |
| * FID HIGH INCOME | 927,042 | 105,784 | 939,358 |
| * FID FIFTY | 1,349,326 | 68,792 | 1,671,650 |
| * FID SEL AUTOMOTIVE | 402 | 12 | 422 |
| * FID SEL MULTIMEDIA | 868 | 18 | 893 |
| * FID SEL MEDICAL DEL | 2,070,242 | 41,073 | 2,247,490 |
| * FID SEL PAPER&FOREST | 26,536 | 930 | 29,743 |
| * FID SEL BANKING | 105,951 | 2,885 | 106,436 |
| * FID SEL INDUST MATER | 12,261 | 276 | 13,397 |
| * FID SEL INDUST EQUIP | 32,080 | 1,135 | 34,479 |
| * FID SEL CONSTR/HOUSE | 346,013 | 7,566 | 380,942 |
| * FID SEL TRANSPORT | 79,292 | 1,689 | 88,243 |
| * FID SEL NATURAL GAS | 2,205,878 | 60,562 | 2,489,098 |
| * FID SEL NATURAL RES | 904,437 | 38,317 | 1,057,549 |
| * FID SEL CYCLICAL IND | 51,970 | 2,529 | 55,458 |
| * FID SEL ENVIRONMENT | 30,431 | 1,824 | 33,598 |
| * FID SEL CONSUMER IND | 5,208 | 200 | 5,242 |
| * FID SEL DEVELOP COMM | 57,552 | 2,640 | 61,218 |
| * FID SEL PHARMACEUTCL | 58,154 | 6,126 | 64,997 |
| * FIDELITY RETIRE MMKT | 11,140,632 | 11,140,632 | 11,140,632 |
| * FIDELITY RET GOVT MM | 5,532,925 | 5,532,925 | 5,532,925 |
| SPARTAN US EQ INDEX | 4,268,162 | 104,963 | 4,829,365 |
| * FIDELITY US BD INDEX | 2,152,404 | 194,478 | 2,084,807 |
| * FID INST SH INT GOVT | 143,404 | 15,015 | 141,743 |
| * FID LARGE CAP VALUE | 131,821 | 10,176 | 139,214 |
| * FID FREEDOM 2040 | 1,140,419 | 136,434 | 1,272,933 |
| * FID MID CAP VALUE | 639,406 | 42,100 | 658,017 |
| * FID LARGE CAP GROWTH | 459,047 | 40,916 | 478,311 |
| * FID MID CAP GROWTH | 411,644 | 30,578 | 437,884 |
| * FID INFLAT PROT BOND | 349,106 | 31,049 | 332,530 |
| * FID ULTRASHORT BOND | 131,605 | 13,114 | 131,405 |
| * FID FLOAT RT HI INC | 219,942 | 22,056 | 220,119 |

| | | | |
|------------------------|-----------|--------|-----------|
| * FID INTL SMALL CAP | 2,259,066 | 84,821 | 2,592,129 |
| * FID TOTAL BOND | 57,872 | 5,488 | 56,471 |
| * FID VALUE DISCOVERY | 455,931 | 29,241 | 490,369 |
| * FID REAL ESTATE INC | 125,253 | 10,667 | 125,447 |
| * FID SEL NET & INFSTR | 45,692 | 18,805 | 52,277 |
| * FID SEL WIRELESS | 231,047 | 35,359 | 262,720 |
| * FID BLUE CHIP VALUE | 61,641 | 4,662 | 66,432 |
| * FID NASDAQ COMP INDX | 157,933 | 5,504 | 173,707 |
| * FID FREEDOM 2005 | 31,481 | 2,877 | 32,911 |
| * FID FREEDOM 2015 | 934,846 | 81,062 | 971,120 |
| * FID FREEDOM 2025 | 492,550 | 42,901 | 537,125 |
| * FID FREEDOM 2035 | 280,163 | 23,953 | 308,754 |

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**McKESSON CORPORATION PROFIT-SHARING INVESTMENT PLAN
FORM 5500, SCHEDULE H, PART IV, LINE 4i SCHEDULE OF ASSETS (HELD AT END OF YEAR)
MARCH 31, 2006**

| Investment/Fund Name | Cost Basis | Shares/Units | Fair Value |
|-----------------------------|-------------------|---------------------|-------------------|
| * FID STRAT DIV & INC | 78,377 | 6,763 | 87,104 |
| * FID FOCUSED HIGH INC | 2,244 | 224 | 2,243 |
| * FID INTL REAL ESTATE | 298,806 | 22,840 | 336,433 |
| * OUTSTANDING LOAN BALANCE | | | 19,785,551 |
| Total | \$ 1,180,655,411 | | \$ 1,653,522,651 |

* Party-in-interest

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Plan administrator has duly caused this annual report to be signed on its behalf by the undersigned hereunto duly authorized.

McKesson Corporation Profit-Sharing Investment Plan

Dated: September 27, 2006

/s/ Jeffrey C. Campbell

Jeffrey C. Campbell

Executive Vice President and Chief
Financial Officer

/s/ Paul E. Kirincic

Paul E. Kirincic

Executive Vice President
Human Resources