

June 2, 2008

McKesson Corporation
1 Post Street
San Francisco, CA 94104

Dear Sir or Madam:

Sometime in the next few weeks, the Project On Government Oversight (POGO) will update its Federal Contractor Misconduct Database (<http://www.contractormisconduct.org/>), a compilation of information from public resources regarding government contractors, including McKesson Corporation. On October 18, 2005, December 2, 2005 and November 14, 2006, we sent McKesson information regarding findings in POGO's database. As of today, we have not received a response from you. I have enclosed the findings relevant to your company, and I am seeking verification of this data.

Any response would be greatly appreciated, as the accuracy of this information is in the best interest of all parties. Out of fairness to McKesson, please be assured that any response received by POGO will be posted on the website along with the data.

The biggest change we will be making to the database is the inclusion of more federal contractors (the top 100). We are also adding new instances that we have found in recent months and updating instances already in the database with new information. Please note that the database also includes pending instances, but these are kept separate from resolved instances and are not included in the totals.

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

Sincerely,

Neil Gordon
Investigator

Enclosure

Instances

1. McKesson/HBOC Inc. ERISA Litigation

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

Misconduct Type: Securities

Enforcement Agency: Non-Governmental

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.”

2. McKesson/HBOC, Inc. Securities Litigation

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

Misconduct Type: Securities

Enforcement Agency: Non-Governmental

Contracting Party: None

Court Type: Civil

Amount: \$960,000,000

Disposition: Settlement

Synopsis: In January 2005, McKesson reached an agreement to settle a consolidated securities class action arising out of the discovery in April 1999 of accounting improprieties at HBO & Co., Inc. (HBOC), which McKesson acquired in January 1999. The improprieties turned out to be part of a long-running scheme at HBOC to fraudulently inflate revenue and net income, a scheme for which several former HBOC executives pled guilty. Under the agreement, McKesson agreed to pay the class members a total of \$960 million in cash.

3. Overcharging the Government

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

Misconduct Type: Government Contract Fraud

Enforcement Agency: Defense – General

Contracting Party: Defense - General

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."

4. Racial Discrimination

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

Misconduct Type: Labor

Enforcement Agency: EEOC

Contracting Party: None

Court Type: Civil

Amount: \$1,245,000

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."

5. SEC v. Smeraski (HBOC Securities Fraud)

Date: 08/07/2007 (Date of Final Judgment)

Misconduct Type: Securities

Enforcement Agency: SEC

Contracting Party: None

Court Type: Civil

Amount: \$50,000

Disposition: Judgment Against Defendant

Synopsis: The United States District Court for the Northern District of California entered a consent and final judgment against Michael G. Smeraski, former senior sales vice president at HBO & Company, Inc. (HBOC), an Atlanta, Ga.-based health care software vendor that merged with McKesson in 1999. Smeraski was charged with securities fraud in connection with a long-running scheme at HBOC to fraudulently inflate revenue and net income. Smeraski and others routinely approved software sales contracts with associated side letters containing unsatisfied contingencies precluding revenue recognition and backdated contracts and other documents for the purpose of recognizing revenue in an earlier reporting period. These practices failed to comply with Generally Accepted Accounting Principles. In addition to being permanently enjoined from violating the antifraud provisions of the federal securities laws, Smeraski was

ordered to pay a civil penalty of \$50,000. See related McKesson misconduct instances “McKesson/HBOC, Inc. Securities Litigation” and “McKesson/HBOC Inc. ERISA Litigation.”

6. Federal Drug Reporting Violations

Date: 05/02/2008 (Date of Announcement)

Misconduct Type: Health

Enforcement Agency: Justice

Contracting Party: None

Court Type: Civil

Amount: \$13,250,000

Disposition: Settlement

Synopsis: McKesson Corp. agreed to pay over \$13 million to U.S. Attorney's Offices in California, Colorado, Florida, Maryland, Texas and Utah to settle allegations that it violated federal drug reporting provisions. According to the Department of Justice, McKesson violated the Controlled Substances Act by failing to report to the Drug Enforcement Administration suspicious sales of prescription medications to various pharmacies, including those that fill orders from Internet sites that sell drugs online to customers who do not have a legal prescription. McKesson made no admission of liability under the settlement.

Pending Instances

Average Wholesale Price (AWP) Lawsuit

Date: 06/02/2005 (Date of Filing)

Misconduct Type: Antitrust

Enforcement Agency: Non-Governmental

Contracting Party: None

Court Type: Civil

Amount: \$0

Disposition: Pending

Synopsis: A class-action lawsuit filed in federal court in Massachusetts against McKesson Corporation alleges McKesson and pharmaceutical data publishing company First DataBank entered into a secret agreement to artificially inflate the average wholesale price (AWP) of hundreds of brand-name drugs. The government uses average wholesale prices as reported by drug companies to set reimbursements from federal health programs. The lawsuit was filed on behalf of healthcare consumers and third-party payors who allegedly overpaid for drugs by billions of dollars.