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11 UNITED STATES DISTRICT COURT
12 NORTHERN DISTRICT OF CALIFORNIA
13 SAN FRANCISCO DIVISION

14 U.S. SECURITIES AND EXCHANGE
15 COMMISSION,

16 Plaintiff,

17 vs.

18 WILLIAM MICHAEL GALLAHAIR,
19 Defendant.

Case 08-08

COMPLAINT FOR PERMANENT
INJUNCTION AND OTHER RELIEF

TRIAL BY JURY DEMANDED

SBA



5134

20 Plaintiff U.S. Securities and Exchange Commission (the "Commission") alleges:

21 SUMMARY OF THE ACTION

22 1. This case involves unlawful insider trading by Defendant William Michael Gallahair
23 ("Gallahair"), a former vice president of sales at McKesson Corporation ("McKesson"). In June
24 2005, Gallahair overheard a telephone call by his supervisor discussing McKesson's planned tender
25 offer for D&K Healthcare Resources, Inc. ("D&K"). Acting on this information, Gallahair purchased
26 20,000 shares of D&K stock in his personal brokerage account. Two weeks later, on July 11, 2005,
27 McKesson announced that it would acquire D&K through a tender offer. In the wake of this
28 announcement, the price of D&K's stock rose more than 68% from the previous day's closing price
of \$8.50 to \$14.30 per share. Gallahair realized profits of more than \$120,170.

1 employees from buying or selling securities of other companies if they acquired non-public
2 information about such companies in the course of their employment. The Code also prohibited
3 employees from having any ownership interest in any of McKesson's competitors.

4 RELEVANT ENTITIES

5 8. McKesson Corporation is a Delaware corporation with headquarters in San Francisco,
6 California. It is a Fortune 500 healthcare services company in the business of distributing
7 pharmaceutical products and providing software, consulting and outsourcing services worldwide. At
8 all relevant times, McKesson's securities have been registered with the Commission pursuant to
9 Section 12(b) of the Exchange Act [15 U.S.C. §781(b)] and have been publicly-traded on the New
10 York Stock Exchange under the symbol "MCK."

11 9. Until August 2005, D&K Healthcare Resources, Inc. was a Delaware corporation with
12 headquarters in St. Louis, Missouri. D&K operated as a wholesale distributor of pharmaceuticals,
13 healthcare and beauty products to pharmacies and other healthcare providers, primarily in the
14 Midwest and Southern United States. Until its acquisition by McKesson in August 2005, D&K's
15 securities were registered with the Commission pursuant to Section 12(g) of the Exchange Act [15
16 U.S.C. §781(g)] and were publicly-traded on the NASDAQ under the symbol "DKHR."

17 FACTS

18 A. McKesson's Tender Offer for D&K

19 10. In late February 2005, McKesson initiated discussions with D&K about a potential
20 merger between the two companies. In March 2005, McKesson took significant steps to acquire
21 D&K through a tender offer. On or about March 24, 2005, the companies signed a confidentiality
22 agreement, and McKesson submitted a written expression of interest to acquire D&K. On or about
23 April 18, 2005, McKesson entered into a non-binding expression of interest with D&K. During the
24 week of April 25, 2005, McKesson and D&K entered into an exclusivity agreement prohibiting D&K
25 from soliciting other bidders. Around the same time, McKesson also began performing due diligence
26 work concerning D&K. McKesson instructed all employees with any knowledge of the anticipated
27 tender offer to refer to the potential acquisition solely by the code name "Project Spirit," thus keeping
28 the anticipated tender offer strictly confidential.

1 11. Between May 9 and May 13, 2005, McKesson sent several employees from its finance
2 department to St. Louis, Missouri to conduct on-site due diligence of D&K's operations.

3 12. During the last two weeks of May 2005 and the first week of June 2005, McKesson
4 and D&K engaged in discussions about the details of the acquisition. At or around this time,
5 Gallahair's supervisor was tasked with overseeing the integration of D&K's operations. Gallahair, on
6 the other hand, played no role in the D&K acquisition.

7 13. During the week of July 4, 2005, McKesson and D&K negotiated the final terms of
8 the tender offer. On or about July 8, 2005, McKesson's and D&K's boards of directors approved the
9 tender offer.

10 14. Before the stock market opened on July 11, 2005, McKesson and D&K publicly
11 announced the acquisition through a tender offer for \$14.50 per share. That day, D&K's share price
12 rose approximately 68% from the previous day's closing price of \$8.50, rising to \$14.30 per share.

13 15. On August 30, 2005, McKesson completed its acquisition of D&K.

14 **B. Defendant Gallahair Misappropriated Material Non-public Information About**
15 **McKesson's Tender Offer For D&K And Traded On That Information**

16 16. On Thursday, June 23, 2005, Gallahair's supervisor flew to southern California to
17 make sales calls with Gallahair. Gallahair picked up his supervisor at the Orange County airport
18 early in the morning. They spent the rest of the day traveling to customers in Gallahair's car.

19 17. While Gallahair was driving, his supervisor participated in a call with another
20 McKesson employee regarding the integration of D&K's operations. By overhearing much of the
21 conversation, Gallahair learned of the pending acquisition.

22 18. On or about the same day, his supervisor told Gallahair that the supervisor was going
23 to be taking on new job responsibilities with McKesson, and therefore would no longer be Gallahair's
24 direct supervisor.

25 19. The next day, June 24, 2005, Gallahair left a message for his stockbroker, who was out
26 of the office for the day, about Gallahair's intention to purchase a particular stock.

1 20. On June 28, 2005, Gallahair called a friend in St. Louis, Missouri. He told his friend
2 that McKesson was going to acquire a pharmaceutical distributor or manufacturer located in St.
3 Louis. He asked his friend to research the names of St. Louis-based healthcare companies.

4 21. Shortly after the telephone call, Gallahair's friend sent him two e-mails listing the
5 names of several St. Louis companies.

6 22. In a subsequent call, Gallahair told his friend that the second e-mail included the name
7 of the company he had in mind.

8 23. That same day, Gallahair's stock broker returned Gallahair's message. Gallahair
9 instructed his stock broker to purchase shares of D&K stock. The stock broker asked Gallahair if he
10 had any non-public information about D&K. Gallahair denied any such knowledge. Rather,
11 Gallahair assured his stock broker that his interest in D&K stemmed from his belief that one of the
12 larger pharmaceutical distribution companies would ultimately acquire D&K.

13 24. Gallahair's stock broker advised Gallahair to invest approximately 5% of his
14 brokerage portfolio in D&K stock. Gallahair declined his broker's advice, directing his broker to
15 invest 10% of his portfolio in D&K. Gallahair explained that he wanted to get a greater return on his
16 investment.

17 25. On June 29, 2005, at Gallahair's request, Gallahair's stock broker sold shares of
18 several other securities in Gallahair's brokerage portfolio, including Cisco Systems, Inc., Merrill
19 Lynch & Co., and Goldman Sachs Group, Inc. He used proceeds from the sells to purchase 20,000
20 shares of D&K stock at \$8.30 per share, for a total cost of \$166,000.

21 26. Prior to June 29, 2005, Gallahair never owned shares of D&K stock.

22 27. During the first week of July 2005, Gallahair attended a sales conference in
23 Washington, D.C. sponsored by McKesson for its clients. Gallahair's supervisor was also in
24 attendance.

25 28. The conference occurred approximately one week before McKesson's public
26 announcement of its tender offer for D&K. During the conference, Gallahair approached his
27 supervisor and asked him if his job change was related to "St. Louis or D&K." Gallahair's supervisor
28 did not respond.

1 trust and confidence that he owed McKesson. Gallahair knew, or was reckless in not knowing,
2 that the information he misappropriated was material and non-public.

3 37. Defendant Gallahair owed a duty of trust and confidence to McKesson not to trade in
4 D&K Securities, either directly or indirectly, based on material, non-public information he obtained
5 as a result of his employment. Gallahair breached that duty by purchasing 20,000 shares of D&K
6 stock on June 29, 2005 based upon material, non-public information.

7 38. By engaging in the conduct described above, Gallahair, directly or indirectly, in
8 connection with the purchase or sale of securities, by the use of means or instrumentalities of
9 interstate commerce, of the mails, or the facilities of a national securities exchange, with scienter:

- 10 (a) employed devices, schemes, or artifices to defraud;
11 (b) made untrue statements of material facts or omitted to state material facts
12 necessary in order to make the statements made, in the light of the
13 circumstances under which they were made, not misleading; and
14 (c) engaged in acts, practices, or courses of business which operated or would
15 operate as a fraud or deceit upon other persons, including purchasers and
16 sellers of securities.

17 39. As a result of the activities described above, Gallahair has violated, and unless
18 restrained and enjoined, will continue to violate Section 10(b) of the Exchange Act [15 U.S.C. §
19 78j(b)] and Rule 10b-5 thereunder [17 C.F.R. §240.10b-5].

20 **COUNT TWO**

21 *Violations of Section 14(e) of the Exchange Act [15 U.S.C. §78n(e)] and Rule 14e-3 Thereunder*
22 *[17 C.F.R. §240.14e-3]*

23 40. The Commission realleges and incorporates by reference Paragraphs 1 through 37.

24 41. After McKesson had taken substantial steps to commence a tender offer for D&K's
25 stock, Defendant Gallahair purchased shares of D&K stock while in possession of material
26 information relating to the tender offer that he knew or had reason to know was non-public, and knew
27 or had reason to know had been acquired, directly or indirectly, from the offering company,
28 McKesson, or an officer, director, partner, employee or other person acting on McKesson's behalf.

JURY TRIAL DEMANDED

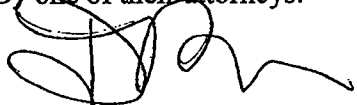
Plaintiff demands a trial by jury.

DATED: November 12, 2008

Respectfully Submitted,

U.S. SECURITIES AND EXCHANGE COMMISSION

By one of their attorneys:



Jonathan S. Polish
Anne C. McKinley
Richard G. Stoltz

Attorneys for Plaintiff

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