

MCKESSON CORP
Form DEF 14A
June 21, 2010

Table of Contents

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
SCHEDULE 14A**

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

Filed by the Registrant

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))**
- Definitive Proxy Statement
- Definitive Additional Materials
- Soliciting Material Pursuant to §240.14a-12

McKesson Corporation

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

- No fee required.
 - Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.
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(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

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(2) Form, Schedule or Registration Statement No.:

(3) Filing Party:

(4) Date Filed:

Table of Contents

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

The 2010 Annual Meeting of Stockholders of McKesson Corporation will be held on Wednesday, July 28, 2010 at 8:30 a.m. at the Palace Hotel, Twin Peaks Ballroom, 2 New Montgomery Street, San Francisco, California to:

Elect for a one-year term a slate of nine directors as nominated by the Board of Directors;

Reapprove the performance measures available for performance-based awards under the Company's amended and restated 2005 Stock Plan in order to preserve the deductibility of such awards under the Federal tax rules;

Reapprove the performance measures available for performance-based awards under the Company's amended and restated 2005 Management Incentive Plan in order to preserve the deductibility of such awards under the Federal tax rules;

Ratify the appointment of Deloitte & Touche LLP as the Company's independent registered public accounting firm for the fiscal year ending March 31, 2011;

Vote on two proposals submitted by stockholders, if properly presented; and

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

Stockholders of record at the close of business on June 1, 2010 are entitled to notice of and to vote at the meeting or any adjournment or postponement of the meeting.

By Order of the Board of Directors

Willie C. Bogan
Associate General Counsel and Secretary

One Post Street
San Francisco, California 94104-5296
June 21, 2010

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.

TABLE OF CONTENTS

	Page
<u>General Information</u>	1
<u>Proxies and Voting at the Annual Meeting</u>	1
<u>Attendance at the Annual Meeting</u>	1
<u>Dividend Reinvestment Plan</u>	1
<u>Vote Required and Method of Counting Votes</u>	2
<u>Voting Results of the Annual Meeting</u>	3
<u>Quorum Requirement</u>	3
<u>Abstentions and Broker Non-Votes</u>	3
<u>Profit-Sharing Investment Plan</u>	3
<u>List of Stockholders</u>	3
<u>Online Access to Annual Reports on Form 10-K and Proxy Statements</u>	3
<u>Householding of Proxy Materials</u>	4
<u>Item 1. Election of Directors</u>	5
<u>The Board, Committees and Meetings</u>	9
<u>Director Compensation</u>	12
<u>Corporate Governance</u>	15
<u>Item 2. Proposal to Reapprove the Performance Measures Available for Performance-Based Awards under the Company's Amended and Restated 2005 Stock Plan</u>	21
<u>Equity Compensation Plan Information</u>	29
<u>Item 3. Proposal to Reapprove the Performance Measures Available for Performance-Based Awards under the Company's Amended and Restated 2005 Management Incentive Plan</u>	30
<u>Item 4. Ratification of Appointment of Deloitte & Touche LLP as the Company's Independent Registered Public Accounting Firm for Fiscal Year 2011</u>	35
<u>Audit Committee Report</u>	36
<u>Principal Stockholders</u>	37
<u>Security Ownership of Certain Beneficial Owners</u>	37
<u>Security Ownership of Directors, Nominees and Executive Officers</u>	37
<u>Executive Compensation</u>	39
<u>Compensation Discussion and Analysis</u>	39
<u>Compensation Committee Report on Executive Compensation</u>	55
<u>Summary Compensation Table</u>	56
<u>Grants of Plan Based Awards Table</u>	60
<u>Outstanding Equity Awards Table</u>	61
<u>Option Exercises and Stock Vested Table</u>	62
<u>Pension Benefits Table</u>	62
<u>Nonqualified Deferred Compensation Table</u>	66
<u>Executive Employment Agreements</u>	68
<u>Potential Payments upon Termination or Change in Control</u>	74
<u>Item 5. Stockholder Proposal on Significant Executive Stock Retention for Two Years Beyond Retirement</u>	82
<u>Item 6. Stockholder Proposal on Preparing a Pay Differential Report</u>	84
<u>Certain Relationships and Related Transactions</u>	85
<u>Additional Corporate Governance Matters</u>	86

<u>Appendix A</u>	<u>Supplemental Information: GAAP to Non-GAAP Reconciliation</u>	A-1
<u>Appendix B</u>	<u>McKesson Corporation 2005 Stock Plan</u>	B-1
<u>Appendix C</u>	<u>McKesson Corporation 2005 Management Incentive Plan</u>	C-1

Table of Contents

PROXY STATEMENT

General Information

Proxies and Voting at the Annual 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 28, 2010 (the Annual Meeting), and at any adjournment or postponement thereof. This proxy statement includes information about the matters to be voted upon at the Annual Meeting.

On June 21, 2010, the Company began delivering proxy materials to all stockholders of record at the close of business on June 1, 2010 (the Record Date). On the Record Date, there were 259,946,481 shares of the Company's common stock outstanding and entitled to vote. As a stockholder, you are entitled to one vote for each share of common stock you held on the Record Date, including shares: (i) held directly in your name as the stockholder of record; (ii) held for you in an account with a broker, bank or other nominee; or (iii) allocated to your account in the Company's Profit-Sharing Investment Plan (the PSIP).

You can revoke your proxy at any time before the Annual Meeting by sending to the Company's Corporate Secretary a written revocation or a proxy bearing a later date. You may also revoke your proxy by attending the Annual Meeting in person and casting a ballot. If you hold your shares through a broker, bank or other nominee and have instructed the broker, bank or other nominee as to how to vote your shares, you must follow directions received from the broker, bank or other nominee in order to change your vote or to vote at the Annual Meeting.

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 located on the enclosed proxy card. The telephone and Internet voting procedures are designed to authenticate each stockholder's identity and to allow each stockholder to vote his or her shares and confirm that his or her voting instructions have been properly recorded. If you do not wish to vote by telephone or via the Internet, please complete, sign and return the proxy card in the self-addressed, postage-paid envelope provided.

If you have shares held by a broker, bank or other nominee, you may instruct your nominee to vote your shares by following your nominee's instructions. ***Your vote as a stockholder is important.*** Please vote as soon as possible to ensure that your vote is recorded.

All shares represented by valid proxies will be voted as specified. If you sign and return a proxy card without specific voting instructions, your shares will be voted as recommended by our Board of Directors (the Board or the Board of Directors) on all proposals described in this proxy statement, and in the discretion of the designated proxy holders as to any other matters that may properly come before the Annual Meeting. We currently know of no other matter to be presented at the Annual Meeting, except for the proposals described in this proxy statement.

All votes cast at the Annual Meeting will be tabulated by Broadridge Financial Solutions, Inc. (Broadridge), which has been appointed the independent inspector of election. Broadridge will determine whether or not a quorum is present.

Attendance at the Annual Meeting

You will need to bring your admission ticket if you plan to attend the Annual Meeting. You will find an admission ticket attached to the proxy card if you are a registered stockholder or PSIP participant. If your shares are held in the name of a broker, bank or other stockholder of record and you plan to attend the Annual Meeting in person, you may obtain an admission ticket in advance by sending a request, along with proof of ownership, such as a brokerage or bank account statement, to the Company's Corporate Secretary, One Post Street, 35th Floor, San Francisco, California 94104. Stockholders who do not have an admission ticket will only be admitted upon verification of ownership.

Dividend Reinvestment Plan

For those stockholders who participate in the Company's Automatic Dividend Reinvestment Plan (DRP), the enclosed proxy card includes all full shares of common stock held in your DRP account on the Record Date for the Annual Meeting, as well as your shares held of record.

Table of Contents

Vote Required and Method of Counting Votes

The votes required and the methods of calculation for the proposals to be considered at the Annual Meeting are as follows:

Item 1 Election of Directors. Each share of the Company's common stock you own entitles you to one vote. You may vote for or against one or more of the director nominees, or abstain from voting on the election of any nominee. A nominee will be elected as a director if he or she receives a majority of votes cast (that is, the number of votes cast for a director nominee must exceed the number of votes cast against that nominee). Abstentions or broker non-votes (as described below), if any, will not count as votes cast. There is no cumulative voting with respect to the election of directors.

Item 2 Proposal to Reapprove the Performance Measures Available for Performance-Based Awards under the Company's Amended and Restated 2005 Stock Plan. Re-approval of the performance measures for performance-based awards under the Company's amended and restated 2005 Stock Plan (the "2005 Stock Plan") requires the affirmative vote of a majority of the shares present, in person or by proxy, and entitled to vote on the proposal at the Annual Meeting. You may vote for or against, or abstain from voting on, the proposal to reapprove the performance measures for performance-based awards under the Company's 2005 Stock Plan. Abstentions on this proposal, if any, will have the same effect as voting against the proposal; however, broker non-votes, if any, will be disregarded for purposes of calculating the outcome.

Item 3 Proposal to Reapprove the Performance Measures Available for Performance-Based Awards under the Company's Amended and Restated 2005 Management Incentive Plan. Re-approval of the performance measures for performance-based awards under the Company's amended and restated 2005 Management Incentive Plan (the "MIP") requires the affirmative vote of a majority of the shares present, in person or by proxy, and entitled to vote on the proposal at the Annual Meeting. You may vote for or against, or abstain from voting on, the proposal to reapprove the performance measures for performance-based awards under the Company's MIP. Abstentions on this proposal, if any, will have the same effect as voting against the proposal; however, broker non-votes, if any, will be disregarded for purposes of calculating the outcome.

Item 4 Ratification of the Appointment of Independent Registered Public Accounting Firm. Ratification of the appointment of Deloitte & Touche LLP for the current fiscal year requires the affirmative vote of a majority of the shares present, in person or by proxy, and entitled to vote on the proposal at the Annual Meeting. Our 2011 fiscal year began on April 1, 2010 and will end on March 31, 2011 (FY 2011). You may vote for or against, or abstain from voting on, the proposal to ratify the appointment of Deloitte & Touche LLP as our independent registered public accounting firm for FY 2011. Abstentions on this proposal, if any, will have the same effect as voting against the proposal; however, broker non-votes, if any, will be disregarded for purposes of calculating the outcome.

Item 5 Stockholder Proposal on Executive Stock Retention for Two Years Beyond Retirement. Approval of this stockholder proposal requires the affirmative vote of a majority of the shares present, in person or by proxy, and entitled to vote on the proposal at the Annual Meeting. You may vote for or against, or abstain from voting on this proposal. Abstentions on this proposal, if any, will have the same effect as voting against the proposal; however, broker non-votes, if any, will be disregarded for purposes of calculating the outcome.

Item 6 Stockholder Proposal on Preparing a Pay Differential Report. Approval of this stockholder proposal requires the affirmative vote of a majority of the shares present, in person or by proxy, and entitled to vote on the proposal at the Annual Meeting. You may vote for or against, or abstain from voting on this proposal. Abstentions on this proposal, if any, will have the same effect as voting against the proposal; however, broker non-votes, if any, will be

disregarded for purposes of calculating the outcome.

**The Board recommends a vote FOR each nominee named in Item 1,
FOR Items 2, 3 and 4, and AGAINST Items 5 and 6.**

Table of Contents

Voting Results of the Annual Meeting

We intend to announce preliminary voting results at the Annual Meeting, and publish preliminary or final results, if available, in a Current Report on Form 8-K to be filed with the Securities and Exchange Commission (the "SEC") within four business days of the Annual Meeting.

Quorum Requirement

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 Annual Meeting. In the event of abstentions or broker non-votes, as defined below, the shares represented will be considered present for quorum purposes.

Abstentions and Broker Non-Votes

If you submit your proxy or attend the Annual Meeting, but choose to abstain from voting on any proposal, you will be considered present and not voting on the proposal.

Generally, broker non-votes occur when a broker, bank or other nominee is not permitted (that is, it does not have discretion) to vote on a proposal without instructions from the beneficial owner and instructions are not given. Under rules of the New York Stock Exchange (the "NYSE"), brokers, banks and other nominees do not have such discretionary voting authority for matters that are considered non-routine by the NYSE. As the result of recent NYSE rule changes, the election of directors is now, unlike in prior years, classified as a non-routine matter. Accordingly, brokers, banks and other nominees will not be permitted to vote on the election of directors without instructions from the beneficial owners. ***We therefore encourage all beneficial owners to provide voting instructions to ensure that their shares are voted at the Annual Meeting.***

In the election of directors, abstentions and broker non-votes, if any, will be disregarded and have no effect on the outcome of the vote. For the proposed re-approval of the performance measures available under the Company's 2005 Stock Plan and MIP, the ratification of the appointment of Deloitte & Touche LLP and the vote on the two stockholder proposals, abstentions from voting will have the same effect as voting against such matters; however, broker non-votes, if any, will be disregarded for purposes of calculating the outcome.

Profit-Sharing Investment Plan

Participants in the Company's tax qualified 401(k) plan, the 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 voting instruction card for that purpose. In general, the PSIP provides that all shares for which no voting instructions are received from participants and unallocated shares of common stock held in the employee stock ownership plan established as part of the PSIP, will be voted by the Trustee in the same proportion as shares for which voting instructions are received. However, shares that have been allocated to PSIP participants' PAYSOP accounts for which no voting instructions are received will not be voted.

List of Stockholders

The names of stockholders of record entitled to vote at the Annual Meeting will be available at the meeting and for ten days prior to the meeting for any purpose germane to the Annual Meeting, or during ordinary business hours, at our principal executive offices at One Post Street, 35th Floor, San Francisco, California. You may obtain this information by contacting the Secretary of the Company.

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

The notice of annual meeting, proxy statement and Annual Report on Form 10-K for our fiscal year ended March 31, 2010 are available at www.proxyvote.com. Instead of receiving future copies of the proxy statement and Annual Report on Form 10-K by mail, you may, by following the applicable procedures described below, elect to receive these documents electronically, in which case you will receive an e-mail with a link to these documents.

Stockholders of Record: You may elect to receive proxy materials electronically next year in place of printed materials by logging on to www.proxyvote.com and entering your control number, which you can locate on the accompanying proxy card. By doing so, you will save the Company printing and mailing expenses, reduce the

Table of Contents

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.

Beneficial Stockholders: If you hold your shares through a broker, bank or other holder of record, you may also have the opportunity to receive copies of the proxy statement and Annual Report on Form 10-K electronically. Please check the information provided in the proxy materials mailed to you by your broker, bank or other holder of record regarding the availability of this service or contact the broker, bank 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 sending an e-mail to investors@mckesson.com.

Householding of Proxy Materials

In a further effort to reduce printing costs and postage fees, we have adopted a practice approved by the SEC called householding. Under this practice, stockholders who have the same address and last name and do not participate in electronic delivery of proxy materials will receive only one copy of our proxy materials, unless any of these stockholders notifies us that he or she wishes to continue receiving individual copies. Stockholders who participate in householding will continue to receive separate proxy cards.

If you share an address with another stockholder and received only one set of proxy materials, but would like to request a separate copy of these materials, please contact Broadridge by calling 800-542-1061 or by writing to Broadridge, Householding Department, 51 Mercedes Way, Edgewood, New York 11717. Similarly, you may also contact Broadridge if you received multiple copies of the proxy materials and would prefer to receive a single copy in the future.

Table of Contents

PROPOSALS TO BE VOTED ON

Item 1. Election of Directors

There are nine nominees for election to the Board of Directors of the Company. The directors elected at the Annual Meeting will hold office until the 2011 Annual Meeting of Stockholders and until their successors have been elected and qualified, or until their earlier death, resignation or removal.

All nominees are existing directors and were elected to the Board at the 2009 Annual Meeting of Stockholders. For purposes of the upcoming Annual Meeting, the Committee on Directors and Corporate Governance (the Governance Committee) recommended the reelection of all nominees as a director. Each nominee has informed the Board that he or she is willing to serve as a director. If any nominee should decline or become unable or unavailable to serve as a director for any reason, your proxy authorizes the persons named in the proxy to vote for a replacement nominee, if the Board names one, as such persons determine in their best judgment. As an alternative, the Board may reduce the number of directors to be elected at the Annual Meeting.

Majority Voting Standard for Election of Directors. The Company's Amended and Restated By-laws provide for a majority voting standard for the election of directors in uncontested director elections, such as that being conducted this year. Under this standard, a director nominee will be elected only if the number of votes cast for the nominee exceeds the number of votes cast against that nominee. In the case of contested elections (a situation in which the number of nominees exceeds the number of directors to be elected), the plurality vote standard will apply. This majority voting standard is described further below under the section entitled Corporate Governance Majority Voting Standard.

The following is a brief description of the age, principal occupation, position and business experience, including other public company directorships, for at least the past five years and major affiliations of each of the nominees. Each director's biographical information includes a description of the director's experience, qualifications, attributes or skills that qualify the director to serve on the Company's Board at this time.

Nominees

Your Board recommends a vote FOR each Nominee.

Andy D. Bryant
Executive Vice President and Chief Administrative Officer
Intel Corporation

Mr. Bryant, age 60, has served as Executive Vice President and Chief Administrative Officer of Intel Corporation since October 2007. He served as Intel's Chief Financial Officer from 1994 to October 2007. Mr. Bryant joined Intel in 1981 and held a number of management positions before becoming Chief Financial Officer. He is also a director of Columbia Sportswear Company and Kryptiq Corporation. He was formerly a director of Synopsys Inc. Mr. Bryant has been a director of the Company since January 2008. He is Chair of the Finance Committee and a member of the Audit Committee.

Mr. Bryant's years of experience as an executive at a large global company, including as Chief Administrative Officer and Chief Financial Officer, provide to the Company's Board operational, strategic planning and financial expertise and considerable business acumen, as well as international business experience. Mr. Bryant also has public company board experience with service on audit and governance committees. In addition, having joined the Company's Board in

2008, Mr. Bryant has brought a valuable new perspective to the Board.

Table of Contents

Wayne A. Budd
Senior Counsel
Goodwin Procter LLP

Mr. Budd, age 68, joined the law firm of Goodwin Procter LLP as Senior Counsel in October 2004. He had been Senior Executive Vice President and General Counsel and a director of John Hancock Financial Services, Inc. since 2000 and a director of John Hancock Life Insurance Company since 1998. From 1996 to 2000, Mr. Budd was Group President-New England for Bell Atlantic Corporation (now Verizon Communications, Inc.). From 1994 to 1997, Mr. Budd was a Commissioner, United States Sentencing Commission and from 1993 to 1996, he was a senior partner at the law firm of Goodwin Procter LLP. From 1992 to 1993, he was the Associate Attorney General of the United States and from 1989 to 1992, he was United States Attorney for the District of Massachusetts. Mr. Budd has been a director of the Company since October 2003. He is a member of the Audit Committee and the Committee on Directors and Corporate Governance.

Mr. Budd brings to our Board significant legal and regulatory expertise gained from years of large law firm practice, and major governmental positions with both civil and law enforcement responsibilities. His legal experience and seasoned judgment have been instrumental in helping the Board navigate legal challenges. Additionally, he has senior executive business experience and public company board experience with service on audit, governance, compensation, and special litigation committees.

John H. Hammergren
Chairman of the Board, President and Chief Executive Officer

Mr. Hammergren, age 51, has served as Chairman of the Board since July 2002, and President and Chief Executive Officer of the Company since April 2001. Mr. Hammergren joined the Company in 1996 and held a number of management positions before becoming President and Chief Executive Officer. He is also a director of Nadro, S.A. de C.V. (Mexico), an entity in which the Company holds interests, and a director of the Hewlett-Packard Company. He has been a director of the Company since July 1999.

Including his experience at other significant healthcare organizations prior to joining the Company, Mr. Hammergren brings to the Board nearly 30 years of business and leadership experience in healthcare, as well as public company board experience. In addition to the strong leadership skills exhibited as Chief Executive Officer of the Company, he currently serves as Chairman of the Healthcare Leadership Council, a coalition of chief executives of the nation's leading healthcare companies and organizations. His healthcare industry and general business perspective have been broadened through his membership on this council, on the Business Council and on the Business Roundtable. The Board benefits from Mr. Hammergren's extensive knowledge of the Company, and from his deep understanding of its customer base, workforce, competition, challenges and opportunities.

Table of Contents

Alton F. Irby III
Chairman and Founding Partner
London Bay Capital

Mr. Irby, age 69, was the founding partner and has been Chairman of London Bay Capital, a privately-held investment firm, since May 2006. He was the founding partner of Tricorn Partners LLP, a privately-held investment bank from May 2003 to May 2006, a partner of Gleacher & Co. Ltd. from January 2001 until April 2003, and Chairman and Chief Executive Officer of HawkPoint Partners, formerly known as National Westminster Global Corporate Advisory, from 1997 until 2000. He was a founding partner of Hambro Magan Irby Holdings from 1988 to 1997. He is the Chairman of ContentFilm plc and also serves as a director of Thomas Weisel Partners Group, Inc. He is also a director of an indirect wholly-owned subsidiary of the Company, McKesson Information Solutions UK Limited. He was formerly a director of Catlin Group PLC and Centaur Holdings PLC. Mr. Irby has been a director of the Company since January 1999. He is Chair of the Compensation Committee and a member of the Finance Committee.

Mr. Irby has 35 years of experience as a senior executive of a number of financial services companies, and 30 years of service on various private and public company boards. During this time, he has acquired significant international business experience and demonstrated entrepreneurial talent as the founding partner of several firms. Based on his overall experience, Mr. Irby is able to provide to the Company's Board valuable insights into financial and capital market matters, acquisition opportunities and divestiture considerations.

M. Christine Jacobs
Chairman of the Board, President and Chief Executive Officer
Theragenics Corporation

Ms. Jacobs, age 59, is the Chairman, President and Chief Executive Officer of Theragenics Corporation, a manufacturer of prostate cancer treatment devices and surgical products. She has held the position of Chairman since May 2007, and previously from 1998 to 2005. She was Co-Chairman of the Board from 1997 to 1998 and was elected President in 1992 and Chief Executive Officer in 1993. Ms. Jacobs has been a director of the Company since January 1999. She is a member of the Compensation Committee and the Committee on Directors and Corporate Governance.

Having led a public company within the healthcare industry for 17 years, Ms. Jacobs brings to our Board significant relevant industry experience and a keen understanding of and strong insight into issues, challenges and opportunities facing the Company, including those related to legislative healthcare initiatives. As a Chairman and Chief Executive Officer, she is at the forefront of her company in regard to the evolving corporate governance environment, which enables her to provide valuable contributions as a member of the Governance Committee of our Board.

Table of Contents

Marie L. Knowles
Executive Vice President and Chief Financial Officer, Retired
ARCO

Ms. Knowles, age 63, 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. She joined ARCO in 1972. Ms. Knowles is also a member of the Board of Trustees of the Fidelity Funds. She has been a director of the Company since March 2002. She is the Chair of the Audit Committee and a member of the Finance Committee.

Ms. Knowles brings to the Board extensive financial experience gained through her career at ARCO, including her tenure as Chief Financial Officer. This experience makes her well qualified to serve as Chair of the Company's Audit Committee and as the Audit Committee Financial Expert. This experience also enables Ms. Knowles to provide critical insight into, among other things, the Company's financial statements, accounting principles and practices, internal control over financial reporting, and risk management processes.

David M. Lawrence, M.D.
Chairman of the Board and Chief Executive Officer, Retired
Kaiser Foundation Health Plan, Inc. and Kaiser Foundation Hospitals

Dr. Lawrence, age 69, retired as Chief Executive Officer and Chairman of Kaiser Foundation Health Plan, Inc. and Kaiser Foundation Hospitals in December 2002. He served as Chairman of the Board from 1992 to May 2002 and Chief Executive Officer from 1991 to May 2002 of Kaiser Foundation Health Plan, Inc. and Kaiser Foundation Hospitals. He held a number of management positions with these organizations prior to assuming these positions, including Vice Chairman of the Board and Chief Operating Officer. He is also a director of Agilent Technologies Inc. He was formerly a director of Raffles Medical Group, Inc., PG&E Corporation and Dynavax Technologies Corporation. Dr. Lawrence has been a director of the Company since January 2004. He is a member of the Compensation Committee and Finance Committee.

Dr. Lawrence possesses considerable leadership experience in the healthcare industry, having served for a decade as Chairman and Chief Executive Officer of the largest private healthcare system in the world. This experience, coupled with his training as a physician, enables him to provide an important perspective and valuable insight into various aspects of the Company's businesses. In addition, Dr. Lawrence brings to our Board broad experience and perspective gained through his considerable public company board experience, including his service on compensation, audit, finance and governance committees.

Table of Contents

Edward A. Mueller
Chairman of the Board and Chief Executive Officer
Qwest Communications International Inc.

Mr. Mueller, age 63, has served as Chairman and Chief Executive Officer of Qwest Communications International Inc., a provider of voice, data and video services, since August 2007. He served as Chief Executive Officer of Williams-Sonoma, Inc., a provider of specialty products for cooking, from January 2003 until July 2006. Prior to joining Williams-Sonoma, Inc., Mr. Mueller served as President and Chief Executive Officer of Ameritech Corporation, a subsidiary of SBC Communications, Inc., from 2000 to 2002. He is also a director of The Clorox Company. He was formerly a director of Williams-Sonoma, Inc. and VeriSign, Inc. Mr. Mueller has been a director of the Company since April 2008. He is a member of the Compensation Committee and the Committee on Directors and Corporate Governance.

Mr. Mueller brings to the Board chief executive leadership and business management experience, as well as a strong business acumen and strategic planning expertise. Having worked outside the healthcare industry, he also adds to the mix of experiences and perspectives on our Board that promote a robust deliberative and decision-making process. As Chairman of the Board of his company, Mr. Mueller takes a leadership role in the corporate governance of his company, which enables him to provide valuable contributions as a member of the Governance Committee of our Board. He also has public company board experience with audit committee service.

Jane E. Shaw, Ph.D.
Chairman of the Board,
Intel Corporation;
Chairman of the Board and Chief Executive Officer, Retired,
Aerogen, Inc.

Dr. Shaw, age 71, retired as Chairman of the Board of Aerogen, Inc., a company specializing in the development of products for improving respiratory therapy, in October 2005. She had held that position since 1998. She retired as Chief Executive Officer of that company in June 2005. She is also currently the non-executive Chairman of Intel Corporation, and a director of Talima Therapeutics, Inc. She was formerly a director of OfficeMax Incorporated. Dr. Shaw has been a director of the Company since April 1992. She is the Chair of the Committee on Directors and Corporate Governance and a member of the Audit Committee.

As a former Chief Executive Officer, Dr. Shaw brings to the Board executive leadership and business management experience in the healthcare industry. She also has a strong financial background, which positions her well to serve on the Audit Committee. As a former Board Chairman and the current non-executive Chairman of Intel Corporation, Dr. Shaw is well qualified to serve as Chair of the Governance Committee and has played a major role in helping the Company navigate the changing governance landscape. Having been raised and educated in Europe, she also has an international background that broadens the Board's perspective. As the longest-standing Board member, the Board benefits from her considerable institutional knowledge. It is also noteworthy that Dr. Shaw was named a 2010 Outstanding Director by the Outstanding Directors Exchange.

The Board, Committees and Meetings

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. The Board's

Table of Contents

goal is to build long-term value for the Company's stockholders and to ensure the vitality of the Company for its customers, employees and other individuals and organizations that 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 nine members, all of whom are independent with the exception of the Chairman.

The Board has, and for many years has 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 is governed by a written charter approved by the Board in compliance with the applicable requirements of the SEC and the NYSE listing requirements (collectively, the Applicable Rules). The charter of each committee requires an annual review by such committee. Each member of our standing committees is independent, as determined by the Board, under the NYSE listing standards and the Company's director independence standards. In addition, each member of the Audit Committee meets the additional, heightened independence criteria applicable to audit committee members, as established by the SEC. The members of each standing committee are appointed by the Board each year for a term of one year or until their successors are elected. The members of the committees are identified in the table below.

Director	Audit	Compensation	Directors and Corporate Governance	Finance
Andy D. Bryant	X			Chair
Wayne A. Budd	X		X	
John H. Hammergren				
Alton F. Irby III		Chair		X
M. Christine Jacobs		X	X	
Marie L. Knowles	Chair			X
David M. Lawrence, M.D.		X		X
Edward A. Mueller		X	X	
Jane E. Shaw, Ph.D.	X		Chair	
Number of meetings held during the fiscal year ended March 31, 2010	8	10	5	4

Board and Meeting Attendance

During the fiscal year ended March 31, 2010 (FY 2010), the Board met seven times. Each director attended at least 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. Directors are also expected to attend the upcoming Annual Meeting, and all but one director attended the prior year Annual Meeting of Stockholders held in July 2009.

Audit Committee

The Audit Committee is responsible for, among other things, reviewing with management the annual audited financial statements filed in the Annual Report on Form 10-K, including any major issues regarding accounting principles and practices as well as the adequacy and effectiveness of internal control over financial reporting that could significantly affect the Company's financial statements; reviewing with financial management and the independent registered public accounting firm (the independent accountants) the interim financial statements prior to the filing of the Company's

quarterly reports on Form 10-Q; the appointment of the independent accountants; monitoring the independence and evaluating the performance of the independent accountants; approving the fees to be paid to the independent accountants; reviewing and accepting the annual audit plan, including the scope of the audit activities of the independent accountants; at least annually reassessing the adequacy of the Audit Committee's charter and recommending to the Board any proposed changes; reviewing major changes to the Company's 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; and performing such other activities and considering such other matters, within the scope of its responsibilities, as

Table of Contents

the Audit Committee or Board deems necessary or appropriate. The composition of the Audit Committee, the attributes of its members, including the requirement that each be financially literate and have other requisite experience, and the responsibilities of the Audit Committee, as reflected in its charter, are in accordance with the Applicable Rules for corporate audit committees.

Audit Committee Financial Expert

The Board has designated Ms. Knowles as the Audit Committee's financial expert and has determined that she meets the qualifications of an audit committee financial expert in accordance with SEC rules, and that she is independent as defined for audit committee members in the listing standards of the NYSE and applicable SEC requirements, and in accordance with the Company's additional director independence standards.

Compensation Committee

The Compensation Committee has responsibility for, among other things, reviewing all matters relating to CEO compensation, including making and annually reviewing decisions concerning cash and equity compensation, and other terms and conditions of employment for the CEO, incorporating the review of the CEO's performance against pre-established business and individual objectives that is conducted annually by the full Board; reviewing and approving corporate goals and objectives relating to compensation of other executive officers, and making and annually reviewing decisions concerning the cash and equity compensation, and other terms and conditions of employment for those executive officers; reviewing and making recommendations to the Board with respect to adoption of, or amendments to, all equity-based incentive compensation plans and arrangements for employees and cash-based incentive plans for senior executive officers, including an evaluation of whether the relationship between the incentives associated with these plans and the level of risk-taking by executive officers in response to such incentives is reasonably likely to have a material adverse effect on the Company; approving grants of stock, stock options, stock purchase rights or other equity grants to employees eligible for such grants (unless such responsibility is delegated pursuant to the applicable stock plan); interpreting the Company's stock plans; reviewing its charter annually and recommending to the Board any changes the Compensation Committee determines are appropriate; participating with management in the preparation of the Compensation Discussion and Analysis for the Company's proxy statement; and performing such other activities required by applicable law, rules or regulations, and consistent with its charter, as the Compensation Committee or the Board deems necessary or appropriate. The Compensation Committee may delegate to any officer or officers the authority to grant awards to employees other than directors or executive officers, provided that such grants are within the limits established by the Delaware General Corporation Law and by resolution of the Board. The Compensation Committee determines the structure and amount of all executive officer compensation, including awards of equity, based upon the initial recommendation of management and in consultation with the Compensation Committee's outside compensation consultant.

The Compensation Committee directly employs its own independent compensation consultant, Compensation Strategies, Inc., and independent legal counsel, Gunderson Dettmer Stough Villeneuve Franklin & Hachigian, LLP. These advisors do not provide any other services to the Company, other than Compensation Strategies, Inc., which also provides consulting services to the Governance Committee in the area of director compensation. In accordance with its charter, the Compensation Committee annually evaluates the qualifications, performance and independence of its advisors. Additional information on the Compensation Committee's process and procedures for consideration of executive compensation is addressed in the Compensation Discussion and Analysis below.

Finance Committee

The Finance Committee has responsibility for, among other things, reviewing the Company's dividend policy; reviewing the adequacy of the Company's insurance programs; reviewing with management 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; reviewing tax planning strategies utilized by management; reviewing the funding status and investment policies of the Company's tax-qualified retirement plans; and reviewing and (when authorized by the Board) approving the principal terms and conditions of securities that may be issued by the Company.

Table of Contents

Committee on Directors and Corporate Governance

The Governance Committee has responsibility for, among other things, 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; developing and administering the Company's related party transactions policy; advising the Board on matters of corporate governance, including the Corporate Governance Guidelines and composition of committees; and advising the Board regarding director compensation and administering the 2005 Stock Plan with respect to directors equity awards.

Director Qualifications, Nomination and Diversity

To fulfill its responsibility to recruit and recommend to the full Board nominees for election as directors, the Governance Committee considers all qualified candidates who may be identified by any one of the following sources: current or former Board members, a professional search firm, Company executives or stockholders. Stockholders who wish to propose a director candidate for consideration by the Governance Committee may do so by submitting the candidate's name, resume and biographical information and qualifications to the attention of the Secretary of the Company at One Post Street, 35th Floor, San Francisco, California 94104. All proposals for recommendation or nomination received by the Secretary will be presented to the Governance Committee for its consideration. The Governance Committee and the Company's CEO will interview those candidates who meet the criteria described below, and the Governance Committee will recommend to the Board nominees that best suit the Board's needs. In order for a recommended director candidate to be considered by the Governance Committee for nomination for election at an upcoming annual meeting of stockholders, the recommendation must be received by the Secretary not less than 120 days prior to the anniversary date of the Company's most recent annual meeting of stockholders.

In evaluating candidates for the Board, the Governance Committee reviews each candidate's biographical information and credentials, and assesses each candidate's independence, skills, experience and expertise based on a variety of factors. Members of the Board should have the highest professional and personal ethics, integrity and values consistent with the Company's values. They should have broad experience at the policy-making level in business, technology, healthcare or public interest, or have achieved national prominence in a relevant field as a faculty member or senior government officer. The Governance Committee will consider whether the candidate has had a successful career that demonstrates the ability to make the kind of important and sensitive judgments that the Board is called upon to make, and whether the nominee's skills are complementary to the existing Board members' skills. Board members must take into account and balance the legitimate interests and concerns of all of the Company's stockhold