

MCKESSON CORP
Form DEF 14A
June 13, 2003

SCHEDULE 14A INFORMATION

Proxy Statement Pursuant to Section 14(a) of the Securities Exchange Act of 1934
(Amendment No.)

Filed by the Registrant [x]
Filed by a Party other than the Registrant []

Check the appropriate box:

- [] Preliminary Proxy Statement
- [] Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))
- [x] Definitive Proxy Statement
- [] Definitive Additional Materials
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McKesson Corporation

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement if Other Than the Registrant)

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[MCKESSON LOGO]

**NOTICE OF ANNUAL MEETING OF STOCKHOLDERS
OF MCKESSON CORPORATION**

The 2003 Annual Meeting of Stockholders of McKesson Corporation will be held on Wednesday, July 30, 2003 at 10:00 a.m. at the Nob Hill Masonic Center, 1111 California Street, San Francisco, California to:

Elect two Directors to three-year terms;

Ratify the appointment of Deloitte & Touche LLP as independent auditors for the fiscal year ending March 31, 2004;

Consider a stockholder proposal;

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

Stockholders of record at the close of business on June 3, 2003 are entitled to notice of and to vote at the meeting or any adjournment or postponement of the meeting.

YOUR VOTE IS IMPORTANT. We encourage you to read the proxy statement and vote your shares as soon as possible. A return envelope for your proxy card is enclosed for your convenience. You may also vote by telephone or via the Internet. Specific instructions on how to vote using either of these methods are included on the proxy card.

By Order of the Board of Directors

-s- IVAN D. MEYERSON

Ivan D. Meyerson
*Senior Vice President, General Counsel
and Secretary*

One Post Street
San Francisco, CA 94104-5296
June 16, 2003

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PROXY STATEMENT

General Information

Proxies and Voting at the Meeting

The Board of Directors of McKesson Corporation (the Company or we or us), a Delaware corporation, is soliciting proxies to be voted at the Annual Meeting of Stockholders to be held July 30, 2003 (the Meeting), and at any adjournment or postponement of the Meeting. This proxy statement includes information about the issues to be voted upon at the Meeting.

On June 16, 2003, the Company began delivering these proxy materials to all stockholders of record at the close of business on June 3, 2003. On the record date, there were approximately 289,577,088 shares of the Company's common stock outstanding and entitled to vote. You have one vote for each share of common stock you held on the record date, including: shares held directly in your name as the stockholder of record; held for you in an account with a broker, bank or other nominee; or attributed to your account in the Company's Profit-Sharing Investment Plan (PSIP).

You can revoke your proxy at any time before the Meeting by sending in a written revocation or a proxy bearing a later date. Stockholders may also revoke their proxies by attending the Meeting in person and casting a ballot.

If you are a stockholder of record or a participant in the Company's PSIP, you can give your proxy by calling a toll free number, by using the Internet, or by mailing your signed proxy card(s). Specific instructions for voting by means of the telephone or Internet are set forth on the enclosed proxy card.

If you have shares held by a broker or other nominee, you may instruct your broker or other nominee to vote your shares by following their instructions.

All shares represented by valid proxies will be voted as specified. If no specification is made, the proxies will be voted **FOR**:

The election of two Directors to three-year terms;

Ratifying the appointment of Deloitte & Touche LLP as the Company's independent auditors for the fiscal year ending March 31, 2004; and **AGAINST**:

The stockholder proposal

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

Attendance at the Meeting

If you plan to attend the Meeting, you will need to bring your admission ticket. You will find an admission ticket attached to the proxy card if you are a registered holder or PSIP participant. If your shares are held in the name of a bank, broker or other holder of record and you plan to attend the Meeting in person, you may obtain an admission ticket in advance by sending a request, along with proof of ownership, such as a bank or brokerage account statement, to the Company's Corporate Secretary, One Post Street, San Francisco, California 94104. Stockholders who do not have an admission ticket will only be admitted upon verification of ownership at the door.

Dividend Reinvestment Plan

For those stockholders who participate in the Company's Automatic Dividend Reinvestment Plan, the enclosed proxy includes all full shares of common stock held in your dividend reinvestment plan account on the record date for the Meeting, as well as your shares held of record.

Vote Required and Method of Counting Votes

The presence in person or by proxy of holders of a majority of the outstanding shares of common stock entitled to vote will constitute a quorum for the transaction of business at the Meeting. The shares represented by abstentions and broker nonvotes (defined below) on filed proxies and ballots will be considered present for quorum purposes. Provided a quorum is present, directors will be elected by a plurality of the votes cast by the holders of the Company's shares of common stock voting in person or by proxy at the Meeting. This means that the Director nominee with the most votes for a particular slot is elected for that slot. Only votes for or against affect the outcome. Abstentions are not counted for purposes of the election of Directors. The affirmative vote of the holders of the majority of the shares present or represented by proxy is required for the ratification of the appointment of Deloitte & Touche LLP and for the approval of the stockholder proposal. Abstentions for these matters will be treated as votes cast on a particular matter. Broker nonvotes will not be treated as votes cast on any of these matters. Generally broker nonvotes occur on a matter when a broker is not permitted to vote on that matter without instructions from the beneficial owner, and instructions are not given.

Profit-Sharing Investment Plan

Participants in the Company's PSIP have the right to instruct the PSIP Trustee, on a confidential basis, how the shares allocated to their accounts are to be voted and will receive a separate PSIP voting instruction card for that purpose. Shares that have been allocated to PSIP participants PAYSOP accounts for which no voting instructions are received will not be voted. The PSIP provides that all other shares for which no voting instructions are received from participants and unallocated shares of common stock held in the leveraged employee stock ownership plan established as part of the PSIP, will be voted by the Trustee in the same proportion as shares as to which voting instructions are received.

List of Stockholders

The names of stockholders of record entitled to vote at the Meeting will be available at the Meeting and for ten days prior to the Meeting for any purpose germane to the meeting, during ordinary business hours, at our principal executive offices at One Post Street, San Francisco, California, by contacting the Secretary of the Company.

Online Access to Annual Reports on Form 10-K and Proxy Statements

The Notice of Annual Meeting and Proxy Statement and the Annual Report on Form 10-K for our fiscal year ended March 31, 2003 are available on our website at www.mckesson.com. Instead of receiving future copies of the Annual Report on Form 10-K and the Proxy Statement by mail, stockholders can elect to receive an e-mail which will provide electronic links to these documents.

Stockholders of Record: If you vote using the Internet, you may elect to receive proxy materials electronically next year in place of receiving printed materials. You will save the Company printing and mailing expenses, reduce the impact on the environment and obtain immediate access to the Annual Report on Form 10-K, Proxy Statement and voting form when they become available. If you used a different method to vote, sign up anytime using your Stockholder Account Number at the Internet website: <http://www.econsent.com/mck>. The proxy card also contains a consent to receive these documents electronically.

Beneficial stockholders: If you hold your shares in a bank or brokerage account, you may also have the opportunity to receive copies of the Annual Report on Form 10-K and the Proxy Statement electronically. Please check the information provided in the proxy materials mailed to you by your bank or broker regarding the availability of this service or contact the bank, broker or other holder of record through which you hold your shares and inquire about the availability of such an option for you.

If you elect to receive your materials via the Internet, you can still request paper copies by leaving a message with Investor Relations at (800) 826-9360 or by e-mail at investors@mckesson.com.

PROPOSALS TO BE VOTED ON

Item 1. *Election of Directors*

The Board of Directors (the Board) is divided into three classes for purposes of election. One class is elected at each annual meeting of stockholders to serve for a three-year term. Directors hold office until the end of their terms and until their successors have been elected and qualified, or until their earlier death, resignation, or removal. If a nominee is unavailable for election, your proxy authorizes the persons named in the proxy to vote for a replacement nominee if the Board names one. As an alternative, the Board may reduce the number of directors to be elected at the meeting. The Board is not aware that any nominee named in the proxy statement will be unwilling or unable to serve as a director. Neither Tully M. Friedman, a director of the Company since 1992, nor Carl E. Reichardt, a director of the Company since 1996, are standing for re-election. Effective upon the expiration of their terms, the Board will amend the Company's Restated By-Laws to provide that the authorized number of directors shall be eight.

The terms of office of the directors designated as nominees will expire at the 2003 annual meeting. The Board has nominated each of the nominees for re-election for a three-year term that will expire at the annual meeting to be held in 2006, and until their successors are elected and qualified.

The following is a brief description of the age, principal occupation for at least the past five years and major affiliations of each of the nominees and the continuing directors.

Nominees

The Board of Directors recommends a vote FOR all Nominees.

ALTON F. IRBY III

Partner, Tricorn Partners LLP

Mr. Irby, age 62, is a founding partner of Tricorn Partners LLP, a privately held investment bank. He was a partner of Gleacher & Co. Ltd. from January 2001 until April 2003, has been Chairman of Cobalt Media Group since January 2000 and was Chairman of HawkPoint Partners, from 1997 until 2000. He was co-founder of J.O. Hambro Magan Irby Holdings from 1988 until 1997. He also serves as a director of City Capital, Inc. and Penumbra Ltd. Mr. Irby has been a director of the Company since 1999. He is a member of the Compensation and Finance Committees.

JAMES V. NAPIER

Chairman of the Board, Retired, Scientific-Atlanta, Inc.

Mr. Napier, age 66, retired as Chairman of the Board, Scientific-Atlanta, Inc., a cable and telecommunications network company, in November 2000. He had been the Chairman of the Board since 1993. He is also a director of Engelhard Corporation, Personnel Group of America,

Inc., Vulcan Materials Company, Intelligent Systems, Inc. and WABTEC Corporation. Mr. Napier has been a director of the Company since 1999. He is a member of the Audit Committee.

Directors Continuing in Office

Directors Whose Terms will Expire in 2005

MARIE L. KNOWLES

Executive Vice President, Chief Financial Officer, Retired, ARCO

Ms. Knowles, age 56, retired from Atlantic Richfield Company (ARCO) in 2000 and was Executive Vice President and Chief Financial Officer from 1996 until 2000 and a director from 1996 until 1998. From 1993 until 1996 she was Senior Vice President of ARCO and President, ARCO Transportation Company. She joined ARCO in 1972. Ms. Knowles is a director of URS Corporation, and Phelps Dodge Corporation. She is a member of the Board of Trustees of the Fidelity Funds. She has been a director of the Company since March 2002. She is a member of the Audit and the Finance Committees.

JANE E. SHAW

Chairman of the Board and Chief Executive Officer, Aerogen, Inc.

Dr. Shaw, age 64, has been Chairman of the Board and Chief Executive Officer of Aerogen, Inc., a company specializing in the development of products for improving respiratory therapy, since 1998. She is a director of Boise Corporation and Intel Corporation. Dr. Shaw has been a director of the Company since 1992. She is Chairman of the Audit Committee and a member of the Committee on Directors and Corporate Governance.

RICHARD F. SYRON

Executive Chairman, Thermo Electron Corporation

Mr. Syron, age 59, has been Executive Chairman of Thermo Electron Corporation, a company that develops, manufactures and sells technology-based instrument systems, components and solutions to monitor, collect and analyze data, since November 2002 and Chairman of the Board since January 2000. He was Chief Executive Officer at Thermo Electron from June 1999 until November 2002, and President from June 1999 to July 2000. From April 1994 until May 1999, Mr. Syron was the Chairman and Chief Executive Officer of the American Stock Exchange Inc. He is a member of the Board of Governors of the American Stock Exchange and is a director of John Hancock Life Insurance Company, John Hancock Financial Services, Inc., and Nabors Industries, Inc. He has been a director of the Company since March 2002. He is a member of the Compensation Committee and the Committee on Directors and Corporate Governance.

Directors Whose Terms will Expire in 2004

JOHN H. HAMMERGREN

Chairman of the Board President and Chief Executive Officer

Mr. Hammergren, age 44, was named Chairman of the Board effective July 31, 2002 and was named President and Chief Executive Officer of the Company effective April 1, 2001. He was Co-President and Co-Chief Executive Officer of the Company from July 1999 until April 2001. He was Executive Vice President of the Company and President and Chief Executive Officer of the Supply Management Business from January 1999 to July 1999; Group President, McKesson Health Systems from 1997 to 1999 and Vice President of the Company since 1996. He has been a director of the Company since 1999.

M. CHRISTINE JACOBS

Chairman of the Board, President and Chief Executive Officer, Theragenics Corporation

Ms. Jacobs, age 52, has been Chairman of the Board, President and Chief Executive Officer, Theragenics Corporation, a cancer treatment products manufacturing and distributing company, since 1998. She was Co-Chairman of the Board from 1997 to 1998 and was elected President in 1992 and Chief Executive Officer in 1993. She is a director of Landauer, Inc. Ms. Jacobs has been a director of the Company since 1999. She is a member of the Compensation Committee and the Committee on Directors and Corporate Governance.

ROBERT W. MATSCHULLAT

Private Equity Investor

Mr. Matschullat, age 55, was Vice Chairman and Chief Financial Officer of The Seagram Company Ltd. from 1995 to 2000. Previously he was head of worldwide investment banking for Morgan Stanley & Co. Incorporated and from 1992 to 1995 was a director of Morgan Stanley Group. Mr. Matschullat is a director of The Clorox Company and The Walt Disney Company. He has been a director of the Company since October 2002. He was recently named Chair of the Finance Committee and a member of the Audit Committee.

Corporate Governance Matters

The Board of Directors is committed to, and for many years has adhered to, sound and effective corporate governance practices. The Board is also committed to diligently exercising its oversight responsibilities of the Company's business and affairs consistent with the highest principles of business ethics, and meeting the corporate governance requirements of both federal law and the New York Stock Exchange. Some of the recent steps the Board has taken to fulfill this commitment include: adopting revised Charters for its Audit and Compensation Committees and its Committee on Directors and Corporate Governance, adopting independence standards for its members and adopting Corporate Governance Guidelines, all as described more fully below.

The Board, Board Meetings and Committees

The Board of Directors is the Company's governing body with responsibility for oversight, counseling and direction of the Company's management to serve the long-term interests of the Company and its stockholders. Its goal is to build long-term value for the Company's stockholders and to assure the vitality of the Company for its customers, employees and other individuals and organizations who depend on the Company. To achieve its goals, the Board monitors both the performance of the Company and the performance of the Chief Executive Officer (CEO). The Board currently consists of ten members, all of whom are independent with the exception of the Chairman. The Company has, for many years, had standing committees, currently the Audit Committee, the Compensation Committee, the Committee on Directors and Corporate Governance, and the Finance Committee. Each of these committees has a written charter approved by the Board. The Charters of the Audit and Compensation Committees and the Committee on Directors and Corporate Governance were each amended by the Board effective May 28, 2003 to reflect the new and proposed requirements of the Securities and Exchange Commission and the New York Stock Exchange (the Applicable Rules). Each of those revised charters is attached to this Proxy Statement. All of the members of the committees are independent. The members of each standing committee are elected by the Board

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each year for a term of one year or until his or her successor is elected. The members of the committees are identified in the table below.

Director	Audit	Compensation	Corporate Governance	Finance
Tully M. Friedman		Chair		X
Alton Irby III		X		X
M. Christine Jacobs		X	X	
Marie L. Knowles	X			X
Robert W. Matschullat	X			Chair
James V. Napier	X			
Carl E. Reichardt	X	X	Chair	
Jane E. Shaw	Chair		X	
Richard F. Syron		X	X	

The Audit Committee met 8 times during the fiscal year ended March 31, 2003 (FY 2003). The Audit Committee is responsible for, among other things, reviewing the annual audited financial statements with management, including major issues regarding accounting and auditing principles and practices as well as the adequacy and effectiveness of internal controls that could significantly affect the Company's financial statements; reviewing with financial management and the independent auditor the interim financial statements prior to the filing of the Company's quarterly reports on Form 10-Q; the appointment of the independent auditor; monitoring the independence and evaluating the performance of the independent auditor; approving the fees to be paid to the independent auditor; reviewing and accepting the annual audit plan, including the scope of the audit activities of the independent auditor; at least annually reassessing the adequacy of the Committee's charter and recommending to the Board any proposed changes; reviewing major changes to the Company's auditing and accounting principles and practices; reviewing the appointment, performance, and replacement of the senior internal audit department executive; advising the Board with respect to the Company's policies and procedures regarding compliance with applicable laws and regulations and with the Company's code of conduct; performing such other activities and considering such other matters, within the scope of its responsibilities, as the Committee or Board deems necessary or appropriate. The composition of the Audit Committee, the attributes of its members, and the responsibilities of the Committee, as reflected in its charter, are intended to be in accord with the Applicable Rules.

The Compensation Committee met 5 times during FY 2003. The Compensation Committee has responsibility for administering a compensation program for managerial level employees; the stock plans and certain incentive plans and oversight for other incentive plans; reviewing and approving compensation and other terms and conditions of employment for corporate officers at the Senior Vice President level and above; evaluating the President and CEO's performance with the other non-employee directors of the Board; recommending to the Board a successor in the event of a vacancy; and, under its revised Charter, setting the compensation and terms and conditions of employment of the Chairman of the Board and the President and CEO.

The Committee on Directors and Corporate Governance met 2 times during FY 2003. This committee has responsibility for recommending guidelines and criteria to be used to select candidates for Board membership; reviewing the size and composition of the Board to assure

that proper skills and experience are represented; recommending the slate of nominees to be proposed for election at the annual meeting of stockholders; recommending qualified candidates to fill Board vacancies; evaluating the Board's overall performance; advising the Board on matters of corporate governance, including the Corporate Governance Guidelines and committee composition; and advising the Board regarding director compensation and administering the directors' equity plan.

In evaluating candidates for the Board of Directors, the Committee on Directors and Corporate Governance seeks highly qualified individuals with integrity and character from diverse backgrounds and of proven judgment and competence that are outstanding in their chosen fields. It also considers factors such as education, experience, geographic location, anticipated participation in the Board activities and special talents or personal attributes. Stockholders who wish to suggest qualified candidates to the Committee on Directors and Corporate Governance should write to the Secretary of the Company at One Post Street, San Francisco, CA 94104, stating in detail the candidate's qualifications for consideration by the Board. A stockholder who wishes to nominate a director must comply with certain procedures set forth in the Company's Restated By-Laws.

The Finance Committee met once during FY 2003. The Finance Committee has responsibility for reviewing the long-range financial policies of the Company; providing advice and counsel to management on the financial aspects of significant acquisitions and divestitures, major capital commitments, proposed financings and other significant transactions; making recommendations concerning significant changes in the capital structure of the Company; approving the principal terms and conditions of securities that may be issued by the Company; and approving the terms and conditions of certain acquisitions in core business areas, including the consideration to be used in such transactions.

During FY 2003, the Board of Directors met 8 times. No director attended fewer than 75% of the aggregate number of meetings of the Board and of all the committees on which he or she served. Directors meet their responsibilities not only by attending Board and committee meetings, but also through communication with executive management on matters affecting the Company.

Corporate Governance Guidelines

The Board for many years has had Directorship Practices reflecting sound corporate governance practices and, in response to the recent New York Stock Exchange listing requirements, has approved and adopted new Corporate Governance Guidelines which address matters including, among others: Director qualification standards; Director responsibilities; Director access to management and, as necessary and appropriate, independent advisors; Director compensation; Director orientation and continuing education; management succession and an annual performance of the Board. The Committee on Directors and Corporate Governance is responsible for overseeing the Guidelines and assessing their adequacy. The Corporate Governance Guidelines are attached to this proxy statement as Attachment A.

Director Independence

The Corporate Governance Guidelines include director independence standards. Under the Governance Guidelines, the Board must have a majority of directors who meet the applicable criteria for independence required by the New York Stock Exchange. The Board must determine, based on all of the relevant facts and circumstances, whether in its business judgment, each director satisfies the criteria for independence, including the absence of a material relationship with the Company, either directly or indirectly. The Board has established guidelines to assist it in making a determination of director independence and has determined that each of the current directors is independent, with the exception of Mr. Hammergren.

Executive Sessions of the Board

The independent directors of the Board meet in executive session without management on a regularly scheduled basis. The members of the Board designate a Presiding Director to preside at such executive sessions and the position rotates annually among the committee chairs. You may communicate with the Presiding Director by sending an e-mail to *presidingdirector@mckesson.com* or to the Presiding Director, McKesson Corporation c/o the Corporate Secretary's Office, One Post Street, San Francisco, California 94104.

Director Compensation

The Company believes that compensation for independent directors should be competitive and should encourage increased ownership of the Company's stock.

The compensation for each non-employee director of the Company includes an annual retainer, and meeting fees. Committee Chairs receive an additional annual retainer. In January 2003, the Committee on Directors and Corporate Governance and the Board reviewed and revised directors' cash compensation, which had not been changed since 1996, in recognition of their increased responsibilities in recent years. Beginning in January 2003, the annual retainer was increased from \$27,500 to \$40,000; meeting fees were increased from \$1,000 to \$1,500 for each Board or Finance, Compensation, or Governance Committee meeting attended and \$2,000 for each Audit Committee meeting attended. Committee Chairs' annual retainer was increased from \$3,000 to \$5,000 for the Finance, Compensation and Governance Committees and \$15,000 for the Audit Committee.

Under the 1997 Non-Employee Directors' Equity Compensation and Deferral Plan, each director is required to defer 50% of his or her annual retainer into either Restricted Stock Units (RSUs) or Nonqualified Stock Options (Options). Each director may also defer the remaining 50% of the annual retainer into RSUs, Options or into the Company's deferred compensation plan (DCAP II), or may elect to receive cash. Meeting fees may be deferred into RSUs or DCAP II or may be paid in cash. Directors are also paid their reasonable expenses for attending Board and committee meetings.

Currently, each January directors are also granted an Option for 7,500 shares (reduced in January 2003 from 10,000 shares) of the Company's common stock. The Options are granted at fair market value on the date of grant, vest in one year, and have a term of ten years.

Directors who are employees of the Company or its subsidiaries do not receive any compensation for service on the Board.

Indemnity Agreements

The Company has entered into indemnity agreements with each of its directors and executive officers that provide for defense and indemnification against any judgment or costs assessed against them in the course of their service. Such agreements do not permit indemnification for acts or omissions for which indemnification is not permitted under Delaware law. See Certain Legal Proceedings at page 23.

PRINCIPAL STOCKHOLDERS

Security Ownership of Certain Beneficial Owners

The following table sets forth, as of December 31, 2002, unless otherwise noted, information regarding ownership of the Company's outstanding common stock, by any entity or person known by the Company to be the beneficial owner of more than five percent of the outstanding shares of common stock.

Name and Address of Beneficial Owner	Amount and Nature of Beneficial Ownership	Percent of Class
Wellington Management Company, LLP 75 State Street Boston, MA 02109	40,749,801(1)	14.000
Legg Mason, Inc. 100 Light Street Baltimore, MD 21202	17,396,970(2)	6.090
FMR Corp. 82 Devonshire Street Boston, MA 02109	16,343,528(3)	5.608
JP Morgan Chase as Trustee for the McKesson Corporation Profit-Sharing Investment Plan 270 Park Avenue New York, NY 10017	15,708,212(4)	5.409
Janus Capital Management LLC 100 Fillmore Street Denver Colorado 80206	15,110,239(5)	5.200

- (1) This information is based on a Schedule 13G filed with the Securities and Exchange Commission (the "SEC") by Wellington Management Company, LLP, as investment adviser, and reports shared voting power with respect to 22,548,933 shares and shared dispositive power with respect to 40,749,801 shares.
- (2) This information is based on a Schedule 13G filed with the SEC by Legg Mason, Inc. and reports shared voting power and dispositive power with respect to 17,396,970 shares.
- (3) This information is based upon a Schedule 13G filed with the SEC by FMR Corp. and reports voting and dispositive power as follows: Fidelity Management Research Company ("Fidelity"), a wholly owned subsidiary of FMR Corp, is the beneficial owner of 15,083,703 shares; Fidelity Management Trust Company, a wholly-owned subsidiary of FMR Corp. is the beneficial owner of 1,115,049 shares. Edward C. Johnson 3d, and FMR Corp, through their control of Fidelity and the Fidelity Funds, each has sole dispositive power with respect to 15,083,703 shares, and Fidelity carries out the voting of the shares under written guidelines established by the Funds' Board of Trustees. Edward C. Johnson 3d and FMR Corp., through its control of Fidelity Management Trust Company, each has sole dispositive power with respect to 1,115,049 shares and sole voting power with respect to 959,249 shares and no voting power with respect to 155,800 shares. Fidelity International Limited, Pembroke Hall, 42 Crowe Lane, Hamilton, Bermuda is the beneficial owner of 40,000 shares.
- (4) This information reports shares held in trust for the benefit of participants in the McKesson Corporation Profit-Sharing Investment Plan, for which JPMorgan Chase is a Trustee.
- (5) This information is based on a Schedule 13G filed with the SEC by Janus Capital Management LLC and reports that it is the beneficial owner of 15,110,239 shares, with sole voting power with respect to 14,810,790 shares, shared voting power with respect to

299,449 shares and sole dispositive power with respect to 14,810,790 shares and shared dispositive power with respect to 299,449 shares.

Security Ownership of Directors and Executive Officers

The following table sets forth, as of June 1, 2003, except as otherwise noted, information regarding ownership of the Company's outstanding common stock by (i) each Named Executive Officer, as defined on page 15 (ii) each director and (iii) all directors and executive officers as a group. The table also includes the number of shares subject to outstanding options to purchase common stock of the Company which are exercisable within 60 days of June 1, 2003.

Name of Individual	Shares of Common Stock Beneficially Owned(1)	Percent of Class
Tully M. Friedman	92,407(2)(3)(4)(5)	*
William R. Graber	444,447(4)(6)	*
John H. Hammergren	4,128,293(4)(6)	1.426%
Alton F. Irby III	130,053(4)	*
M. Christine Jacobs	66,505(2)(4)	*
Paul C. Julian	1,009,272(4)(6)	*
Graham O. King	1,286,908(4)(6)	*
Marie L. Knowles	9,291(2)(4)	*
Robert W. Matschullat	10,695(4)	*
Ivan D. Meyerson	912,562(4)(6)(7)	*
James V. Napier	141,105(2)(4)	*
Carl E. Reichardt	78,056(2)(4)(5)	*
Jane E. Shaw	78,689(2)(3)(4)(5)	*
Richard F. Syron	13,613(2)(4)	*
All Directors and Executive Officers as a group (18 Persons)	8,534,850(2)(4)(5)(6)	2.948%

* Less than 1%

- (1) Represents shares held as of June 1, 2003 directly and with sole voting and investment power (or with voting and investment power shared with a spouse) unless otherwise indicated. The number of shares of common stock owned by each director or executive officer represents less than 1% of the outstanding shares of such class, with the exception of Mr. Hammergren who owns 1.426%. All directors and executive officers as a group own 2.948% of the outstanding shares of common stock.
- (2) Includes restricted stock units accrued under the 1997 Non-Employee Directors' Equity Compensation and Deferral Plan, and the 1994 Stock Option and Restricted Stock Plan as follows: Mr. Friedman, 7,753 units; Ms. Jacobs, 3,303 units; Ms. Knowles, 387 units; Mr. Napier, 1,434 units; Mr. Reichardt, 7,041 units; Dr. Shaw, 9,821 units and Mr. Syron, 1,212 units and all non-employee directors as a group, 30,951 units. Directors have neither voting nor investment power in respect of such units.
- (3) Includes common stock units accrued under the Directors' Deferred Compensation Plan, as follows: Mr. Friedman, 646 units; Dr. Shaw, 5,224 units; and those directors as a group 5,870 units. Participating directors have neither voting nor investment power in respect of such units.
- (4) Includes shares that may be acquired by exercise of stock options within 60 days of June 1, 2003 as follows: Mr. Friedman, 68,008; Mr. Graber, 440,833; Mr. Hammergren, 3,718,516; Mr. Irby, 130,053; Ms. Jacobs, 62,202; Mr. Julian, 920,000; Mr. King, 1,246,294; Ms. Knowles, 8,904; Mr. Matschullat, 10,695; Mr. Meyerson, 723,716; Mr. Napier, 121,671;

Mr. Reichardt, 61,015; Dr. Shaw, 53,206; Mr. Syron, 12,401; and all directors and executive officers as a group, 7,690,514.

- (5) Includes shares held by family trusts as to which each of the following named directors and their respective spouses have shared voting and investment power: Mr. Reichardt, 10,000 shares and Dr. Shaw, 10,438 shares; and those directors as a group, 20,438 shares. Also includes 16,000 shares held in a revocable trust established by and for the benefit of Mr. Friedman who is the sole trustee of such trust.
- (6) Includes shares held under the Company's PSIP as of March 31, 2003, as to which the participants have sole voting but no investment power, as follows: Mr. Hammergren, 2,470 shares; Mr. Julian, 2,500 shares; Mr. King, 736 shares; Mr. Graber, 614 shares; Mr. Meyerson, 13,687 shares; and all directors and executive officers as a group, 20,983 shares.
- (7) Includes 1,400 shares held by Mr. Meyerson as custodian for his minor child and for which beneficial ownership is disclaimed.

Report of the Compensation Committee on Executive Compensation

The Company's executive compensation program is administered by the Compensation Committee (the Committee) of the Board of Directors, which consists exclusively of non-employee directors. The Committee has sole responsibility for reviewing all aspects of the compensation program for the Company's executive officers. For FY 2003 the Committee made recommendations to the Board for compensation actions for the CEO and considered and approved compensation actions affecting other executive officers.

The Committee retains an independent compensation consulting firm which assists it in carrying out its responsibilities and its review and analysis of the executive compensation program. Using proprietary databases and identifying participants closely aligned with the Company's size, lines of business, profitability and complexity as the Company's peer group, the Committee establishes the parameters for base salary, short-term cash and long-term compensation that are competitive in the market. This peer group includes a broad cross-section of American companies. This report describes the policies and the criteria used by the Committee in establishing the principal components of, and setting the level of compensation for, executive officers.

As reflected elsewhere in this proxy statement, the Board of Directors has recently approved a revised charter for the Compensation Committee which satisfies the new requirements of the New York Stock Exchange. Pursuant to the terms of this Charter, among other things, the Committee will have sole authority to determine compensation for the Company's executive officers, including the Chief Executive Officer.

The Company's Philosophy of Executive Compensation

The Company's executive compensation program is based on the principle of pay for performance. The program's objective is to provide total compensation at competitive levels and incentive compensation that aligns the interests of the Company's executives with those of its stockholders. To further promote this alignment, the Committee has established executive stock ownership guidelines for the CEO, other senior officers and participants in the Long-Term Incentive Plan. Under these guidelines, executives are expected to reach levels of ownership of Company stock equal in value to specified multiples of their base pay.

Base salary and annual bonuses for executive officers are targeted at approximately the median level for executive officers at companies similar in size, complexity or lines of business to McKesson Corporation. The long-term compensation program is designed to achieve competitive

total compensation and to enhance shareholder value by linking a large part of executive officers' compensation directly to the Company's long-term performance.

Many factors enter into the Committee's deliberations on the appropriate levels of short- and long-term compensation for individual executive officers. The factors include the Company's performance as measured against financial and nonfinancial targets approved by the Committee at the beginning of each fiscal year; the individual performance of each executive officer; the overall competitive environment for executives and the level of compensation needed to attract, retain and motivate executive talent. The recommendations of the independent compensation consulting firm as well as surveys supplied by other independent professional compensation consultants provide the quantitative basis for the Committee's decisions.

Components of Compensation

The Company's executive compensation program consists of base salary, a short-term incentive plan and long-term incentives (stock options, restricted stock and cash). The Committee's objective is a competitive program with an appropriate mix of short-term and long-term compensation weighted toward long-term, performance-based incentives.

Base Pay

Base salary is reviewed annually. Actual base salary is driven by individual performance, competitive practices and level of responsibility. Salary increases for FY 2003 reflected the Committee's determination that base salary levels should be increased, in certain cases, to recognize increased responsibilities and to remain competitive at the median levels of targeted companies. However, in view of the current economic climate, the Committee determined that for the current fiscal year ending March 31, 2004, the base salary levels for executive officers, including Mr. Hammergren, would remain unchanged.

Short-Term Incentives

Under the Company's short-term incentive plan (the Management Incentive Plan or MIP), individual target awards are set as a percentage of the executive's base salary and vary by level of responsibility. The target awards are designed to be competitive with those set for executive officers at companies in the Company's executive compensation comparator group. Annual MIP awards can range from zero to three times the executives target awards and are determined by the Company's and/or individual business unit's performance versus pre-established objectives. The actual awards may be reduced from the maximums established by the foregoing procedure by the Committee exercising negative discretion in accordance with regulations under Section 162(m) of the Internal Revenue Code (Section 162(m)) with respect to this type of plan.

Long-Term Incentives

The Company's long-term incentive program has three components: a stock option component, a cash component and a restricted stock component. Under this program:

participants are granted nonqualified stock options to purchase shares of the Company's common stock at fair market value;

the Committee establishes a target cash award for each participant under the Long-Term Incentive Plan (LTIP), the cash component of the long-term incentive program which is adjusted to reflect actual achievement against financial targets;

participants are granted shares of restricted stock in years when the Company meets or exceeds financial targets associated with the MIP awards. Such grants are performance

based, vest in three years and are determined as a percentage of the total MIP award approved by the Committee. Such grants add a strong retention component to the short-term incentive program while further focusing participants on increasing shareholder value. Based on the Company's performance during FY 2003, awards of restricted stock were granted to certain of the Named Executive Officers in May, 2003, and are reflected in the Summary Compensation Table. Restricted stock has also been used by the Company with the approval of the Committee on an individual basis for the purpose of attracting and/or retaining key employees.

Under the Company's LTIP, target amounts for key senior executives, including the Named Executive Officers, were established during FY 2003, which target amounts are reflected in the table Long-Term Incentive Plan Awards in the Last Fiscal Year. These target amounts were established to modify the mix of long-term incentives and were designed to enhance the participants' focus on three key drivers of shareholder value: Earnings Per Share (EPS), Return on Committed Capital (ROCC) and Total Shareholder Return (TSR). These target amounts were granted subject to a three year performance cycle and payments, if any, will occur after the close of FY 2005.

Payments under the LTIP were made to certain Named Executive Officers reflecting awards that had been granted for the period April 1, 2000 through March 31, 2003 which payments are reflected in the Summary Compensation Table. These payments reflected the fact that the Company met or exceeded its financial targets over that performance period.

Policy Regarding Tax Deduction for Compensation Under Internal Revenue Code Section 162(m)

Section 162(m) limits the Company's tax deduction to \$1 million for compensation paid to Named Executive Officers unless the compensation is performance based within the meaning of that Section and regulations thereunder. The MIP, previously approved by stockholders, meets the requirement of a performance-based pay program within the meaning of Section 162(m). Proceeds from stock options granted under the 1994 Stock Option and Restricted Stock Plan (the 1994 Plan), which was also approved by stockholders, are also performance-based and are eligible for an exception to the deduction limitation. The restricted stock component of the long-term incentive program described above also meets the requirement of being performance-based and, when granted under the 1994 Plan, is eligible for an exception to the deduction limitation.

The Committee's intention is and has been to comply with the requirements of Section 162(m) unless the Committee concludes that adherence to the limitations imposed by these provisions would not be in the best interest of the Company or its stockholders.

Compensation of the Chief Executive Officer

Under Mr. Hambergren's leadership, the Company achieved its third consecutive year of strong overall financial performance. In FY 2003 the Company's total revenues, earnings per share and return on equity all increased sharply. Pharmaceutical Solutions continued its strong revenue growth and operating margin expansion. Information Solutions software sales and operating profit grew substantially. Medical-Surgical Solutions stabilized its operations under new management.

During FY 2003, Mr. Hambergren introduced a One McKesson strategy in the marketplace with significant success. Under this strategy, McKesson positions itself with customers to offer a full suite of integrated solutions to business problems in the health care industry versus a series of individual products offered independently. These solutions provide customers with practical solutions to the challenges of improving the cost and quality of health care.

Mr. Hambergren successfully continued the process of thoroughly reviewing the performance and potential of the top layers of management of the Company. This ongoing process has resulted in a clear understanding of management development needs and identification of those executives prepared to assume greater responsibility and a more senior role in the management of the Company.

It is the Committee's view that under Mr. Hambergren's leadership, the Company continues to make significant improvements and progress in the critical areas of Customer Success, Employee Success, Operating Success and Financial Success. Accordingly, the Committee believes that the total compensation package for the Chief Executive Officer for FY 2003, as reflected in the Summary Compensation Table that follows, was based on an appropriate balance of the Company's performance, his own performance and competitive practice.

Compensation Committee of the Board

Tully M. Friedman, Chairman

Alton F. Irby III

M. Christine Jacobs

Carl E. Reichardt

Richard F. Syron

Executive Compensation

The following table discloses compensation earned by the Chairman, President and CEO as well as the Company's four other most highly paid executive officers (the Named Executive Officers) for the three fiscal years ended March 31, 2003:

Summary Compensation Table

Name and Principal Position	Year	Long-Term Compensation						
		Annual Compensation			Awards		Payouts	
		Salary (\$)	Bonus \$(1)	Other Annual Compensation \$(2)	Restricted Stock Award(s) \$(3)	Securities Underlying Options/ SARs (#)	LTIP Payouts (\$)	All Other Compensation \$(4)
John H. Hammergren	2003	991,260						