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August 8, 2006

By Electronic and U.S. Mail

Lawrence Kunin, Esq.
Morris, Manning & Martin, LLP
1600 Atlanta Financial Center
3343 Peachtree Road, NE
Atlanta, GA 30326

Re: McKesson Medication Management LLC and McKesson Automation, Inc.

Dear Lawrence:

As you are aware, Duane Morris LLP is local counsel for McKesson Medication Management LLC ("McKesson Medication") and McKesson Automation, Inc. ("McKesson Automation") in a bankruptcy matter pending in Harrisburg, Pennsylvania (the "Bankruptcy"). The representation of McKesson Medication and McKesson Automation is governed by terms specifically outlined in the engagement letter dated April 27, 2006 (the "Engagement Letter"), which was amended at the request of McKesson Medication and McKesson Automation on May 30, 2006. Your firm, Morris Manning, LLP ("Morris Manning"), is lead counsel in the Bankruptcy.

You have informed us that "McKesson" believes that our representation of Nan and Alex Smith in an arbitration proceeding (the "Arbitration") before the American Arbitration Association and against McKesson Information Solutions, LLC ("McKesson Information") constitutes an irreconcilable conflict of interests. We understand that "McKesson" is comprised of several companies and businesses headquartered in various locations across the country, and we understand that the relationship of the McKesson entities in question is primarily one of similar ownership. We have given this situation considerable attention, and we disagree with your assertion that a conflict exists. Moreover, we believe that Duane Morris is in compliance with the Engagement Letter and its obligations as attorneys.

As set forth in more detail below, the terms of the controlling Engagement Letter clearly set forth that our clients, for any and all purposes – including conflicts, are limited to McKesson Medication and McKesson Automation. We are unwilling to continue our representation of McKesson Medication and McKesson Automation under terms different than those in the Engagement Letter. Therefore, we ask that McKesson Automation and McKesson Medication

reconsider their position and notify me of their agreement with Duane Morris continuing as local counsel in the Bankruptcy under the terms set forth in the Engagement Letter, specifically including that Duane Morris' clients are only McKesson Medication and McKesson Automation. If you are able to do so, Duane Morris will agree to continue to represent McKesson Automation and McKesson Medication. If we do not reach agreement on this issue, we will regrettably have no other choice but to terminate our engagement with McKesson Medication and McKesson Automation. While we do not believe that there are any legitimate conflict issues with our current representation of the Smiths in connection with the Atlanta Arbitration, McKesson Automation's and McKesson Medication's decision on this point should conclusively resolve all concerns raised by McKesson Information in the Arbitration.

I. Our Understanding of the Relevant Facts.

Based on initial investigations, our understanding of the relevant facts is as follows:

1. By the Engagement Letter, McKesson Medication and McKesson Automation retained Duane Morris to act as local counsel in the Bankruptcy on or about April 27, 2006. The Engagement Letter was amended at the request of McKesson Medication and McKesson Automation.

2. The engagement is limited. Duane Morris is acting solely as local counsel and only in the Bankruptcy and not in connection with any other matters. See Engagement Letter at 1. Duane Morris does not represent any McKesson entities other than McKesson Medication and McKesson Automation. See Engagement Letter at 3. The Engagement Letter anticipates certain potential conflicts and contains a prospective waiver of such conflicts. See Engagement Letter at 3.

3. The terms of the Engagement Letter were specifically negotiated by the parties, including Morris Manning, outside counsel for McKesson Medication and McKesson Automation. Indeed, an attorney acting on behalf of McKesson Medication and McKesson Automation sent an email after the representation commenced requesting that several terms contained in the Engagement Letter be struck (purportedly at the specific instructions of McKesson Medication and McKesson Automation). McKesson Medication and McKesson Automation specifically agreed to the other terms of the Engagement Letter, including the term limiting the representation to the Bankruptcy, the specification of the two entities that Duane Morris represents, the agreement that Duane Morris does not represent any affiliates, subsidiaries, etc., and the prospective waiver.

4. In connection with the Bankruptcy Engagement, Duane Morris has had very limited contact directly with any employee at any McKesson-owned entity and

has received little or no confidential information belonging to any McKesson-owned entity.

5. On July 19, 2006, Duane Morris entered an appearance in the Arbitration as counsel for Nan and Alex Smith (collectively, the "Smiths"). In the Arbitration, the Smiths allege that McKesson Information breached provisions in Non-Competition Agreements.

6. McKesson Information is the successor to HBO & Company ("HBOC"). In the context of the Arbitration, you had informed us that HBOC was acquired in its entirety and has operated as McKesson Information since that time, primarily under the leadership of the same individuals that led and managed HBOC.

7. Neither McKesson Medication nor McKesson Automation are parties to or involved in any way in the Arbitration.

8. You contacted Duane Morris on or about July 25, 2006 and stated to us that, contrary to the terms of the Engagement Letter, essentially the entire family of McKesson companies operate as a single entity for conflicts purposes, that as a matter of policy the McKesson companies never waive any potential or actual conflicts, and that "McKesson" believes that Duane Morris is precluded from representing the Smiths in the Arbitration due to its representation of McKesson Medication and McKesson Automation as local counsel in the Bankruptcy.

9. It appears that all three McKesson entities at issue have different offices and principal places of business (all located in different states) and that there are no common officers.

10. You have communicated that you believe the following two cases are controlling:

> Ramada Franchise System, Inc. v. Hotel of Gainesville Assoc., 988 F. Supp. 1460 (N.D. Ga. 1997) ("Ramada"); and
>
> Worldspan, L.P. v. The Sabre Group Holdings, Inc., 5 F. Supp. 2d (N.D. Ga. 1998) ("Worldspan").

II. Based on Our Understanding of Relevant Facts, We Believe that No Conflict Exists.

Duane Morris has carefully reviewed the Ramada and Worldspan cases, as well as other relevant authorities and believes that no conflict exists as a result of Duane Morris' representations in the Bankruptcy and the Arbitration.

A. Duane Morris Does Not Represent and Never Has Represented McKesson Information.

Duane Morris' representation in the Arbitration is not adverse to any clients of Duane Morris. McKesson Information is the defendant in the Arbitration. Duane Morris does not represent McKesson Information. As noted above, the Engagement Letter states explicitly that Duane Morris represents only McKesson Medication and McKesson Automation and not any affiliated companies (i.e., not McKesson Information). McKesson Medication and McKesson Automation are not parties to the Arbitration, and, to our knowledge, their rights and interests are not at issue in the Arbitration.

You recently stated that "McKesson" believes that representation of one McKesson entity, under any circumstance, would automatically give rise to a conflict by representation against another McKesson company because of the way "McKesson" conducts business. We were very surprised to learn this, because the Engagement Letter was revised at the request of McKesson Medication and McKesson Automation, and the terms that specify that Duane Morris represents only McKesson Medication and McKesson Automation and not any affiliates and the waiver of conflicts were not identified as objectionable to McKesson Medication and McKesson Automation.

According to a well-known American Bar Association (the "ABA") opinion, the manner in which Duane Morris identified specific McKesson entities in the Engagement Letter is the preferred method for resolving potential conflicts in the corporate affiliate context before they arise. See ABA Formal Opinion 95-390 (January 25, 1995) ("Clearly, the best solution to the problems that may arise by reason of clients' corporate affiliations is to have a clear understanding between lawyer and client, at the very start of the representation, as to which entity or entities in the corporate family are to be the lawyer's clients, or are to be so treated for conflicts purposes."). The ABA also instructs that inquiry into whether a client's subsidiaries will be treated as clients is, in part, a matter of the lawyer's and client corporation's expectations:

> The client-lawyer relationship is principally a matter of contract, and the contract may be either express or implied. Thus, the entities within a corporate family that are to be considered clients may have been expressly identified as clients, or they may have become entitled to be so treated by reason of the way the representation of one of the members of the corporate family has been handled. In addition, it may be one of the terms of the engagement that the corporate client expects some or all of its affiliates to be treated as clients *for purposes of Rule 1.7* -- i.e., that the lawyer will not accept engagements that would be prohibited by that Rule if the affiliates were clients.

See id. at 4.

The parties' expectations are clearly outlined in the Engagement Letter. The Engagement Letter specifies whom Duane Morris does and does not represent. When negotiating the Engagement Letter, McKesson Medication and McKesson Automation did not inform Duane Morris that they would require Duane Morris to consider as its client a sister company. Therefore, it is reasonable that Duane Morris expected that it represented only the corporations specified in the Engagement Letter.

In addition to being in contrast with the parties' explicit expectations, the Ramada case you cited rejects the argument that Duane Morris has accepted a *per se* representation of all the McKesson-affiliated companies.

> In seeking disqualification of the attorneys, the defendant urged a prophylactic rule which would disqualify attorneys who had represented any affiliated corporation of a party. This proposal was based on the idea that when two corporations are subject to common ownership and control, any injury or risk to one will necessarily cause injury or risk to the other. The [Pennwalt] court rejected this prophylactic rule: "Vigorous advocacy cannot change the fact that [the sister corporation] is a corporate entity distinct from [the defendant] and [the parent]."

Ramada, 988 F. Supp. 1464-1465 (internal citations omitted) (*quoting* Pennwalt Corp. v. Plough, 85 F.R.D. 264 (D. Del. 1980)).

The Ramada court did not announce a clear rule of law for determining whether a sister company is a "client" for disqualification purposes, but looked to the facts and circumstances of the representation. Ramada, 988 F. Supp. at 1465. The Ramada court noted that other courts have observed the reality that the co-subsidiary relationship is "more attenuated that that of a parent corporation and its subsidiary." Id.

In Ramada, the court found that a sister company was a "client" for disqualification purposes because the companies shared the same headquarters, had the same corporate principals and were serviced by the same legal department. See id. The Ramada court also discussed Apex Oil Co., Inc. v. Wickland Oil Co., 1995 Dist. LEXIS 6398 (E.D. Cal 1995), in which the opposite outcome was reached when the companies had mostly different management and senior officers and had different principal places of business and mailing addresses. The outcomes are consistent with the guidance offered by the ABA:

> [W]hole ownership may well entail not merely a shared legal department but a management so intertwined that all members of

> the corporate family effectively operate as a single entity; and in those circumstances representing one member of the family may effectively mean representing all the others as well. Conversely, where two corporations are related only through stock ownership, the ownership is less than a controlling interest and the lawyer has had no dealing whatever with the affiliate, there will rarely be any reason to conclude that the affiliate is the lawyer's client.

See ABA Formal Opinion 95-390 (January 25, 1995) at 6.

Based on the facts known to us, it appears that the current situation is much closer to the facts of Apex than Ramada. You stated earlier in the Arbitration that McKesson Information is managed and led by the former HBOC leadership, not other McKesson personnel. In addition, information that is available on the Georgia Secretary of State's website shows that all three McKesson entities at issue have different offices and principal places of business (all located in different states) and that there are no common officers. Your recent general statements that McKesson Medication, McKesson Automation and McKesson Information are all managed by the same individuals appears to be in conflict with your earlier statements and the publicly available information. Based on the facts available to us and the parties' expressly-negotiated understanding that Duane Morris does not represent any McKesson entity other than McKesson Medication and McKesson Automation, we do not believe that McKesson Information is a "client" for disqualification purposes. Thus, there is no conflict.

B. There Is No Substantial Relationship Between the Duane Morris' Representations in the Bankruptcy and the Arbitration.

Even if McKesson Information were a "client" for disqualification purposes, Duane Morris would not be precluded from its representation in the Arbitration because the Bankruptcy and the Arbitration are entirely unrelated. See Ramada 988 F. Supp. at 1465-66. The Bankruptcy involves a rental agreement with a hospital in Pennsylvania. Duane Morris is local counsel in the Bankruptcy, and lead counsel has the vast majority of contact with the client. The Arbitration involves Non-Compete Agreements with two individuals living in Georgia. None of the parties to any of the lease or the Non-Compete Agreements is the same. Accordingly, there is no substantial relation that would require disqualification of Duane Morris.

III. The Prospective Waiver Covers this Exact Situation.

You recently stated that the McKesson companies, as a corporate policy, never waive any potential conflicts and that "McKesson" does not consent to any conflict brought about by Duane Morris' representation in the Arbitration. However, Duane Morris was not advised of any such policy, and the Engagement Letter, which governs the relationship, contemplates situations exactly like the current one:

> Given the scope of our business and the scope of our client representations through our various offices in the United States and abroad, it is possible that some of our present or future clients will have matters adverse to [McKesson Medication and McKesson Automation] while we are representing [McKesson Medication and McKesson Automation]. We understand that [McKesson Medication and McKesson Automation have] no objection to our representation of parties with interests adverse to [McKesson Medication and McKesson Automation] and waive any actual or potential conflict of interest as long as those other engagements are not substantially related to our services to [McKesson Medication and McKesson Automation].

Engagement Letter at 3.

As noted above, McKesson Medication and McKesson Automation reviewed and revised the Engagement Letter but did not strike the advance waiver, so it is entirely inappropriate for McKesson to now take the position that it never waives any conflicts within its entire corporate affiliated family. If McKesson has a policy of not waiving any conflicts, it should have advised Duane Morris of that fact by revising the Engagement Letter accordingly. As discussed above, the Arbitration is not substantially related to Duane Morris' services in the Bankruptcy. Indeed, there is no relation at all. Accordingly, we believe the prospective waiver clause, by its terms, is applicable to the current situation.

You have cited to the Worldspan case for the proposition that the prospective waiver in the Engagement Letter is not applicable under the circumstances. The primary distinction in the Worldspan case and the current circumstances, however, is that McKesson Information is not a client of Duane Morris for the reasons explained above. The Worldspan court found this fact to be of critical importance:

> It is the opinion of this Court that future directly adverse litigation against one's present client is a matter of such an entirely different quality and exponentially greater magnitude, and so unusual given the position of trust existing between lawyer and client, that any document intended to grant standing consent for the lawyer to litigate against his own client must identify that possibility, if not in plain language, at least by irresistible inference including reference to specific parties, the circumstances under which such adverse representation would be undertaken, and all relevant like information.

Worldspan, 5 F. Supp. 2d at 1360. Duane Morris is not suing a client, as was the case in Worldspan.[1] Therefore, the reasoning and outcome of the Worldspan case are not applicable.

IV. Duane Morris' Representation of McKesson Medication and McKesson Automation Moving Forward.

Duane Morris is unwilling to represent McKesson Medication and McKesson Automation on terms other than those parties already negotiated and agreed upon in the Engagement Letter. We relied upon those contractual promises when we took on the representation. Moreover, as I am sure you are aware, the burden on the Smiths to find new counsel on the eve of an Arbitration hearing would be considerable, and in certain respects could be beneficial to McKesson Information. Therefore, we cannot agree to McKesson Medication's and McKesson Automation's repudiation of the prospective waiver or other terms of the Engagement Letter, nor can we expand our representation to include parties specifically excluded under the Engagement Letter.

We ask that you and your clients reconsider the positions you have taken regarding the alleged conflict and to abide by the Engagement Letter. If you choose not to, we will assist McKesson Medication and McKesson Automation in finding new counsel in the Bankruptcy and will transition the representation of McKesson Medication and McKesson Automation to new local counsel.

Sincerely yours,

Sean R. Smith by ALS

Sean R. Smith

[1] In addition, given the sophistication of those involved in reviewing the Engagement Letter, it was entirely appropriate for Duane Morris to expect that McKesson Mediation and McKesson Automation would abide by the advance waiver.