

November 14, 2006

McKesson Corporation  
Attn: General Counsel's Office  
One Post Street  
San Francisco, CA 94104

Dear General Counsel of McKesson:

The Project On Government Oversight (POGO) is overhauling and renewing its Federal Contractor Misconduct Database ([www.pogo.org/db/index.cfm](http://www.pogo.org/db/index.cfm)), a compilation of information from public resources regarding government contractors, including McKesson. On October 18, 2005 and December 2, 2005, we sent you information regarding findings relevant to McKesson, which we have enclosed for your reference. As of today, we have not received a response from your office.

A written response is certainly in the best interest of everyone involved. It is the best way for your company to go on record regarding this process and the instances identified; your letter will be posted in its entirety on the database. Several companies have already responded and have expressed appreciation for the opportunity to express their views. POGO would prefer to receive a response by November 30, 2006 to ensure it is included with the launch of our new database.

If you have any questions, I can be reached at (202) 347-1122. Thank you for your time and consideration.

Sincerely,

Scott Amey  
General Counsel

Enclosure

## Instances of Misconduct

1.

FTC v. McKesson Corp./Amerisource Health Corp.

Date: 03/09/1998 (Date of Judgment)

Misconduct Type: Other

Contracting Party: Government Civilian

Court Type: Civil

Amount: \$0

Disposition: Judgment Against Defendant

Synopsis: In 1998, the FTC successfully challenged two mergers involving the nation's four largest drug wholesalers -- McKesson merging with AmeriSource and Cardinal Health with Bergen- Brunswig. If the mergers had been permitted, the two survivors would have controlled over 80% of the prescription drug wholesaling market, significantly reducing competition on price and services. The FTC filed the two actions in district court in March 1998, and the case was litigated for approximately seven weeks during June and July. Judge Sporkin enjoined both acquisitions in a 73-page opinion issued at the end of July.

2.

In re McKesson HBOC Inc. ERISA Litigation

Date: 05/06/2005 (Date of Settlement)

Misconduct Type: Securities

Contracting Party: International

Court Type: Civil

Amount: \$18,200,000

Disposition: Settlement

Synopsis: The case "involves [Employee Retirement Security Income Act] claims brought on behalf of the HBOC Profit Sharing and Savings Plan (the "HBOC Plan") and the McKesson Profit Sharing and Investment Plan (the "McKesson Plan"), as well as participants in those plans. On May 6, 2005, a Stipulation and Agreement of Settlement was executed for that portion of the ERISA Action that involves HBOC Plan claims. The proposed settlement resolves all claims by the HBOC Plan and its participants in consideration of an \$18.2 million cash payment by the Company. The settlement is subject to various conditions, including, but not limited to, notice to the class and final approval by the Court. Judge Whyte has scheduled a hearing on final approval of the HBOC Plan settlement for September 9, 2005. The separate ERISA claims of the McKesson Plan and its participants are not resolved by this settlement. The Company's motion to dismiss those claims remains pending before this Court."

Document(s):

SEC 10-K

3.

In re McKesson HBOC, Inc. Securities Litigation

Date: 01/12/2005 (Date of Settlement)

Misconduct Type: Securities  
Contracting Party: N/A  
Court Type: Civil  
Amount: \$960,000,000  
Disposition: Settlement

Synopsis: "McKesson Corporation... reached an agreement to settle the consolidated securities class action arising out of a 1999 financial restatement (the "Restatement") pending against it and its subsidiary the former HBO & Co., Inc. (HBOC) in the U.S. District Court, Northern District of California, San Jose Division (Master File No. 99-CV-20743 RMW and related cases). Under the agreement, McKesson would pay the class members a total of \$960 million in cash."

Document(s):  
McKesson Press Release

4.  
Securities Fraud and Insider Trading  
Date: 10/16/2003 (Date of Plea Agreement)  
Misconduct Type: Securities  
Contracting Party: N/A  
Court Type: Criminal  
Amount: \$0  
Disposition: Pleaded Guilty

Synopsis: Former McKesson HBOC CEO Charles McCall and former General Counsel Jay Lapine allegedly "participated in a long-running fraudulent scheme with other top former officers to artificially inflate revenue and net income. When the fraud was discovered in April 1999, McKesson HBOC's stock tumbled from approximately \$65 to \$34 a share, a drop that slashed the company's market value by more than \$9 billion." This case is still pending. However, "The new charges follow guilty pleas, also announced today by the U.S. Attorney's Office and FBI, by former HBOC chief financial officer Jay Gilbertson, former senior vice president for sales Dominick DeRosa, and former senior vice president for finance Timothy Heyerdahl. Mr. Gilbertson pled guilty to one count of conspiracy to commit securities fraud and one count of making false statements in a document filed with the SEC. Mr. DeRosa pled guilty to aiding and abetting securities fraud and Mr. Heyerdahl pled guilty to charges of insider trading."

5.  
Obstructing a Federal Audit  
Date: 02/18/2005 (Date of Sentencing)  
Misconduct Type: Other  
Contracting Party: N/A  
Court Type: Civil  
Amount: \$7,399,649  
Disposition: Pleaded Guilty

Synopsis: "On February 18, 2005, that TBC Products Inc., a subsidiary of McKesson, was sentenced in the United States District Court for the Southern District of Illinois to eight felony charges of endeavoring to obstruct a federal audit. TBC Products Inc. previously pled guilty on November 12, 2004. TBC Products Inc. received a sentence of five years probation and a criminal fine of \$4 million. McKesson will also pay the separate sum of \$3,399,649 under a civil settlement agreement between the United States and McKesson to resolve claims involving the Medicare program. The plea agreement requires the defendant and McKesson to cooperate fully with the United States in connection with the Government's ongoing investigations and prosecutions of others for alleged violations of federal criminal and civil law."

6.

Overcharging the Government

Date: 02/16/2006 (Date of Settlement)

Misconduct Type: Government Contract Fraud

Contracting Party: Government Defense

Court Type: Civil

Amount: \$3,000,000

Disposition: Settlement

Synopsis: McKesson Corporation, a wholesale pharmaceutical distributor, agreed to pay the United States \$3 million to settle claims that it defrauded the Department of Defense from October 1997 to December 2001. The settlement resolved "allegations that the San Francisco-based corporation defrauded the United States by knowingly charging the Defense Department's medical treatment facilities more for pharmaceutical products than was allowable under its prime vendor contracts with the government."

Document(s):

DOJ Press Release

7.

Racial Discrimination

Date: 03/06/2002 (Date of Consent Decree)

Misconduct Type: Labor

Contracting Party: N/A

Court Type: Civil

Amount: \$12,450,000

Disposition: Judgment Against Defendant

Synopsis: On March 6, 2002, a federal court "approved a \$1,245,000 settlement of a class action race discrimination lawsuit brought by EEOC and private counsel against McKesson Water Products Company and Groupe Danone...The EEOC initiated an investigation of McKesson in 1998 when Steven Crutchfield and several other African-American employees filed charges of discrimination with the Commission alleging that they had suffered racial discrimination at the drinking water processing and delivery company. Specifically, they charged that McKesson had paid African-American drivers less and increased their compensation at a slower rate than white

drivers. They claimed that McKesson assigned African-American drivers to routes in low-income neighborhoods, which were often less profitable than routes in affluent communities. Because pay and promotion were tied to the profitability of the routes, the African-American drivers received lower compensation and fewer promotions than those assigned to the affluent areas."

#### Pending Cases

1.

Conspiracy and Securities Fraud

Date: 04/01/2004 (Date of Indictment)

Misconduct Type: Securities

Contracting Party: N/A

Court Type: Criminal

Amount: \$0

Disposition: Pending

Synopsis: "In one of the country's largest securities fraud investigations, the U.S. Attorney's Office announced that the former Chief Financial Officer of McKesson was indicted...by a federal grand jury in San Francisco on charges of conspiracy and securities fraud. Civil securities fraud charges were also filed...against Mr. Hawkins by the Securities and Exchange Commission...The civil and criminal filings allege that Mr. Hawkins participated in a fraudulent scheme with other former McKesson officers to artificially inflate the company's financial results for the fiscal quarter ended March 31, 1999, by fraudulently recognizing revenue on a \$20 million transaction between McKesson and Data General Corporation. Mr. Hawkins and others caused revenue from the Data General transaction to be reported to the public as part of the company's earnings release on April 22, 1999 despite the fact that McKesson's independent auditors told Mr. Hawkins that revenue from the transaction could not be recognized."

Document(s):

DOJ Press Release