

MCKESSON CORP
Form PRE 14A
May 30, 2007

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**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.

(1) Title of each class of securities to which transaction applies:

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(1) Amount Previously Paid:

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(3) Filing Party:

(4) Date Filed:

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

The 2007 Annual Meeting of Stockholders of McKesson Corporation will be held on Wednesday, July 25, 2007 at 8:30 a.m. at the A.P. Giannini Auditorium, 555 California Street, San Francisco, California to:

Elect two individuals to the Board of Directors;

Approve amendments to our Restated Certificate of Incorporation to provide for the annual election of Directors;

Approve an amendment to the 2005 Stock Plan to increase the number of shares of common stock reserved for issuance under the plan by 15,000,000;

Approve an amendment to the 2000 Employee Stock Purchase Plan to increase the number of shares of common stock reserved for issuance under the plan by 5,000,000;

Ratify the appointment of Deloitte & Touche LLP as the Company's independent registered public accounting firm for the fiscal year ending March 31, 2008; and

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

Stockholders of record at the close of business on May 29, 2007 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

Laureen E. Seeger
*Executive Vice President, General Counsel
and Secretary*

One Post Street
San Francisco, CA 94104-5296
June , 2007

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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 25, 2007 (the Meeting), and at any adjournment or postponement of the Meeting. This proxy statement includes information about the matters to be voted upon at the Meeting.

On June , 2007, the Company began delivering these proxy materials to all stockholders of record at the close of business on May 29, 2007 (the Record Date). On the Record Date, there were approximately shares of the Company s common stock outstanding and entitled to vote. 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 (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. The telephone and Internet voting procedures are designed to authenticate the stockholder s identity and to allow the stockholders 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 via the Internet or telephone, 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 their instructions. Your stockholder vote is important. Brokers, banks and other nominees that have not received voting instructions from their clients cannot vote on their clients behalf on the proposals to amend the 2005 Stock Plan or the 2000 Employee Stock Purchase Plan, which could reduce the number of votes cast on these proposals. 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 no specification is made, the proxies will be voted **FOR:**

The election of the two director nominees named below;

The approval of amendments to our Restated Certificate of Incorporation to provide for the annual election of Directors;

The approval of an amendment to the 2005 Stock Plan to increase the number of shares of common stock reserved for issuance under the plan by 15,000,000;

The approval of an amendment to the 2000 Employee Stock Purchase Plan to increase the number of shares of common stock reserved for issuance under the plan by 5,000,000; and

Ratifying the appointment of Deloitte & Touche LLP as the Company's independent registered public accounting firm for the fiscal year ending March 31, 2008.

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

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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, 33rd Floor, 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 (DRP), the enclosed proxy includes all full shares of common stock held in your DRP account on the Record Date for the Meeting, as well as your shares held of record.

Vote Required and Method of Counting Votes

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

Item 1 Election of Directors. Each share of McKesson common stock you own entitles you to one vote. You may vote for or against, or abstain from voting on the election as a director of one or more of the two nominees. 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 defined below), if any, will not count as votes cast. There is no cumulative voting with respect to the election of directors.

Item 2 Amendments to the Restated Certificate of Incorporation to Provide for the Annual Election of Directors. The affirmative vote of a majority of the outstanding shares of the Company's common stock is required for the proposal to amend our Restated Certificate of Incorporation to provide for the annual election of directors.

You may vote for or against, or abstain from voting on, the proposal to approve the amendments to the Company's Restated Certificate of Incorporation.

Item 3 Amendment to the 2005 Stock Plan. Approval of the amendment to the Company's 2005 Stock Plan to increase the number of shares available under the 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 Meeting.

You may vote for or against, or abstain from voting on, the proposal to approve the amendment to the Company's 2005 Stock Plan.

Item 4 Amendment to the 2000 Employee Stock Purchase Plan. Approval of the amendment to the Company's 2000 Employee Stock Purchase Plan to increase the number of shares available under the 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 Meeting.

You may vote for or against, or abstain from voting on, the proposal to approve the amendment to the Company's 2000 Employee Stock Purchase Plan.

Item 5 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 Meeting. Our 2008 fiscal year began on April 1, 2007 and will end on March 31, 2008 (FY 2008)

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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 the FY 2008.

The Board of Directors recommends a vote FOR each nominee named in Item 1, and FOR each of items 2, 3, 4 and 5.

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 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 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 is not permitted to vote on a proposal without instructions from the beneficial owner, and instructions are not given.

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. Since the amendment to our Restated Certificate of Incorporation for the annual election of directors requires the affirmative vote of a majority of the outstanding shares of the Company's common stock, shares not voted, including abstentions and broker non-votes, will have the effect of a vote against the proposal. With respect to the proposed amendment to the 2005 Stock Plan, the proposed amendment to the 2000 Employee Stock Purchase Plan and ratification of the appointment of Deloitte & Touche LLP, abstentions from voting will have the same effect as voting against such matters; however, broker non-votes, if any, will be disregarded and have no effect on the outcome of such vote.

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. In general, 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. 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 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, Proxy Statement and the Annual Report on Form 10-K for our fiscal year ended March 31, 2007 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 that 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

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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 for electronic delivery anytime using your Stockholder Account Number, which you can locate on the accompanying proxy card, at the Internet website *www.proxyconsent.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*.

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 one or more 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 and would like to request a separate copy of these materials, please: (1) mail your request to Investor Relations, Box K, McKesson Corporation, One Post Street, San Francisco, CA 94104; (2) send an e-mail to *investors@mckesson.com*; or (3) call our Investor Relations department toll-free at (800) 826-9260. Similarly, you may also contact us if you received multiple copies of the proxy materials and would prefer to receive a single copy in the future.

PROPOSALS TO BE VOTED ON

Item 1. *Election of Directors*

The Board of Directors (the Board) is currently 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.

On May 29, 2007, Mr. Robert W. Matschullat informed the Company that he would not stand for reelection to the Board, and therefore his term as director will expire as scheduled at the upcoming Meeting. Mr. Matschullat indicated that his decision to resign was not the result of any disagreement with the Company. We anticipate that the Board will fill the upcoming vacancy following the Meeting.

The terms of office of the directors designated as nominees, Ms. M. Christine Jacobs and Mr. John H. Hammergren, will expire at the upcoming Meeting. The Board has nominated each of these directors for reelection. As described below, the Board is recommending stockholder approval of its proposal to amend our Restated Certificate of Incorporation to eliminate the current classification of our directors. If that proposal is approved by our stockholders

at the Meeting, our Board will be declassified, and the two nominees, if elected, will serve a one-year term that will expire at the 2008 Annual Meeting of Stockholders. If that proposal is not adopted, each of the two nominees, if elected, will serve a three-year term that will expire at the 2010 Annual Meeting of Stockholders. Furthermore, if that proposal is

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approved by our stockholders at the Meeting, all directors will be elected for a one-year term beginning with the 2008 Annual Meeting of Stockholders.

All of the nominees have informed the Board that they are willing to serve as directors. If any nominee should decline or become unable to serve as a director for any reason, the persons named in the enclosed proxy will vote for another person as they determine in their best judgment.

Majority Voting Standard for Election of Directors. In January 2007, the Board of Directors revised the Company's Amended and Restated Bylaws to install a majority voting standard for the election of directors. The amendment states that in uncontested director elections, such as that being conducted this year, 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 continues to apply. This majority vote standard is described further below under the subsection entitled, Corporate Governance Majority Voting Standard.

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.

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

Mr. Hammergren, age 48, 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 is a director of Nadro, S.A. de C.V. (Mexico) and Verispan LLC, entities in which the Company holds interests, and a director of the Hewlett-Packard Company. He has been a director of the Company since 1999.

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

Ms. Jacobs, age 56, is the Chairman, President, Chief Executive Officer and director of Theragenics Corporation, a manufacturer of prostate cancer treatment devices and surgical products. She has currently 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

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Officer in 1993. 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.

Directors Continuing in Office

Directors Whose Terms will Expire in 2008

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

Ms. Knowles, age 60, 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 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.

Jane E. Shaw
Chairman of the Board and Chief Executive Officer, Retired
Aerogen, Inc.

Dr. Shaw, age 68, 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 a director of Intel Corporation. Dr. Shaw has been a director of the Company since 1992. She is the Chair of the Committee on Directors and Corporate Governance and a member of the Audit Committee.

Directors Whose Terms Will Expire in 2009 if Stockholders Do Not Approve the Proposal to Declassify Our Board

Wayne A. Budd
Senior Counsel
Goodwin Procter LLP

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Mr. Budd, age 65, 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 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, he was a Commissioner, United States Sentencing Commission and from 1993 to 1996, Mr. Budd was a senior partner at the law firm of Goodwin Procter. 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.

Alton F. Irby III
Chairman and Partner
London Bay Capital

Mr. Irby, age 66, is the founding partner of London Bay Capital, a privately held investment firm, since May 2006. He was 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 was 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 he also serves as a director of Catlin Group Limited. He is also a director of an indirect wholly-owned subsidiary of the Company, McKesson Information Solutions UK Limited. Mr. Irby has been a director of the Company since 1999. He is Chair of the Compensation Committee and a member of the Finance Committee.

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 66, retired as Chairman Emeritus 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 a director of Agilent Technologies, Dynavax Technologies Corporation and Raffles Medical Group, Inc. Dr. Lawrence has been a director since January 2004. He is a member of the Compensation Committee.

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James V. Napier
 Chairman of the Board, Retired
 Scientific-Atlanta, Inc.

Mr. Napier, age 70, retired as Chairman of the Board, Scientific-Atlanta, Inc., a cable and telecommunications manufacturing company, in November 2000. He had been the Chairman of the Board since 1993. He is also a director of 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 Finance Committee.

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. 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 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 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 in compliance with the applicable requirements of the Securities and Exchange Commission (the SEC) and the New York Stock Exchange (the NYSE) listing requirements (the Applicable Rules). Each of these charters requires an annual review by its committee. All of the members of the committees are independent. The members of each standing committee are elected by the Board 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
Wayne A. Budd	X		X	
Alton F. Irby III		Chair		X
M. Christine Jacobs		X	X	
Marie L. Knowles	Chair			X
David M. Lawrence		X		
Robert W. Matschullat	X			Chair
James V. Napier				X
Jane E. Shaw	X		Chair	

Board and Meeting Attendance

During the fiscal year ended March 31, 2007 (FY 2007), the Board of Directors met eight times. No director attended fewer than 75% of the aggregate number of meetings of the Board and of all the

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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 Annual Meeting of Stockholders, and seven directors attended the annual stockholders meeting held in calendar year 2006.

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 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; performing such other activities and considering such other matters, within the scope of its responsibilities, as 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 intended to be in accordance with the Applicable Rules for corporate audit committees. The Audit Committee met seven times during FY 2007.

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 in the listing standards of the NYSE and in accordance with the Company's additional director independence standards.

Compensation Committee

The Compensation Committee has responsibility for, among other things, reviewing and approving the corporate goals and objectives relevant to the CEO's compensation, and evaluating together with the Board the CEO's performance in light of those objectives; making and annually reviewing decisions concerning cash and equity compensation, and other terms and conditions of employment for the CEO; 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; 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; participate, 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

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regulations, and consistent with its charter, as the Compensation Committee or the Board deems necessary or appropriate. The Compensation Committee may delegate to the CEO the authority to grant options to employees other than directors or executive officers, provided that such grants are within the limits established by Delaware General Corporate 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 has engaged Compensation Strategies, Inc., an independent executive and director compensation consulting firm, to provide executive compensation consulting services to the Company. Additional information on the Compensation Committee's process and procedures for consideration of executive compensation are addressed in the Compensation Discussion and Analysis below. The Compensation Committee met five times during FY 2007.

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 approving the principal terms and conditions of securities that may be issued by the Company. The Finance Committee met seven times during FY 2007.

Committee on Directors and Corporate Governance

The 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 committee composition; and advising the Board regarding director compensation and administering the 2005 Stock Plan with respect to directors' equity awards. The Governance Committee met five times during FY 2007.

Nominations for Director

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 retained by the Governance Committee, Company executives and other 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, San Francisco, CA 94104. All proposals for 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 that meet the criteria described below, and the Governance Committee will select nominees that best suit the Board's needs. In order for a recommended director candidate to be considered by the Governance Committee for nomination to stand 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.

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In evaluating candidates for the Board of Directors, 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 stockholders and other stakeholders, and must be able to devote sufficient time and energy to the performance of his or her duties as a director, as well as have a commitment to diversity. Insofar as a majority of members is concerned, directors must manifest independence as defined by the NYSE.

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 cash retainer, an annual restricted stock unit award and per-meeting fees. The committee chairs also receive an additional annual retainer, and beginning July 2007, the Presiding Director will similarly receive an additional annual retainer.

Directors may receive their annual retainers and meeting fees in cash, or defer their cash compensation into the Company's Deferred Compensation Administration Plan III. Directors are also paid their reasonable expenses for attending Board and committee meetings.

Following a comprehensive review of compensation practices and levels for non-employee directors, on October 26, 2006, the Board increased the annual retainer for non-employee directors from \$50,000 to \$75,000 and increased the annual retainer for each committee chair by \$5,000, which resulted in a \$20,000 annual retainer for the Chair of the Audit Committee and \$10,000 for each of the Chairs of the Finance Committee and the Committee on Directors and Corporate Governance. The annual retainer for the Chair of the Compensation Committee was increased to \$20,000 from \$5,000. These changes became effective on October 1, 2006. Also, at the October 2006 Board meeting, an annual retainer of \$10,000 was established for the Presiding Director effective July 25, 2007.

In addition to payment of an annual retainer, Board members are also entitled to meeting fees of \$1,500 for each Board, Finance Committee, Compens