PharMerica CORP
Form DEF 14A
April 30, 2009
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

SCHEDULE 14A INFORMATION

Proxy Statement Pursuant to Section 14(a) of the

Securities Exchange Act of 1934

Filed by the Registrant x 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))**

x Definitive Proxy Statement

¨ Definitive Additional Materials

¨ Soliciting Material under to §240.14a-12

PHARMERICA 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):

x 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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PHARMERICA CORPORATION

1901 Campus Place

Louisville, KY 40299

NOTICE OF ANNUAL MEETING OF STOCKHOLDERS

TO BE HELD JUNE 4, 2009

PharMerica Corporation s Annual Meeting of Stockholders will be held on June 4, 2009, at 9:00 a.m. local time. We will meet at the Louisville Marriott Downtown, 280 West Jefferson Street, Louisville, Kentucky 40202. If you owned common stock at the close of business on April 15, 2009, you may vote at this meeting or any adjournments or postponements thereof. At the meeting, we plan to:

1. elect eight directors for a term to expire at the Annual Meeting of Stockholders in 2010;

2. approve the Company s Amended and Restated 2007 Omnibus Incentive Plan;

3. ratify the appointment of PricewaterhouseCoopers LLP as the Company s independent registered public accounting firm for the fiscal year ending December 31, 2009; and

4. transact such other business as may properly come before the meeting or any adjournments or postponements thereof.

The Board of Directors is not aware of any other proposals for the June 4, 2009 meeting.

It is important that your common stock be represented at the meeting regardless of the number of shares you hold. You are encouraged to specify your voting preferences by marking and dating the enclosed proxy card. If you attend the meeting, you may, if you wish, withdraw your proxy and vote in person.

Important Notice Regarding the Availability of Proxy Materials for the Stockholder Meeting to Be Held on June 4, 2009

The Proxy Statement and 2008 Annual Report are available at www.pharmerica.com/proxy.

On behalf of the Board of Directors of

PharMerica Corporation,

GREGORY S. WEISHAR

Chief Executive Officer

Louisville, Kentucky

April 29, 2009

YOUR VOTE IS IMPORTANT. PLEASE COMPLETE AND RETURN THE ENCLOSED

PROXY PROMPTLY SO THAT YOUR VOTE MAY BE RECORDED

AT THE MEETING IF YOU DO NOT ATTEND PERSONALLY.

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PHARMERICA CORPORATION

1901 Campus Place

Louisville, KY 40299

PROXY STATEMENT

ANNUAL MEETING OF STOCKHOLDERS

To Be Held On JUNE 4, 2009

INFORMATION ABOUT THE MEETING

This proxy statement is furnished in connection with the solicitation of proxies by the Board of Directors (the Board) of PharMerica Corporation (we, us, our, or the Company) for the Annual Meeting of Stockholders to be held on Thursday, June 4, 2009 at 9:00 a.m. local time, at the Louisville Marriott Downtown, 280 West Jefferson Street, Louisville, Kentucky 40202 and thereafter as it may from time to time be adjourned (the Meeting). This proxy statement and the accompanying proxy are first being mailed to stockholders on or about April 29, 2009.

Who May Vote

Each stockholder of record at the close of business on April 15, 2009 (the Record Date) is entitled to notice of and to vote at the Meeting. On the Record Date, there were 30,487,662 shares of our common stock, par value of $.01 per share (the common stock) outstanding. On the Record Date, there were no shares of Preferred Stock, par value $.01, outstanding. You may cast one vote for each share of common stock held by you on all matters presented at the meeting.

How You May Vote

You may vote (i) in person by attending the Meeting or (ii) by mail by completing and returning a proxy. To vote your proxy by mail, mark your vote on the enclosed proxy card, then follow the instructions on the card.

Proxies duly executed and received in time for the Meeting will be voted in accordance with your instructions. If no instructions are given, proxies will be voted as follows:

1. FOR the election of each of the eight nominees named herein to the Board of Directors for a term to expire at the Annual Meeting of Stockholders in 2010;

2. FOR the approval of the Company s Amended and Restated 2007 Omnibus Incentive Plan;

3. FOR the ratification of the appointment of PricewaterhouseCoopers LLP as the Company s independent registered public accounting firm for the fiscal year ending December 31, 2009; and

4. In the discretion of the proxy holders, FOR or AGAINST such other business as may properly come before the meeting or any adjournment or postponements thereof.

How You May Revoke or Change Your Vote

Proxies may be revoked at any time prior to the meeting in the following ways:

- by giving written notice of revocation to the Secretary of the Company;
- by giving a later dated proxy; or
- by attending the meeting and voting in person.

Quorum Requirement

The Company is required to have a quorum of stockholders present to conduct business at the meeting. A majority of the shares entitled to vote at the meeting, represented in person or by proxy, constitutes a quorum for the transaction of business at the Meeting. Proxies received but marked as abstentions or treated as broker

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non-votes will be included in the calculation of the number of shares considered to be present at the Meeting in determining a quorum. If a quorum is not present at the Meeting, we will be forced to reconvene the Meeting at a later date.

Required Vote

Every holder of record shares entitled to vote at a meeting of stockholders will be entitled to one vote for each share outstanding in his or her name on the books of the Company at the close of business on the Record Date. With respect to the election of directors, a nominee for director will be elected to the Board by a vote of the majority of the votes cast. In other words, if the votes cast for the nominee s election exceed the votes cast against the nominee s election then that nominee will be elected as a director. However, the directors will be elected by a plurality of the votes cast at any stockholder meeting where (i) the Secretary of the Company receives a notice that a stockholder has nominated a person for election to the Board in compliance with the advance notice requirements for stockholder nominees for director and (ii) such nomination has not been withdrawn by such stockholder on or prior to the day next preceding the date the Company first mails its notice of meeting for the meeting to the stockholders. For the 2009 Annual Meeting of Stockholders, none of the nominees were nominated by stockholders. The affirmative vote of at least a majority of the votes of the shares of common stock present, in person or by proxy, at the Meeting is required to approve all other matters to be voted upon at the Meeting. Votes cast by proxy or in person at the Meeting will be tabulated by one or more inspectors of election, appointed for the Meeting, who will also determine whether a quorum is present for the transaction of business.

How Abstentions will be Treated

Abstentions will have no effect on the election of directors. For all other proposals, abstentions will have the same effect as votes against a proposal.

How Broker-Non Votes will be Treated

Your shares may be voted if they are held in the name of a brokerage firm or bank (a Broker), even if you do not provide the Broker with voting instructions. Brokers have the authority, under applicable rules, to vote shares on certain routine matters for which their customers do not provide voting instructions. The election of directors and the ratification of the appointment of the independent registered public accounting firm of the Company are considered routine matters. Approval of the Company s Amended and Restated 2007 Omnibus Incentive Plan is not considered a routine matter. Broker non-votes are shares held by brokers or nominees for which instructions have not been received from the beneficial owners, or persons entitled to vote, and that are not voted by that broker or nominee. Broker non-votes will have no effect on the election of directors or the ratification of the selection of the independent registered public accounting firm. With respect to the approval of the Company s 2007 Amended and Restated Omnibus Incentive Plan, although broker non-votes will be counted towards a quorum, they will not be counted as votes for or against this proposal.

EXPLANATORY NOTE

The Company was formed on October 23, 2006 by Kindred Healthcare, Inc. (Kindred) and AmerisourceBergen Corporation (AmerisourceBergen) for the purpose of consummating the transactions contemplated by the Master Transaction Agreement dated October 25, 2006, as amended (the Master Agreement). Pursuant to the Master Agreement, Kindred and AmerisourceBergen, through a series of transactions (collectively, the Pharmacy Transaction), spun-off and combined their respective institutional pharmacy businesses, Kindred Pharmacy Services and PharMerica Long-Term Care, into a new, stand-alone, publicly traded company. The Pharmacy Transaction was consummated on July 31, 2007.

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PROPOSAL 1

ELECTION OF DIRECTORS

Our Board currently consists of eight directors: Frank E. Collins, Esq., W. Robert Dahl, Jr., Marjorie W. Dorr, Thomas P. Gerrity, Ph.D., Thomas P. Mac Mahon, Daniel N. Mendelson, Robert A. Oakley, Ph.D., and Gregory S. Weishar. Our Certificate of Incorporation, as amended, and By-laws provide that the number of directors constituting the Board will not be fewer than three, with the exact number to be fixed by a resolution adopted by the affirmative vote of a majority of the Board. The Board has fixed the number of directors at eight.

The Nominating and Corporate Governance Committee has recommended that the eight directors listed in the table below be nominated for election for a one-year term expiring at the 2010 Annual Meeting of Stockholders and until their successors are duly elected and qualified. Each of the nominees has consented to be named in this proxy statement and to serve as a member of our Board if elected. In the event that a nominee withdraws or for any reason is not able to serve as a director, the proxy will be voted for such other person as may be designated by the Board, but in no event will the proxy be voted for more than eight nominees as directors. Our management has no reason to believe that the nominees will not serve if elected. There is no family relationship between any of the current directors or persons nominated to become a director.

Our Board believes that we could benefit by expanding the size of the Board to nine and adding one additional qualified director. The Nominating and Corporate Governance Committee has not yet identified any candidates to fill this additional directorship. At such time as one or more qualified candidates have been identified and approved by the Nominating and Corporate Governance Committee and the Board, the Board intends to increase the size of the Board to nine members and to appoint the candidate to fill the newly created directorship as provided in our By-laws. Any director appointed by the Board to fill a newly created vacancy would serve only until the next annual meeting of stockholders.

NOMINEES FOR ELECTION AT THIS MEETING

The following table sets forth the name, age and principal occupation with the Company of each of the eight nominees up for election as a director of the Company:

Name	Age	Position
Frank E. Collins, Esq.	55	Director
W. Robert Dahl, Jr.	52	Director
Marjorie W. Dorr	47	Director
Thomas P. Gerrity, Ph.D.	67	Director
Thomas P. Mac Mahon	62	Chairman of the Board and Director
Daniel N. Mendelson	44	Director
Robert A. Oakley, Ph.D.	62	Director
Gregory S. Weishar	54	Chief Executive Officer and Director

Frank E. Collins, Esq. Mr. Collins has served as a director since July 31, 2007. Mr. Collins serves as a member of the Compensation Committee and as Chair of the Nominating and Governance Committee of the Board. Mr. Collins was the Senior Vice President, Legal and Administration and Secretary of Sierra Health Services, Inc. (Sierra) from 2001 to February 2008. Sierra was acquired by United Healthcare, Inc. (United) in February 2008. Mr. Collins now serves as the Deputy General Counsel of United. Mr. Collins joined Sierra in 1986 as General Counsel and Secretary. From 1981 to 1986, Mr. Collins was employed by Blue Cross and Blue Shield of Kansas City, originally as Staff Legal Counsel and in early 1986 as Associate General Counsel. Mr. Collins also served as counsel for the Missouri Division of Insurance from 1979 to 1981, where he was responsible for providing legal advice on insurance and HMO-related regulatory issues. Mr. Collins received his Juris Doctor from the University of Missouri at Kansas City School of Law and is a member of the Missouri Bar Association.

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W. Robert Dahl, Jr. Mr. Dahl has served as a director since July 24, 2008. Mr. Dahl serves as a member of the Audit Committee. Mr. Dahl has served as Vice President of Strategic Business Development and Vice Chairman of the Board of Directors of Golden Pond Healthcare, Inc. since May 15, 2007. From April 1999 until June 2006, Mr. Dahl served as the head of Global Healthcare for the Carlyle Group, a leading private equity firm with over $50 billion of equity under management, where he was responsible for the firm s investments in the healthcare field. Prior to Carlyle, Mr. Dahl served as co-head of healthcare investment banking in North America at Credit Suisse First Boston. Mr. Dahl is also a director of Slate Pharmaceuticals, Inc., Amkai LLC, and IkaSystems Corporation. Mr. Dahl received a BA from Middlebury College and an MBA from the Harvard Graduate School of Business Administration.

Marjorie W. Dorr. Ms. Dorr has served as a director since January 22, 2009. Ms. Dorr served as Executive Vice President and Chief Strategy Officer for WellPoint, Inc. Ms. Dorr held various executive positions while at WellPoint including President and Chief Executive Officer of WellPoint s Northeast Region SBU, where she was responsible for operations in several states. Ms. Dorr joined WellPoint through the merger in 2004 of WellPoint and Anthem, Inc. At the time of the merger, Ms. Dorr served as President of Anthem Blue Cross and Blue Shield s East region. Ms. Dorr received her bachelor of business administration degree from the University of Iowa and her master of business administration degree from the University of Chicago Graduate School of Business.

Thomas P. Gerrity, Ph.D. Mr. Gerrity has served as a director since July 31, 2007. Mr. Gerrity serves as a member of the Audit Committee and Nominating and Corporate Governance Committee of the Board. Mr. Gerrity served as interim Chair of the Audit Committee from November 2007 to March 2008. Mr. Gerrity was the Dean of the Wharton School of the University of Pennsylvania from July 1990 to June 1999. Since then he has been Professor of Management and Dean Emeritus at the Wharton School of the University of Pennsylvania. Mr. Gerrity also serves as a director of Internet Capital Group, Inc. and Sunoco, Inc., and as a member of the Corporation of the Massachusetts Institute of Technology. Mr. Gerrity is the Chairman of the Advisory Board of Arden Fund I, a private real estate investment fund managed by the Arden Group in Philadelphia, Pennsylvania.

Thomas P. Mac Mahon. Mr. Mac Mahon has served as Chairman of the Board since July 31, 2007. He is also a member of the Compensation Committee and served as the Chair of the Compensation Committee from July 2007 to February 2008. Mr. Mac Mahon has served as Chairman of the Board and a director of Laboratory Corporation of America Holdings (LabCorp) since April 2006. From April 1995 to April 2006, he served as the Vice Chairman and a director of LabCorp. Mr. Mac Mahon was President and Chief Executive Officer and a member of the Executive and Management Committees of LabCorp from January 1997 until his retirement in December 2006. Mr. Mac Mahon was Senior Vice President of Hoffmann-La Roche, Inc. from 1993 to December 1996 and President of Roche Diagnostics Group and a director and member of the Executive Committee of Hoffmann-La Roche from 1988 to December 1996. Mr. Mac Mahon is a director and Corporate Governance Committee member of Express Scripts, Inc. and a director of Golden Pond Healthcare.

Daniel N. Mendelson. Mr. Mendelson has served as a director since July 31, 2007. Mr. Mendelson is Chairman of the Compensation Committee and a member of the Nominating and Governance Committee. Mr. Mendelson is CEO of Avalere Health LLC (Avalere Health), a strategic advisory company that provides guidance and syndicated research for clients in the healthcare industry, government and the not-for-profit sector. Prior to founding Avalere Health in 2000, he served as Associate Director for Health at the White House Office of Management and Budget in Washington, D.C. Mr. Mendelson has been a director of Coventry Healthcare, Inc. since May 2005.

Robert A. Oakley, Ph.D. Mr. Oakley has served as a director since March 24, 2008. Mr. Oakley serves as the Chairman of the Audit Committee. Since 2003, Mr. Oakley has served as the Shepard Executive-in-Residence in the Fisher College of Business at The Ohio State University. In 2003, Mr. Oakley retired after more than 25 years service with the Columbus, Ohio-based Nationwide Companies, one of the

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largest diversified insurance and financial services organizations in the world. Mr. Oakley currently serves on the Board of First Mercury Financial Company and the Physicians Assurance Corporation. He received his BS from Purdue University and both an MBA and PhD in Finance from The Ohio State University.

Gregory S. Weishar. Mr. Weishar has served as our Chief Executive Officer since January 14, 2007. He has over 20 years experience in the pharmacy services industry. Prior to joining the Company, he was Chief Executive Officer and President of PharmaCare Management Services, a prescription benefit management firm and a wholly-owned subsidiary of CVS Corporation, from 1994.

Recommendation of Our Board of Directors

Our Board recommends a vote FOR the eight directors listed above to hold office until the 2010 Annual Meeting of Stockholders and until their successors have been duly elected and qualified.

Required Vote

A nominee for director will be elected to the Board by a vote of the majority of the votes cast.

CORPORATE GOVERNANCE

Meetings

During 2008, the Board held a total of four regular meetings. Each director attended at least 75% of the aggregate of (i) the total number of meetings of the Board during the period which he was a director and (ii) the total number of meetings of all Board Committees on which he served during the period which he was a director. The non-management members of the Board generally meet in executive session at each regularly scheduled meeting of the Board. In addition, if this group of non-management directors includes directors who do not satisfy the independence requirements of the New York Stock Exchange (the NYSE), an executive session including only independent directors is scheduled at least once a year. The non-executive Chairman of the Board presides at meetings of the non-management directors and independent directors to the extent that he is present at the meetings.

It is the policy of the Board to encourage its members to attend the Company s Annual Meeting of Stockholders. Six out of seven directors attended the Company s 2008 Annual Meeting of Stockholders.

Board Committees

The Board has three standing Committees: the Audit Committee, the Compensation Committee and the Nominating and Corporate Governance Committee. Copies of the charters of each of the Audit Committee, Compensation Committee, and Nominating and Corporate Governance Committee setting forth the responsibilities of the committees can be found under the For Investors Corporate Governance section of our website at *www.pharmerica.com* and such information is also available in print to any stockholder who requests it through our Investor Relations department. We periodically review and revise the committee charters. A summary of the composition of each committee and its responsibilities is set forth below.

Name	Audit	Nominating and Corporate Governance	Compensation
Frank E. Collins, Esq.		Chairman	Member
W. Robert Dahl, Jr.	Member		
Marjorie W. Dorr			
Thomas P. Gerrity, Ph.D.	Member	Member	
Thomas P. Mac Mahon			Member
Daniel N. Mendelson		Member	Chairman
Robert A. Oakley, Ph.D.	Chairman		
Gregory S. Weishar			

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Audit Committee

The Company has a standing Audit Committee established by the Board for the purpose of overseeing the Company s accounting and financial reporting processes and audits of the Company s financial statements. The Audit Committee held a total of six meetings in 2008. The Board has determined that Mr. Oakley and Mr. Dahl are each qualified as an audit committee financial expert as such term is defined in Item 407(d)(5) of Regulation S-K and that Mr. Oakley, Mr. Gerrity and Mr. Dahl are independent within the meaning of the listing standards of the NYSE and applicable rules and regulations of the Securities and Exchange Commission (the SEC) relating to directors serving on audit committees.

Compensation Committee

The Compensation Committee is responsible for administering the Company s executive and director compensation programs, including executive base salaries, bonuses, performance based awards and other equity awards, and for administering the Company s equity compensation plans. Pursuant to its charter, the Compensation Committee has authority to delegate any of its responsibilities to subcommittees as the Compensation Committee may deem appropriate. The Compensation Committee held a total of nine meetings in 2008. The Compensation Committee reviews periodic reports from the CEO and other officers as to the performance and compensation of the officers, employees and directors.

Pursuant to its charter, the Compensation Committee has the sole authority, at the Company s expense, to retain and terminate a consulting firm to assist in the evaluation of director, CEO or executive officer compensation, and in furtherance thereof to retain legal counsel and other advisors.

The Company s executive compensation program was initially adopted as part of the formation of the Company. Mercer Human Resource Consulting (Mercer) was retained in 2006 to serve as an outside compensation consultant to the Company. The Compensation Committee also retained Mercer to serve as the outside Compensation Consultant with respect to setting fiscal year 2007 and 2008 compensation. In April 2008, the Compensation Committee retained Frederic W. Cook & Co. (Cook) to serve as the Company s outside compensation consultant for subsequent periods. See the discussion under Compensation Discussion and Analysis for more information on Mercer s role and Cook s role in assisting the Company with its compensation policies and programs.

Nominating and Corporate Governance Committee

The purpose of the Nominating and Corporate Governance Committee of the Board is to (i) identify individuals qualified to become members of the Board (consistent with criteria approved by the Board); (ii) select, or recommend that the Board select, the director nominees for the next annual meeting of shareholders and nominees to fill vacancies on the Board; (iii) develop and recommend to the Board a set of corporate governance guidelines applicable to the Company; (iv) oversee the evaluation of the Board, its committees and management; and (v) oversee, in concert with the Audit Committee, compliance rules, regulations and ethical standards for the Company s directors, officers and employees, including corporate governance issues and practices. While the Nominating and Corporate Governance Committee has no formal process for identifying nominees, if it is deemed appropriate, the Nominating and Corporate Governance Committee may consider candidates recommended by any other source, including stockholders and business and other organizational networks. The Nominating and Corporate Governance Committee may retain and compensate third parties, including executive search firms, to identify or evaluate candidates for consideration. The Nominating and Corporate Governance Committee held four meetings in 2008.

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The Nominating and Corporate Governance Committee will consider director candidates recommended by stockholders. Stockholders wishing to suggest a candidate for director for inclusion in the Company s proxy statement must submit a written notice to the Company s Corporate Secretary at PharMerica Corporation, 1901 Campus Place, Louisville, Kentucky 40299. The written notice must include:

(1) The name, address, and telephone number of the stockholder who is recommending a candidate for consideration;

(2) The class and number of shares of the Company which the recommending stockholder owns;

(3) The name, address, telephone number and other contact information of the candidate;

(4) The consent of each candidate to serve as director of the Company if so elected;

(5) The candidate s knowledge of matters relating to the Company s industry, the candidate s experience as a director or senior officer of other public or private companies and the candidate s educational and work background;

(6) The candidate s involvement in legal proceedings within the past five years; and

(7) The candidate s and the candidate s family members relationship with the Company, the Company s competitors, creditors or other persons with special interests regarding the Company.

In considering candidates recommended by stockholders, the Nominating and Corporate Governance Committee will use the same evaluation criteria and process as that used by the Nominating and Corporate Governance Committee for other candidates. The Nominating and Corporate Governance Committee evaluates the candidates in accordance with its Policy for Evaluation for Nominees to the Board of Directors, which sets forth the following factors to be considered:

Whether the candidate is independent and does not, and has not, had a relationship that would interfere with the exercise of independent judgment in carrying out the responsibilities of a director;

Whether the candidate is an audit committee financial expert and/or financially literate ;

Whether the candidate has the personal attributes necessary for successful service on the Board, such as character and integrity, a high level of education and business experience, broad based business acumen, an understanding of the Company s business and the institutional pharmacy industry generally, strategic thinking, a willingness to share ideas, a network of contacts and diversity of experiences and expertise;

Whether the candidate has been the chief executive officer or a senior executive officer of a public company or another complex organization;

Whether the candidate serves on other boards of directors; directors employed in a full-time position may not sit on the boards of directors of more than two other public companies and directors employed part-time or full-time in academia may not sit on the boards of directors of more than three other public companies. There is no limit on the number of non-public company boards on which directors may sit;

Whether the candidate will add value to the Board or a committee thereof by virtue of particular knowledge, experience, technical expertise, specialized skills or contacts;

Whether the candidate, if an existing director, is suitable for continued service;

Whether the candidate is under the age of 75;

Whether the candidate s responses to the directors and officers questionnaire reveal areas of potential problems or concerns; and

Whether there are any other relevant issues with respect to the candidate.

Board Independence

Our Corporate Governance Guidelines provide for director independence standards consistent with those of the NYSE and the federal securities laws. These standards require the Board to affirmatively determine that each independent director has no material relationship with the Company (either directly or as a partner, stockholder or officer of an organization that has a relationship with the Company) other than as a director. The Board has determined that the following directors are independent as required by the NYSE listing standards and the Company s Corporate Governance Guidelines: Mr. Collins, Mr. Dahl, Ms. Dorr, Mr. Gerrity, Mr. Mac Mahon, Mr. Mendelson and Mr. Oakley.

All members of the Audit Committee, the Compensation Committee and the Nominating and Corporate Governance Committee are independent directors as defined in the NYSE listing standards and in the standards in the Company s Corporate Governance Guidelines.

Compensation Committee Interlocks and Insider Participation

The members of the Compensation Committee are Mr. Mendelson, who serves as Chair, and Mr. Mac Mahon and Mr. Collins, each of whom is independent under NYSE listing standards. None of the members of the Compensation Committee is a former or current officer or employee of the Company or has any interlocking relationship as set forth in SEC rules.

Section 16(a) Beneficial Ownership Reporting

Based solely upon a review of the copies of the forms furnished to the Company and written representations from officers and directors of the Company that no other reports were required, during the year ended December 31, 2008, all filing requirements under Section16(a) of the Securities Exchange Act of 1934, as amended (the Exchange Act), applicable to its officers, directors and greater than 10% beneficial owners were complied with on a timely basis.

Code of Ethics

The Company has a Code of Conduct and Ethics that applies to all directors, officers and employees of the Company, including its principal executive officer, principal financial officer and principal accounting officer.

The Code of Conduct and Ethics is available on the Company s website at *www.pharmerica.com* and may also be obtained in print upon request from the Company s Secretary. The Company will post amendments to or waivers from the Code of Conduct and Ethics to the extent applicable to the Company s principal executive officer, principal financial officer and principal accounting officer on its website.

Corporate Governance Guidelines

The Board has adopted the PharMerica Corporation Corporate Governance Guidelines (the Guidelines). The Guidelines reflect the principles by which the Company will operate. The Guidelines cover various topics, including, but not limited to, Board size, director independence and other qualification standards, Board and committee composition, Board operations, director compensation and continuing education, director responsibilities, management succession, and annual performance evaluations. A copy of the Guidelines is available at the Company s website at *www.pharmerica.com* and may also be obtained in print upon request from the Company s Secretary.

The Company s Chief Executive Officer and Director, Gregory S. Weishar, certified to the NYSE on or about January 29, 2009, pursuant to Section 303A.12(a) of the NYSE s listing standards, that he was not aware of any violation by the Company of the NYSE s corporate governance listing standards as of that date.

Communication with the Board of Directors

It is the policy of the Company to facilitate communications of stockholders with the Board. Communications to the directors must be in writing and sent Certified Mail to the Board of Directors c/o the

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Executive Vice President and Chief Financial Officer to the Company s headquarters at PharMerica Corporation, 1901 Campus Place, Louisville, Kentucky 40299. All communications must be accompanied by the following information:

- if the person submitting the communication is a stockholder, a statement of the type and amount of shares of the Company that the person holds;
- if the person submitting the communication is not a stockholder and is submitting the communication to the non-management directors as an interested party, the nature of the person s interest in the Company; and
- the address, telephone number and e-mail address, if any, of the person submitting the communication.

The following types of communications are not appropriate for delivery to Directors under the Company s policy:

- communications regarding individual grievances or other interests that are personal to the party submitting the communication and could not reasonably be construed to be of concern to stockholders or other constituencies of the Company (such as employees, members of the communities in which the Company operates its businesses, customers and suppliers) generally;
- communications that advocate the Company engaging in illegal activities;
- communications that, under community standards, contain offensive, scurrilous or abusive content; and
- communications that have no rational relevance to the business or operations of the Company.

Upon receipt, each communication will be entered into an intake record maintained for this purpose, including the name of the person submitting the communication, the date and time of receipt of the communication, the information concerning the person submitting the communication required to accompany the communication and a brief statement of the subject matter of the communication. The record will also indicate the action taken with respect to the communication. The personnel responsible for receiving and processing the communications will review each communication to determine whether the communication satisfies the procedural requirements for submission under the Policy and Procedures for Stockholder Communication with Directors and the substance of the communication is of a type that is appropriate for delivery to the directors under the criteria set forth above. Communications determined to be appropriate for delivery to directors will be assembled by the responsible personnel for delivery and delivered to the directors on a periodic basis, generally in advance of each regularly scheduled meeting of the Board. Communications directed to the Board as a whole, but relating to the area of competence of one of the Board s committees, will be delivered to that committee, with a copy to the Chairman of the Board.

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DIRECTOR COMPENSATION

The following table sets forth certain information regarding the compensation paid to the Company s non-employee directors for their service during the fiscal year ended December 31, 2008.

Name	Fees Earned or Paid in Cash	Stock Awards (1)(3)	Option Awards (2)(3)	Change in Pension Value and Nonqualified Deferred Compensation Earning	Total
Thomas P. Mac Mahon	$ 71,500	$ 38,405	$ 23,888	$	$ 133,793
Frank E. Collins, Esq.	$ 64,500	$ 38,405	$ 23,888	$ (5,055)	$ 121,738
W. Robert Dahl, Jr.	$ 26,000	$ 11,738	$ 6,407	$ (5,146)	$ 38,999
Marjorie W. Dorr (5)	$	$	$	$	$
Thomas P. Gerrity, Ph.D.	$ 56,500	$ 38,405	$ 23,888	$	$ 118,793
Daniel N. Mendelson	$ 69,692	$ 38,405	$ 23,888	$	$ 131,985
Robert A. Oakley, Ph.D.	$ 46,425	$ 18,606	$ 11,260	$	$ 76,291
Edward L. Kuntz (6)	$ 21,500	$ 46,679	$ 37,386	$	$ 105,565
Paul J. Diaz (6)	$	$	$	$	$
R. David Yost (6)	$	$	$	$	$

(1) All stock awards are restricted stock awards and are in shares of the Company s common stock. The dollar amount represents the amount recognized for financial statement reporting purposes for the year ended December 31, 2008, in accordance with FAS 123(R), without taking into account an estimate of forfeitures related to service-based vesting of the stock awards. The assumptions used in calculating the amounts with respect to fiscal year 2008 are discussed in Note 9 of the Company s audited financial statements for the year ended December 31, 2008, included in the Company s Annual Report on Form 10-K filed with the SEC on February 5, 2009.

(2) All options are to purchase shares of the Company s common stock. The dollar amount represents the amount recognized for financial statement reporting purposes for the year ended December 31, 2008, in accordance with FAS 123(R), without taking into account an estimate of forfeitures related to service-based vesting of the option awards. The assumptions used in calculating the amounts with respect to fiscal year 2008 are discussed in Note 9 of the Company s audited financial statements for the year ended December 31, 2008 included in the Company s Annual Report on Form 10-K filed with the SEC on February 5, 2009.

(3) The table below sets forth the grant date fair value of each award granted in 2008.

	Restricted Stock		Stock Options	
Name	Number of Awards Granted in 2008	Grant Date Fair Value	Number of Awards Granted in 2008	Grant Date Fair Value
Thomas P. Mac Mahon	3,483	$ 80,005		$
Frank E. Collins, Esq.	3,483	$ 80,005		$
W. Robert Dahl, Jr.	3,483	$ 80,005	9,568	$ 59,950
Marjorie W. Dorr		$		$
Thomas P. Gerrity, Ph.D.	3,483	$ 80,005		$
Daniel N. Mendelson	3,483	$ 80,005		$
Robert A. Oakley, Ph.D.	5,133	$ 106,669	13,600	$ 59,950
Edward L. Kuntz		$		$
Paul J. Diaz		$		$
R. David Yost		$		$

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(4) The table below sets forth the aggregate number of shares of restricted stock and the aggregate number of stock options held by each non-employee director as of December 31, 2008.

Name	Aggregate Awards Outstanding at December 31, 2008 Restricted Stock	Stock Options
Thomas P. Mac Mahon	6,753	15,424
Frank E. Collins, Esq.	6,753	15,424
W. Robert Dahl, Jr.	3,483	9,568
Marjorie W. Dorr		
Thomas P. Gerrity, Ph.D.	6,753	15,424
Daniel N. Mendelson	6,753	15,424
Robert A. Oakley, Ph.D.	5,133	13,600
Edward L. Kuntz		
Paul J. Diaz		
R. David Yost		

(5) Marjorie W. Dorr was appointed to the Board in January 2009.

(6) Messrs. Kuntz, Diaz, and Yost announced their resignation, effective as of July 24, 2008, from the Board in accordance with the terms of the Pharmacy Transaction. Directors Paul J. Diaz and R. David Yost agreed not to receive any compensation for their Board service.

Our compensation program for non-employee members of the Board is as follows:

Annual Retainer Each director receives an annual retainer of $35,000. Directors may, in their discretion, elect to receive the annual retainer, in whole or in part, in cash or shares of the Company s common stock.

Chairman Retainer The Chairman of the Board receives an additional retainer of $15,000 per year.

Committee Chair Retainer The Chairman of the Nominating and Governance Committee and the Chairman of the Compensation Committee each receive an additional annual retainer of $5,000. The Chairman of the Audit Committee receives an additional annual retainer of $10,000.

Board Meeting Fee Directors receive $2,000 for each meeting of the Board attended.

Committee Meeting Fee Committee members receive $1,500 for each committee meeting attended.

Initial Stock Option Grant Upon joining the Board, each director receives a one-time award of stock options valued at $120,000. The stock options vest in three equal annual installments and expire on the seventh anniversary of the grant date.

Annual Restricted Stock Grant Each director receives an annual award of restricted stock valued at $80,000. The restricted stock vests in three equal annual installments.

Exceptions Gregory Weishar, as a member of management, does not receive separate compensation for service on the Board.

Deferred Compensation In 2008, we adopted the PharMerica Corporation Deferred Fee Plan for Directors. Under the plan, directors may elect to defer up to 100% of their cash fees and their stock fees in any one year. If a director elects to defer his/her restricted stock grant, the stock will be deferred as it vests. The minimum deferral period for an in-service distribution of any deferred amount is five years from the end of the year to

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which each such deferred fee agreement relates. Cash and stock deferred pursuant to the plan may, at the director s election in his/her deferred fee agreement, be distributed in a lump-sum or in up to ten annual installments. Notwithstanding the foregoing, in each deferred fee agreement, a director may elect to commence distributions of all deferred cash and stock earlier, in the event of a separation from service, the death or disability of the director, or upon a change in control of the Company.

Deferred amounts are recorded in the form of bookkeeping entries only. Deferred cash bookkeeping accounts will be adjusted for gains or losses based on investment elections made by the director. A director may choose to invest their deferred cash amounts in the same general investments offered under the PharMerica Corporation 401(k) Retirement Savings Plan. Directors may change their investment elections at any time. Deferred stock fees will be paid out of the plan in the form of shares of stock, which shall remain issued and outstanding until distributed to the director pursuant to his deferred fee agreement. Deferred amounts are unfunded and the directors would be unsecured creditors of the Company if the Company became insolvent or otherwise unable to pay the balances due under the plan. The Company did not offer a non-qualified deferred compensation plan for directors in 2007.

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EXECUTIVE OFFICERS AND KEY EMPLOYEES

Executive Officers

The following table sets forth information with respect to executive officers of the Company as of April 20, 2009.

Name	Age	Position
Gregory S. Weishar	54	Chief Executive Officer and Director
Michael J. Culotta	54	Executive Vice President and Chief Financial Officer
William E. Monast	49	Executive Vice President, Operations
Robert A. McKay	47	Senior Vice President of Sales and Marketing
Thomas A. Caneris	46	Senior Vice President, General Counsel and Secretary
Berard E. Tomassetti	53	Senior Vice President and Chief Accounting Officer
Anthony A. Hernandez	43	Senior Vice President of Human Resources
John T. Kernaghan	61	Senior Vice President and Chief Information Officer

Set forth below are the names, positions held and business experience, including during the past five years, of the Company s executive officers. Officers serve at the discretion of the Board. There is no family relationship between any of the directors, nominees to become a director or executive officers.

Gregory S. Weishar. Mr. Weishar has served as our Chief Executive Officer since January 14, 2007. He has over 20 years experience in the pharmacy services industry. Prior to joining the Company, he was Chief Executive Officer and President of PharmaCare Management Services, a prescription benefit management firm and a wholly-owned subsidiary of CVS Corporation, since 1994.

Michael J. Culotta. Mr. Culotta has served as our Executive Vice President and Chief Financial Officer since July 2007. Prior to joining the Company, Mr. Culotta served as Chief Financial Officer of LifePoint Hospitals, Inc. since November 2001. Prior to joining LifePoint, Mr. Culotta served as a partner and healthcare area industry leader for the southeast area at Ernst & Young LLP. Mr. Culotta was affiliated with Ernst & Young LLP for over 24 years. Mr. Culotta is a director of Evolved Digital Systems, Inc., a provider of information technology services to clients in the healthcare industry, and serves as lead director and as the chair of its audit committee.

William E. Monast. Mr. Monast has served as our Executive Vice President, Operations since April 2009. Prior to joining the Company, Mr. Monast served as Executive Vice President, Sales of Apria Healthcare Group Inc. (Apria) from September 2007. Mr. Monast joined Apria in 1997 as a regional sales manager in the Northeast. In the ensuing decade, he held progressively more responsible roles in both sales and operations in the Northeast and Eastern Divisions. Prior to joining Apria, Mr. Monast served as director of sales for Fresenius Medical Care, a national provider of dialysis and homecare services. Mr. Monast is a graduate of Providence College in Rhode Island with a Bachelor of Arts in Business Administration.

Robert A. McKay. Mr. McKay has served as our Senior Vice President of Sales and Marketing. Prior to joining the Company in July 2007, Mr. McKay was Vice President of Marketing for PharmaCare Management Services, a prescription benefit management firm and a wholly-owned subsidiary of CVS Corporation and held various positions with PharmaCare since 1995. Mr. McKay holds both a Bachelor of Arts and a Masters of Business Administration from the University of Rhode Island and is a retired United States Army officer.

Thomas A. Caneris. Mr. Caneris has served as our Senior Vice President, General Counsel and Secretary since August 2007. Mr. Caneris has over 20 years of experience as a lawyer in private practice and in-house with

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NYSE listed public companies. Prior to joining the Company, Mr. Caneris served as counsel to Convergys Corporation from September 2004. Prior to that he was Commercial Affairs Counsel at AK Steel Corporation from April 1998 to September 2004. Mr. Caneris received his Juris Doctor from the University of Cincinnati College of Law. He is a member of the Kentucky and Ohio Bar Associations.

Berard E. Tomassetti. Mr. Tomassetti has served as our Senior Vice President and Chief Accounting Officer since July 2007. Prior to joining the Company, Mr. Tomassetti served as the Chief Financial Officer of the Kindred pharmacy business for over 6 years. Prior to joining Kindred s pharmacy business, Mr. Tomassetti was affiliated with Aperture, the nation s largest credentials verification organization.

Anthony A. Hernandez. Mr. Hernandez has served as our Senior Vice President of Human Resources since July 2007. Prior to joining the Company, Mr. Hernandez served as Senior Vice President of Human Resources for Citigroup s Home Equity business. Mr. Hernandez was affiliated with Citigroup for over 14 years.

John T. Kernaghan. Mr. Kernaghan joined PharMerica in April 2008 as Vice President of Information Services. In August 2008, Mr. Kernaghan was promoted to Senior Vice President and Chief Information Officer. Prior to joining PharMerica, he served seven years as Senior Vice President and Chief Information Officer of PharmaCare, Inc., a subsidiary of CVS Corporation. From 1996 to 2001, he served as Chief Information Officer of PharMerica, Inc., a predecessor company of PharMerica Corporation.

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COMPENSATION DISCUSSION AND ANALYSIS

Introduction

The Company s executive compensation program was initially adopted as part of the formation of the Company in 2007 through determinations made by the Transition Planning Committee in conjunction with our Chief Executive Officer. The Transition Planning Committee was formed by AmerisourceBergen and Kindred as part of the formation of the Company and consisted of three AmerisourceBergen representatives and three Kindred representatives. The Transition Planning Committee was responsible for assembling a management team for a to-be-formed public company and developing an initial executive compensation program. The Transition Planning Committee retained Mercer to serve as an outside compensation consultant to the Transition Planning Committee. The executive compensation program for 2007 was reviewed and subsequently approved by the Company s Compensation Committee, which was formed in June, 2007.

The Compensation Committee also used Mercer to serve as the outside Compensation Consultant with respect to setting fiscal year 2008 compensation. In April 2008, the Compensation Committee retained Cook to serve as the Committee s outside Compensation Consultant to assist in setting 2009 compensation levels and developing the structure of various incentive plans. In its role as outside consultant, Cook provides the Compensation Committee with objective analyses, advice and information with respect to CEO and other executive compensation. Cook maintains no other direct or indirect business relationships with the Company.

As used in this Compensation Discussion and Analysis and throughout this Proxy Statement, the Named Executive Officers are the following executives: Mr. Weishar, our Chief Executive Officer, Mr. Culotta, our Executive Vice President and Chief Financial Officer, Mr. McKay, our Senior Vice President of Sales and Marketing, Mr. Caneris, our Senior Vice President, General Counsel and Secretary, Mr. Hernandez, our Senior Vice President of Human Resources, and Janice Rutkowski, our former Senior Vice President and Chief Clinical Officer.

Executive Compensation Program Objectives

Our executive compensation program is designed to balance our overall compensation philosophy of promoting programs that are simple and flexible, and sufficiently robust to permit us to attract and retain a high quality and stable executive management team. Our executive compensation program is primarily structured to be competitive within the institutional pharmacy industry and focus our executives on profitability, achieving cost savings and providing quality services to our customers and to provide transparency to both our employees and stockholders. Each of these performance objectives is critical to our success.

The goals of our executive compensation program are to:

- Provide competitive and fiscally responsible compensation that enables us to successfully attract and retain highly-qualified executives with the leadership skills and experience necessary to promote our long-term success;
- Provide incentive compensation that places an emphasis on financial performance, thereby ensuring a strong calibration between the achievement of critical financial and strategic objectives and realized compensation; and
- Provide an appropriate link between compensation and the creation of stockholder value through awards tied to our long-term performance and share price appreciation.

The three primary elements of compensation used to support the above goals are base salary, annual cash incentive awards and long-term incentive awards:

- Base Salaries. The objective of base salary is to provide a baseline compensation level that delivers current cash income to the Named Executive Officers and reflects their job responsibilities, experience and value to the Company.

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Annual Cash Incentive Awards. This component of the compensation program rewards corporate, group and individual performance against pre-established annual goals.

Long-Term Incentive Awards. Our long-term incentive program is designed to align the interests of our Named Executive Officers with those of our stockholders by motivating these officers to manage the Company in a manner that fosters long-term performance, as reflected in stock price appreciation and achievement of profitability objectives. Long-term incentives also serve as essential tools to promote executive retention through time-based vesting requirements.

We also provide benefits and perquisites to our Named Executive Officers. The main purpose of the benefits is to assist the relocation of our executives to our headquarters in Louisville, Kentucky, and the perquisites are not part of a significant ongoing program.

The Compensation Committee has adopted a compensation strategy in which total direct compensation is generally targeted at the market median. Market median compensation is expected to be achieved through a combination of below median base salary and above median annual and long-term incentive opportunities. This approach supports the Company s pay-for-performance philosophy by providing a compensation package that is generally weighted toward variable, performance-based incentives, thus ensuring the highest degree of accountability at the senior levels of the organization.

Benchmarking Process

As discussed above, we have targeted Named Executive Officers total direct compensation to fall within the median range for equivalent positions at peer group companies after adjusting for company size. The actual positioning of target compensation for individual executives may range above or below the median based on job content, experience and responsibilities of the roles compared to similar positions in the market. Based upon consultation with Mercer, the Transition Planning Committee and the Compensation Committee approved the use of a peer group composed of nine companies that are relatively comparable in size as measured by annual revenue, operate within the same general industry space, and are competitors for customers and/or executive talent. The peer group, used by the Compensation Committee for 2008 benchmarking purposes, consisted of:

Bioscrip Inc.

Henry Schein Inc.

Invacare Corp.

Lincare Holdings Inc.

Omnicare, Inc.

Owens & Minor Inc.

PSS World Medical Inc.

Rotech Healthcare Inc.

St. Jude Medical Inc.

For purposes of reviewing the competitiveness of our executive compensation program and establishing target compensation levels and opportunities for 2007 and 2008, Mercer used a combination of data from the annual proxy statements of the above-referenced peer companies as well as general industry data for comparably sized companies as provided in three published compensation surveys, including the Mercer Americas Executive Remuneration Database, Watson Wyatt Report on Top Management Compensation and Clark Consulting Executive and Senior Management Compensation Survey. Data from these surveys was generally regressed using the Company s annual revenues of approximately $2.0 billion to determine size-adjusted market rates. The number of companies included in the survey data ranged from approximately 50 to 800, depending on the survey and the position as a reference point for our Named Executive Officers.

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For 2009 compensation planning purposes, the Compensation Committee subsequently revised the peer group, with the assistance of Cook, to exclude companies in different businesses and include additional health care services and distribution companies of similar size. The 2009 peer group, which includes five of the nine companies included in the 2008 peer group, consists of the following 14 companies:

Apria Healthcare Group Inc.

Amedisys, Inc.

Gentiva Health Services, Inc.

Healthextras Inc.

HealthSouth Corporation

Henry Schein, Inc.

Invacare Corporation

Lincare Holdings

Longs Drug Stores Corporation

Magellan Health Services, Inc.

Omnicare, Inc.

PSS World Medical, Inc.

Res Care, Inc.

Universal American Corporation

Components of the Executive Compensation Program

Our Named Executive Officer compensation program consists of base salary, annual cash incentives and long-term incentives. For our Named Executive Officers, our program is structured so that variable, or at risk, compensation ranges from 50-75% of total compensation. This ensures that the executives with the highest degree of responsibility to stockholders are held most accountable for results and changes in stockholder value.

Base Salary

Base salaries for our Named Executive Officers were generally targeted in the 25 th percentile to median range for equivalent positions at the peer group companies after adjusting for company size. Actual salary for individual executives is positioned to reflect differences in job content and experience. Competitive base salaries are essential to attracting and retaining executive management talent.

Mr. Weishar s employment agreement, which was negotiated with the Transition Planning Committee and entered into on January 14, 2007, sets his base salary at no less than $700,000, a rate individually negotiated with Mr. Weishar. Mr. Weishar s 2008 base salary was $723,000.

Base salaries for our other Named Executives were individually negotiated with the executives and are set forth in their employment agreements. The Compensation Committee reviews base salaries at least annually and more frequently when promotions or changes in responsibility occur within our executive management. Salary increases will be based on factors such as competitive market data, assessment of individual performance, promotions, level of responsibility, skill set relative to external counterparts, general economic conditions and input from our CEO for Named Executive Officers other than himself.

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Annual Cash Incentives

Pursuant to the Company s annual incentive program, our Named Executive Officers have the opportunity to earn annual cash incentives for meeting annual performance goals. The Company utilizes cash incentives as a method of tying a portion of annual compensation to our annual financial performance. The specific objective performance criteria that must be obtained in order for bonuses to be paid are established each year by the Compensation Committee, and are subject to change from year to year. In 2007 and 2008, the incentives were based upon the Company achieving adjusted EBITDA goals. EBITDA was selected as the objective performance criterion, because, as a new company, it was critical to focus our Named Executive Officers on earnings and the achievement of cost savings. EBITDA was adjusted to add back integration, merger related costs, and other charges, which relate to our integration and consolidation activities and the impairment charge taken in 2008. For 2008, $91.1 million of adjusted EBITDA was set as the target for the payment of bonuses. Adjusted EBITDA goals for threshold and maximum bonuses were $82 and $109.3 million, respectively. The threshold, target and maximum goals were established at levels that the Compensation Committee believed achievable yet difficult to obtain, so that management would be rewarded for superior performance.

Target bonus opportunities are expressed as a percentage of base salary and vary among our Named Executive Officers. Targets were individually negotiated with our Named Executive Officers prior to their accepting employment with our Company. Pursuant to the terms of his employment agreement, Mr. Weishar s target annual bonus is equal to 100% of his base salary. In fiscal year 2008, Mr. Culotta, Mr. McKay, Mr. Caneris, Ms. Rutkowski and Mr. Hernandez were eligible for annual target bonus opportunities (represented as a percentage of base salary) of 75%, 55%, 55%, 80% and 60% respectively. The amounts of the bonuses are reported in the Summary Compensation Table for 2008.

As part of the formation of the Company, Messrs. Weishar s and Culotta s annual incentives were based entirely on achieving the adjusted EBITDA target. For the other Named Executive Officers, annual incentives were based 75% on achieving the adjusted EBITDA target and 25% on individual performance. An individual performance measure was utilized for Mr. McKay, Mr. Caneris, Mr. Hernandez and Ms. Rutkowski, because of the nature of their duties as Senior Vice President of Sales and Marketing, Senior Vice President and General Counsel, and Senior Vice President Human Resources and former Senior Vice President and Chief Clinical Officer, respectively. It was desirable for the Company to focus them on the achievement of certain important non-financial departmental initiatives. In 2008, actual bonus awards for our Named Executive Officers were set to range from 0% to 175% of the target award, depending upon performance relative to the predetermined adjusted EBITDA goals and with respect to meeting their individual goals for Mr. Caneris, Mr. McKay, Mr. Hernandez and Ms. Rutkowski. The range was the same for all the Company s executives to ensure fairness in payout relative to performance. The Company achieved adjusted EBITDA of $92.5 million for the fiscal year ended December 31, 2008. The portion of the bonuses based on the Company s performance was paid to the Named Executive Officers at 103% of their target bonuses (except for Ms. Rutkowski whose bonus was determined upon her retirement pursuant to her Separation and Employment Agreement). Messrs. Caneris, McKay and Hernandez met their specific respective individual performance goals in a manner resulting in a 96%, 96% and 100% bonus payout for the individual portion of the 2008 short-term incentive program, respectively. Ms. Rutkowski s bonus related to her individual performance goals was determined upon her retirement pursuant to her Separation and Employment Agreement. No discretion was used in funding the bonus pool or in allocating the bonus pool. A Named Executive Officer (with the exception of Ms. Rutkowski) had to remain continuously employed by the Company until the payout date of the 2008 short-term incentive program bonuses to receive the bonus. The 2008 short-term incentive program bonuses were paid in March 2009.

The Compensation Committee has determined that for 2009, the annual incentives for all Named Executive Officers will be based 70% on achieving the adjusted EBITDA target and 30% on individual performance. This change was made to make the individual component a more meaningful component of STI.

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Long-Term Incentives

The Company s Long-Term Incentive Grants

In fiscal year 2008, the long-term component of our executive compensation program for each of our Named Executive Officers consisted of a combination of stock options and performance share units and performance-based cash awards targeted at market median levels. The long-term incentive awards were granted in the following amounts as a percentage of the bonus target: 50% stock options, 25% performance share units and 25% performance-based cash awards. The Committee used stock options to focus the Company s executives on stock price appreciation and used performance awards to drive long-term stockholder value creation. With respect to the long-term performance awards, the Committee used both stock and cash based awards. The cash component was used to manage the Company s share issuances. Performance share units and long-term cash incentives were introduced into the long-term incentive program in 2008 for our Named Executive Officers to focus executives on achievement of long-term operating objectives. Similar to the annual incentive program, adjusted EBITDA was selected as the performance measure for the 2008 performance share units and long-term cash incentives to reinforce the importance of achievement of cost savings and earnings in the creation of long-term stockholder value. The Compensation Committee used adjusted EBITDA as of December 31, 2010 as the performance measurement for the 2008 long-term performance incentive grants instead of cumulative 2008 through 2010 adjusted EBITDA to focus management on the long-term creation of stockholder value.

Long-term target incentive opportunities are expressed as a percentage of base salary and vary among our Named Executive Officers. Minimum targets were individually negotiated with our Named Executive Officers prior to their accepting employment with our Company. In fiscal year 2008, Mr. Culotta, Mr. McKay, Mr. Caneris, and Mr. Hernandez were eligible for long-term target bonus opportunities (represented as a percentage of base salary) of 175%, 130%, 140% and 100% respectively. Ms. Rutkowski s long-term target bonus was 125% of her base salary, but forfeited her bonus due to her retirement. The actual cash and performance share unit components of the long-term bonus awards for our Named Executive Officers could range from 0% to 200% of the target award, depending upon performance relative to the predetermined adjusted EBITDA goal.

In fiscal year 2009, the long-term component of our executive compensation program for each of our Named Executive Officers consisted of a combination of stock options and performance share units, targeted at market median levels. The long-term incentive awards were granted in the following amounts as a percentage of the bonus target: 50% stock options and 50% performance share units. The Compensation Committee has determined that for 2009, the long-term incentives for our Chief Executive Officer and Executive Vice Presidents will be based 85% on the achievement of an adjusted EBITDA target and 15% on the achievement of a return on invested capital target. A return on invested capital target was added to increase the focus on the efficient use of capital. The long-term incentives for our other Named Executive Officers will remain based solely on adjusted EBITDA.

The Company s Long-Term Incentive Founders Grants and Initial Grant for Mr. Weishar

In fiscal year 2007, the long-term component of our executive compensation program for Messrs. Culotta, McKay, Caneris, and Hernandez consisted of a founders grant of stock options and restricted shares as agreed in their initial employment agreements approved by the Transition Planning Committee with respect to Mr. Culotta and Mr. Hernandez and by the Board of Directors with respect to Mr. McKay and Mr. Caneris.

The value of the founders grant was generally within 200% to 300% of the market median levels for long-term incentive compensation for our 2007 peer group. These levels are intended to provide a significant equity stake in the enterprise to key executives. The award value was granted 75% in stock options and 25% in restricted stock. This blend of restricted stock to options was selected, to focus the new management team on stockholder value creation and build retention power into the compensation program. The heavier emphasis on stock options reinforces a critical objective of appropriately linking compensation and the creation of stockholder value by tying compensation to stock price appreciation, while the restricted stock grants that vest in full on the 3rd anniversary of grant support both stock price appreciation and executive retention. Messrs. Culotta, McKay and Caneris received a founders grant with respect to fiscal year 2007 with a grant date value expressed as a percent of base salary of 525%, 260%, and 280% respectively.

Mr. Weishar was not awarded a Founder s Grant because he had been provided an equity grant pursuant to his employment agreement. Under the agreement negotiated with the Transition Planning Committee, Mr. Weishar was granted effective on the fifth trading day following consummation of the Pharmacy Transaction, non-qualified stock options to purchase shares of the Company s common stock representing 1.0% of the total number of shares of common stock outstanding and a number of restricted shares of common stock representing 0.75% of the total fair market value, based on the closing price of the Company s common stock on such date, of the common stock then outstanding. The size of the grant was intended to provide Mr. Weishar with significant ownership in the company and to link his compensation to changes in stockholder value, and to restore certain compensation forgone by Mr. Weishar in connection with his resignation from his prior employer.

The Compensation Committee does not directly take into the account the value of the Founders Grants and the initial grant to Mr. Weishar in making its compensation decisions for future years, because these grants were used to provide these executives an initial equity stake in the Company and to induce the executives to join a newly formed enterprise and forgo compensation with their prior employer, along with the purposes of aligning the interests of our executives with the Company s stockholders. The Compensation Committee will monitor future grants so that they are competitive on a going forward basis.

Treatment of Equity Incentives in the Event of Change in Control

As provided in the Company s Omnibus Incentive Plan or the award agreements related thereto, unvested equity awards granted to our Named Executive Officers (with the exception of equity awards held by the CEO) may automatically vest upon certain terminations of a Named Executive Officer s employment following a change in control. We believe that such a double trigger provision maintains the retention power of the compensation program following a change in control, and will encourage our executive officers to assess takeover bids objectively without regard to the potential impact on their job security. Unvested equity awards held by our CEO automatically vest upon a change in control as provided under terms of his employment agreement, which was entered into prior to the development of our overall executive compensation program and the decision to provide for double trigger vesting with respect to our executive officers generally.

Stock Ownership Guidelines

We encourage our executive officers and other key employees to own stock in the Company. The Compensation Committee adopted stock ownership guidelines to align long-term interests of management with those of our stockholders and provide a continuing incentive to foster the Company s success. The stock ownership guidelines became effective July 1, 2008 for certain key executive officers, including our Named Executive Officers. Under the stock ownership guidelines, the CEO, Executive Vice Presidents, and Senior Vice Presidents are expected to own Company stock in the amount of 200%, 150%, and 100% of their annual base salary, respectively. A Named Executive Officer has four years from the date of the adoption of the guidelines to accumulate the targeted ownership level. If the Named Executive Officer joined the Company after the adoption of the guidelines, the Named Executive Officer has fours years from his start date to accumulate the target ownership level. The following count towards meeting the stock ownership guidelines: all shares and options held and all restricted shares, performance share units and stock options that vest within sixty days of any date of determination. Shares are valued at fair market value and options are valued at the spread between the exercise price and the fair market value of the underlying shares. As of April 20, 2009, the value of the Named Executive Officers (other than Ms. Rutkowski) ownership in the Company is as follows: Gregory Weishar-$2,283,334 (318% of 2008 base salary); Michael Culotta-$604,630 (147% of 2008 base salary); Robert McKay-$21,245 (8% of 2008 base salary); Thomas Caneris-$23,591 (9% of 2008 base salary); and Anthony Hernandez -$13,081 (6% of 2008 base salary).

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CEO Special Integration Bonus

Mr. Weishar was provided a special integration bonus opportunity pursuant to his employment agreement, which was negotiated with the Transition Planning Committee. This opportunity was provided because the successful integration of the two legacy portions of the Company is critical to our future success and the Company desired to specifically tie portions of Mr. Weishar s compensation to the successful integration. Earnout of the integration bonus is linked to the achievement of synergy targets based on expected cost savings opportunities that are expected to come from site consolidations, overhead reductions and other aggregate efficiencies resulting from the combined businesses. The integration bonus is discussed in more detail under the discussion of Mr. Weishar s employment agreement under Narrative Disclosure to Summary Compensation Table and Grants of Plan Based Awards Table.

Benefits and Perquisites

Our Named Executive Officers are eligible to participate in our 401(k) plan and certain payments are made on their behalf in connection with life insurance premiums. Otherwise, they receive the same health, life and disability benefits available to our employees generally. We do not offer a defined benefit pension plan or a supplemental executive retirement plan.

Voluntary Deferred Compensation Plan

Commencing in 2008, the Company offers certain management and highly compensated employees, including our Named Executive Officers, the ability to elect to defer up to 50% of their base salary and up to 100% of such participant s annual short-term incentive program cash bonus into a non-qualified deferred compensation plan. We believe the deferred compensation plan will serve to motivate and retain our executive officers by providing a tax-effective opportunity to save for their retirement and enable them to take a more active role in structuring the timing of certain compensation payments. Participant account balances are unsecured and the participants would be unsecured creditors of the Company if the Company became insolvent or was otherwise unable to pay the balances to the participants.

Relocation Expenses

We agreed to pay all reasonable and customary relocation expenses for Messrs. Weishar, Culotta, McKay, Caneris and Hernandez (up to a certain dollar amount as specified in their employment agreement) and related taxes for them in order to encourage them to relocate their families in connection with their employment with the Company.

Employment Agreements

The Transition Planning Committee and our Board based upon the recommendation of our Compensation Committee, as the case may be, approved the Company entering into employment agreements with our Named Executive Officers . The purpose of these agreements is to attract and retain each of these individuals given their experience and qualifications to serve the Company in their respective capacities. In addition to providing for compensation opportunities described above and in the following tables and narratives, the employment agreements provide our Named Executive Officers with benefits upon certain terminations of employment. The employment agreements also contain change in control benefits for our Named Executive Officers to encourage them to remain focused on their work responsibilities during the uncertainty that accompanies a change in control and to provide benefits for a period of time after termination of employment following a change in control. The employment agreements contain post-employment non-competition and non-solicitation agreements for a period of twenty-four months for Mr. Weishar and Mr. McKay and eighteen months for Mr. Culotta, Mr. Caneris and Mr. Hernandez following the date of termination. The Company believes these agreements are an appropriate

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method of protecting the Company s business and investment in human capital. The severance levels and benefits were determined through negotiations with the executives. The employment agreements of each of our Named Executive Officers contain provisions for tax gross-ups under section 280G of the Internal Revenue Service Code (Code). The Company believes these provisions are appropriate and necessary to make the executives whole in the case that excise taxes are imposed on the executives as a result of a change in control. The gross-up payments do not provide for payment of ordinary income taxes on amounts that would otherwise be payable by the executives in the absence of the excise taxes. Ms. Rutkowski s employment agreement was terminated as a result of her retirement as set forth in that certain Separation of Employment Agreement and General Release dated July 25, 2008 between Ms. Rutkowski and the Company. For a description of the material terms of the employment agreements with each of our Named Executive Officers, see Narrative Disclosure to Summary Compensation Table and Grants of Plan Based Awards Table below. Compensation that could potentially be paid to our Named Executive Officers pursuant to the employment agreements upon a change in control is described below in Potential Payments upon Termination or Change in Control.

Tax Deductibility of Compensation

Section 162(m) of the Code restricts deductibility for federal income tax purposes of annual individual compensation in excess of $1.0 million to the CEO and the other Named Executive Officers, other than the Principal Financial Officer, if certain conditions are not fully satisfied. To the extent practicable, we have preserved deductibility of compensation paid to our executive officers. However, the Compensation Committee believes that maintaining flexible compensation programs that attract highly-qualified executives is important, and may, if appropriate, award compensation that is not fully deductible under Section 162(m).

COMPENSATION COMMITTEE REPORT

The Compensation Committee of the Board of Directors hereby reports as follows:

1. The Compensation Committee has reviewed and discussed the Company s Compensation Discussion and Analysis (CD&A) required by Item 402(b) of Regulation S-K with management.

2. Based on the review and discussions referred to in paragraph 1 above, the Compensation Committee recommended to the Board that the CD&A be included in the Company s Proxy Statement for its 2009 Annual Meeting of Stockholders filed with the Securities and Exchange Commission.

The Compensation Committee

Daniel N. Mendelson, Chairman

Thomas P. Mac Mahon

Frank E. Collins, Esq.

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EXECUTIVE COMPENSATION

Summary Compensation Table

Name and Principal Position	Year	Salary	Bonus	Stock Awards (1)	Option Awards (1)	Non-Equity Incentive Plan Compen-sation (2)	All Other Compen-sation (3)	Total
Gregory Weishar (4)	2008	$ 717,042	$	$ 1,197,667	$ 479,246	$ 745,019	$ 9,238	$ 3,148,212
Chief Executive Officer	2007	$ 275,226	$ 1,200,000	$ 434,433	$ 147,512	$ 640,865	$ 63,089	$ 2,761,125
Michael Culotta (5)	2008	$ 412,116	$	$ 236,089	$ 264,778	$ 320,380	$ 215,729	$ 1,449,092
Executive Vice President and Chief Financial Officer	2007	$ 158,368	$	$ 71,242	$ 85,487	$ 182,584	$ 13,094	$ 510,775
Robert McKay (6)	2008	$ 252,304	$	$ 81,103	$ 84,937	$ 140,965	$ 87,098	$ 646,407
Senior Vice President of Sales and Marketing	2007	$ 95,190	$ 75,000	$ 21,774	$ 26,134	$ 53,018	$ 120	$ 271,236
Thomas Caneris (7)	2008	$ 252,129	$	$ 87,114	$ 90,752	$ 140,838	$ 142,151	$ 712,984
Senior Vice President, Counsel and Secretary	2007	$ 82,698	$ 20,000	$ 21,802	$ 26,165	$ 47,127	$ 19,242	$ 217,034
Anthony Hernandez (8) *Senior Vice President of Human Resources*	2008	$ 203,874	$	$ 49,792	$ 52,281	$ 125,949	$ 9,299	$ 441,195
Janice Rutkowski (9)	2008	$ 183,300	$	$ (25,039)	$ 102,290	$	$ 116,019	$ 376,570
Former Senior Vice President and Chief Clinical Officer	2007	$ 108,435	$	$ 25,039	$ 95,089	$ 86,167	$ 9,000	$ 323,730

(1) These amounts represent the dollar amount recognized for financial reporting in accordance with FAS 123(R). In each case, the amount of compensation expense was calculated excluding forfeiture assumptions. The assumptions used in calculating the amounts with respect to fiscal years 2007 and 2008 are discussed in Note 9 of the Company s audited financial statements for the years ended December 31, 2007 and 2008 included in the Company s Annual Reports on Form 10-K filed with the SEC on February 19, 2008 and February 5, 2009, respectively.

(2) These amounts represent amounts earned under the Company s short-term incentive plan for the fiscal years ended December 31, 2008 and 2007. For fiscal year ended December 31, 2007, the Company did not offer a non-equity long-term incentive plan to the Named Executive Officers. For fiscal year ended December 31, 2007, bonuses under the short-term incentive plan were prorated for the period that the Named Executive Officers performed services on behalf of the Company. Named Executive Officers had to be employed with the Company on the date of payout (March 11, 2009) to earn the bonuses under the 2008 short-term incentive plan.

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(3) The amounts in this column include the Company s contributions for the respective periods for the benefit of the Named Executive Officers to the Company s 401(k) Plan, the taxable value of life insurance premiums, severance and other perquisites as follows:

Name and Principal Position	Year	401(k) Matching	Life Insurance Premiums	Perquisites	Severance	Total
Gregory Weishar (10)	2008	$ 5,564	$ 3,674	$	$	$ 9,238
Chief Executive Officer	2007	$	$ 749	$ 62,340	$	$ 63,089
Michael Culotta (11)	2008	$ 10,419	$ 2,051	$ 203,259	$	$ 215,729
Executive Vice President and Chief Financial Officer	2007	$	$ 409	$ 12,685	$	$ 13,094
Robert McKay (12)	2008	$ 7,818	$ 784	$ 78,496	$	$ 87,098
Senior Vice President of Sales and Marketing	2007	$	$ 120	$	$	$ 120
Thomas Caneris (13)	2008	$ 8,245	$ 782	$ 133,124	$	$ 142,151
Senior Vice President, General Counsel and Secretary	2007	$	$ 90	$ 19,152	$	$ 19,242
Anthony Hernandez *Senior Vice President of Human Resources*	2008	$ 8,888	$ 411	$	$	$ 9,299
Janice Rutkowski (14)	2008	$ 9,153	$ 2,195	$	$ 104,671	$ 116,019
Former Senior Vice President and Chief Clinical Officer	2007	$ 9,000	$	$	$	$ 9,000

(4) Mr. Weishar has served as a director and Chief Executive Officer of the Company since January 14, 2007. For 2007, Mr. Weishar s base salary was $700,000 under the terms of his employment agreement. The amount reported in the table reflects Mr. Weishar s salary commencing August 1, 2007. From February 5, 2007 through July 31, 2007, Mr. Weishar was paid $336,540, which is not reported in the above table, through Kindred s pharmacy business pursuant to his employment agreement which was later assigned to the Company upon the consummation of the Pharmacy Transaction. In addition, Kindred paid Mr. Weishar s $1.2 million signing bonus in 2007, which is reported in the above table, under the terms of the employment agreement. On July 31, 2007, as part of the of the Pharmacy Transaction, the Company reimbursed Kindred for the pre-Pharmacy Transaction expenses incurred by Kindred, which included the signing bonus and the salary paid by Kindred to Mr. Weishar prior to August 1, 2007. Mr. Weishar s base salary for fiscal year 2008 is not pro-rated.

(5) Mr. Culotta has served as Executive Vice President and Chief Financial Officer of the Company since July 31, 2007. For 2007, Mr. Culotta s base salary was $405,000 under the terms of his employment agreement. The amount of $158,368 reflects Mr. Culotta s salary from August 1, 2007 through December 31, 2007. From May 29, 2007 through July 31, 2007, Mr. Culotta was paid $68,541, which is not reported in the above table, through Kindred s pharmacy business. On July 31, 2007, as part of the Pharmacy Transaction, the Company reimbursed Kindred for the pre-Pharmacy Transaction expenses incurred by Kindred, which included the salary paid by Kindred to Mr. Culotta prior to August 1, 2007. Mr. Culotta s base salary for fiscal year 2008 is not pro-rated.

(6) For 2007, Mr. McKay s base salary was $250,000 under the terms of his employment agreement. The amount of $95,190 reflects Mr. McKay s salary from his date of hire on August 1, 2007 through December 31, 2007. Mr. McKay s base salary for fiscal year 2008 is not pro-rated.

(7) For 2007, Mr. Caneris base salary was $250,000 under the terms of his employment agreement. The amount of $82,698 reflects Mr. Caneris salary from his date of hire on August 17, 2007 through December 31, 2007. Mr. Caneris base salary for fiscal year 2008 is not pro-rated.

(8) Mr. Hernandez became a Named Executive Officer in fiscal year 2008, therefore, his fiscal year 2007 compensation is not disclosed.

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(9) Ms. Rutkowski is no longer with the Company. Ms. Rutkowski served as Senior Vice President and Chief Clinical Officer of the Company from July 31, 2007 to August 15, 2008. Prior to July 31, 2007, Ms. Rutkowski was employed by PharMerica Long-Term Care. Ms. Rutkowski s base salary was $255,625 under the terms of her employment agreement. The amount of $108,435 reflects Ms. Rutkowski s base salary from August 1, 2007 through December 31, 2007. Ms. Rutkowski retired from her positions at the Company effective August 15, 2008. Her 2008 compensation represents amounts earned while employed by the Company from January 1, 2008 through August 15, 2008 and amounts accrued or paid as part of her severance agreement. The ($25,039) represents the forfeited stock award for which the requisite service period was not completed; therefore, the amount disclosed in the Summary Compensation Table was deducted in the period in which the award was forfeited.

(10) Mr. Weishar s 2007 perquisites include a one-time payment of $16,000 in country club membership fees and $46,340 for reimbursement of legal expenses and relocation costs (including tax gross-ups) incurred during his transition to his position as Chief Executive Officer of the Company.

(11) Mr. Culotta s 2007 and 2008 perquisites represent $12,685 and $203,259, respectively, for reimbursement of relocation costs (including tax gross-ups) incurred during his transition to Executive Vice President and Chief Financial Officer of the Company.

(12) Mr. McKay s 2008 perquisites represent $78,496 for reimbursement of relocation costs (including tax gross-ups) incurred during his transition to Senior Vice President of Sales and Marketing.

(13) Mr. Caneris 2007 and 2008 perquisites represent $19,152 and $133,124, respectively, for reimbursement of relocation costs incurred during his transition to Senior Vice President, General Counsel and Secretary.

(14) Ms. Rutkowski retired from her position at the Company effective August 15, 2008.

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Grants of Plan-Based Awards in 2008

The following table sets forth certain information concerning grants of awards to the Named Executive Officers pursuant to the Company s Omnibus Incentive Plan in the fiscal year ended December 31, 2008.

Name / Grant	Grant Date	Estimated Future Payouts Under Non-Equity Incentive Plan Awards (1) Threshold	Target	Maximum	Estimated Future Payouts Under Equity Incentive Plan Awards (2) Threshold	Target	Maximum	All Other Option Awards: Number of Securities Underlying Options (3)	Exercise or Base Price of Option Awards ($/Sh)	Grant Date Fair Value of Stock and Option Awards (4)
Gregory Weishar										
Short-term Incentive	3/10/2008	$ 361,660	$ 723,320	$ 1,265,810					$	$
Long-term Incentive	3/10/2008	$ 175,000	$ 350,000	$ 700,000					$	$
Long-term Incentive	3/10/2008	$	$	$	11,650	23,300	46,600		$	$ 351,830
Long-term Incentive	3/10/2008	$	$	$				85,500	$ 15.10	$ 390,598
Michael Culotta										
Short-term Incentive	3/10/2008	$ 155,524	$ 311,048	$ 544,334					$	$
Long-term Incentive	3/10/2008	$ 88,500	$ 177,000	$ 354,000					$	$
Long-term Incentive	3/10/2008	$	$	$	5,900	11,800	23,600		$	$ 178,180
Long-term Incentive	3/10/2008	$	$	$				43,300	$ 15.10	$ 197,812
Robert McKay										
Short-term Incentive	3/10/2008	$ 69,612	$ 139,225	$ 243,643					$	$
Long-term Incentive	3/10/2008	$ 40,750	$ 81,500	$ 163,000					$	$
Long-term Incentive	3/10/2008	$	$	$	2,700	5,400	10,800		$	$ 81,540
Long-term Incentive	3/10/2008	$	$	$				19,800	$ 15.10	$ 90,454
Thomas Caneris										
Short-term Incentive	3/10/2008	$ 69,549	$ 139,099	$ 243,423					$	$
Long-term Incentive	3/10/2008	$ 43,750	$ 87,500	$ 175,000					$	$
Long-term Incentive	3/10/2008	$	$	$	2,900	5,800	11,600		$	$ 87,580
Long-term Incentive	3/10/2008	$	$	$				21,400	$ 15.10	$ 97,764
Anthony Hernandez										
Short-term Incentive	3/10/2008	$ 61,589	$ 123,178	$ 215,561					$	$
Long-term Incentive	3/10/2008	$ 25,000	$ 50,000	$ 100,000					$	$
Long-term Incentive	3/10/2008	$	$	$	1,650	3,300	6,600		$	$ 49,830
Long-term Incentive	3/10/2008	$	$	$				12,200	$ 15.10	$ 55,734
Janice Rutkowski (5)										
Short-term Incentive	3/10/2008	$ 103,792	$ 207,584	$ 363,272					$	$
Long-term Incentive	3/10/2008	$ 40,000	$ 80,000	$ 160,000					$	$
Long-term Incentive	3/10/2008	$	$	$	2,650	5,300	10,600		$	$ 80,030
Long-term Incentive	3/10/2008	$	$	$				19,500	$ 15.10	$ 89,084

(1) The amounts in the table represent the estimated possible payouts of cash awards under the formula-based and individual-based component of the Company s 2008 short-term and long-term incentive program which is tied to the Company s financial performance and, with respect to Ms. Rutkowski, Mr. McKay, Mr. Caneris and Mr. Hernandez, individual performance goals. The Company s 2008 short-term incentive program is more fully described in the Narrative Disclosure to Summary Compensation Table and Grant of Plan-Based Awards Table section below. The performance cycle for the 2008 short-term incentive program began on January 1, 2008 and ended on December 31, 2008. The Named Executive Officers did not receive any payments under the Company s 2008 short-term incentive program until March 2009. The performance cycle for the long-term awards granted on March 10, 2008 commenced on January 1, 2008 and ends on December 31, 2010.

(2) On March 10, 2008, pursuant to the Company s 2008 long-term incentive program, the Compensation Committee granted performance share units to the Named Executive Officers. The performance cycle for the performance share unit awards granted March 10, 2008 commenced on January 1, 2008 and ends on December 31, 2010.

(3) All option awards are options to purchase shares of the Company s common stock and were granted under the Company s 2008 long-term incentive program. Option awards granted to Named Executive Officers will vest annually on the anniversary of the date of grant in increments of twenty-five percent each year and expire on the 7th anniversary of the grant date.

(4) Represents the grant date fair value computed in accordance with FAS 123(R).

(5) Effective August 15, 2008, Ms. Rutkowski retired from her position at the Company. The awards listed were granted while she was employed with the Company, but were forfeited under the terms of her severance agreement.

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Narrative Disclosure to Summary Compensation Table and Grants of Plan-Based Awards Table

Employment Agreements

During 2008, all of our Named Executive Officers were employed pursuant to employment agreements with the Company. Additional provisions of the employment agreements are set forth in the Compensation Discussion and Analysis.

Employment Agreement with Mr. Weishar

Mr. Gregory Weishar, our Chief Executive Officer, entered into his employment agreement on January 14, 2007. On November 13, 2007, we entered into an amendment to the employment agreement. The term of the agreement ends on December 31, 2009, at which time, the agreement automatically renews for additional one-year periods, unless either Mr. Weishar or the Company give notice of non-renewal to the other at least four months prior to the expiration of the relevant period. The employment agreement provides that Mr. Weishar receives a minimum base salary of $700,000 and is eligible to receive a performance-based annual cash bonus with a target payment equal to 100% of his annual base salary and a maximum bonus of 125% of his base salary for 2007 to the extent that the quantitative performance objectives established annually by the Board or the Compensation Committee are met. Mr. Weishar received a special one-time cash signing bonus of $1.2 million.

In addition to the above, Mr. Weishar is entitled to receive two special integration bonuses with respect to the performance of the Company. First, if the Company achieves a $30.0 million synergy target during Mr. Weishar s employment on or before January 31, 2009, as determined by the Board or the Compensation Committee in its reasonable discretion, Mr. Weishar will receive a one-time cash bonus of $500,000. Second, if the Company achieves a synergy target of $45.0 million or more during Mr. Weishar s employment term and at or before July 31, 2010, as determined by the Board or the Compensation Committee in its reasonable discretion, Mr. Weishar will receive an additional bonus of $500,000. The Company achieved both synergy targets and on February 19, 2009, Mr. Weishar received the $1.0 million bonus payment.

We also granted to Mr. Weishar, on the fifth trading day following consummation of the Pharmacy Transaction, a non-qualified stock option to purchase shares of the Company s common stock representing 1.0% of the total number of shares of common stock outstanding immediately after the closing of the Pharmacy Transaction at a price equal to the closing price per share on the grant date. As a result, Mr. Weishar was granted options to purchase 300,553 shares of common stock with an exercise price of $16.31 per share. The options have or will vest in four equal installments on each of January 1, 2008, December 31, 2008, December 31, 2009 and December 31, 2010. We also granted to Mr. Weishar, on the closing date of the Pharmacy Transaction, a number of restricted shares of common stock representing 0.75% of the total fair market value, based on the closing price of our common stock on such date, of the common stock then outstanding. As a result, Mr. Weishar was granted 225,415 shares. The restricted stock vests in four equal installments, on each of January 1, 2008, December 31, 2008, December 31, 2009 and December 31, 2010.

The type of compensation due Mr. Weishar in the event of the termination of his employment agreement with the Company varies depending on the nature of the termination.

Termination without Cause or Resignation for Good Reason If we terminate Mr. Weishar s employment without Cause or he terminates his employment with Good Reason (as such terms are defined below), he will be entitled to receive:

- a lump-sum cash payment equal to the sum of (i) any earned but unpaid base salary through the date of termination, (ii) a pro rata bonus for the calendar year of termination equal to his then current annualized base salary pro rated through the date of termination, (iii) any expense reimbursement payments then due, and (iv) an amount in respect of any earned but unused vacation days through the date of termination (with the value of unused vacation days being equal to his then annual base salary divided by 250); and

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an amount equal to three times the sum of his then annual base salary and target bonus payment for the calendar year in which termination occurs

In addition to the foregoing cash payments:

Mr. Weishar will be entitled to receive continued coverage under the Company s welfare benefit plans during the two-year period following termination (or the cash value of such coverage, determined on a net after-tax basis) and COBRA health care continuation coverage commencing at the end of such two-year period;

each compensatory stock option, including the initial awards referred to above, he has received shall (to the extent that they would have become vested or exercisable on or before the third anniversary of the termination date) be fully vested and shall remain fully exercisable until the earliest of a change in control, the second anniversary of the termination date and the expiration of its maximum stated term;

each compensatory restricted stock award, including the initial award described above, he has received shall become fully vested as of the termination date, to the extent that it would have become vested on or before the third anniversary of the termination date and all contractual restrictions on such award shall lapse as of the termination date; and

any other equity-based award he shall have received shall also become fully vested, and shall become non-forfeitable, as of the termination date, to the extent that it would have become vested on or before the third anniversary of the termination date.

Cause is defined as the conviction of, or plea of guilty or nolo contendere to, a felony; the commission of intentional acts of gross misconduct (including, without limitation, theft, fraud, embezzlement or dishonesty) that significantly impair the business of the Company or cause significant damage to its property, reputation or business; willful refusal to perform, or willful failure to use good faith efforts to perform, material duties that remain uncured for 14 days following written request from the Board for cure; willful and material breach of any material provision of the Company s code of ethics, or of any other material policy governing the conduct of its employees generally, that remains uncured for 14 days following written request from the Board for cure; or willful and material breach of the employment agreement that remains uncured for 14 days following written request from the Board for cure.

Good Reason is defined as any material diminution in Mr. Weishar s authorities, titles or offices, or the assignment to him of duties that materially impair his ability to perform the duties normally assigned to the chief executive officer of a Company of the size and nature of the Company (other than a failure to be re-elected to the Board following nomination for election); any change in the reporting structure such that he reports to someone other than the Board; any relocation of the Company s principal office, or of his principal place of employment to a location more than 35 miles from Louisville, Kentucky; any material breach by the Company, or any of its affiliates, of any material obligation to Mr. Weishar; or any failure of the Company to obtain the assumption in writing of its obligations to perform the employment agreement by any successor to all or substantially all of the business and assets of the Company within 15 days after any merger, consolidation, sale or similar transaction; in each case that either has not been consented to by Mr. Weishar or is not fully cured within 30 days after written notice to the Company requesting cure.

Termination for Death or Disability If Mr. Weishar s employment is terminated due to his death or disability (defined as his inability, due to physical or mental incapacity, to substantially perform his duties and responsibilities under this agreement for 180 days out of any 270 consecutive days), he (or his successors-in-interest) shall receive a lump-sum cash payment equal to the sum of (i) any earned but unpaid base salary through the date of termination, (ii) a pro rata bonus for the calendar year of termination equal to his then current annualized base salary pro rated through the date of termination, (iii) any expense reimbursement/payments then due, and (iv) an amount in respect of any earned but unused vacation days through the date of termination (with the value of unused vacation days being equal to his then annual base salary divided by 250).

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In addition to the foregoing cash payment:

- Mr. Weishar will be entitled to receive continued coverage under the Company s welfare benefit plans during the one-year period following termination (or the cash value of such coverage, determined on a net after-tax basis) and COBRA health care continuation coverage commencing at the end of such one-year period;

- each compensatory stock option, including the initial awards referred to above, he has received shall (to the extent that they would have become vested or exercisable on or before the first anniversary of the termination date) be fully vested and shall remain fully exercisable until the earliest of a change in control, the first anniversary of the termination date and the expiration of its maximum stated term;

- each compensatory restricted stock award, including the initial award described above, he has received shall become fully vested as of the termination date, to the extent that it would have become vested on or before the first anniversary of the termination date and all contractual restrictions on such award shall lapse as of the termination date; and

- any other equity-based award he shall have received shall also become fully vested, and shall become non-forfeitable, as of the termination date, to the extent that it would have become vested on or before the first anniversary of the termination date.

Termination Due to Non-Renewal of Employment Agreement or Other Terminations If Mr. Weishar s employment is terminated because of the expiration of its term due to notice of non-renewal or for any other reason (including voluntary resignation), he will be entitled to receive a lump-sum cash payment equal to the sum of (i) any earned but unpaid base salary through the date of termination, (ii) any expense reimbursement payments then due, and (iii) an amount in respect of any earned but unused vacation days through the date of termination (with the value of unused vacation days being equal to his then annual base salary divided by 250).

In addition to the foregoing cash payment, in the case Mr. Weishar s employment is terminated because of the expiration of its term due to notice of non-renewal:

- each compensatory stock option, including the initial awards referred to above, he has received shall (to the extent that they would have become vested or exercisable on or before (i) the second anniversary of the termination date, in the case of notice of non-renewal by the Company, or (ii) the first anniversary of the termination date, in the case of non-renewal by Mr. Weishar), be fully vested and shall remain fully exercisable until the earliest of a change in control, the second anniversary of the termination date, in the case of notice of non-renewal by the Company, or first anniversary of the termination date, in the case of notice of non-renewal by Mr. Weishar, and the expiration of its maximum stated term;

- each compensatory restricted stock award, including the initial award described above, he has received shall become fully vested as of the termination date, to the extent that it would have become vested on or before (i) the second anniversary of the termination date, in the case of notice of non-renewal by the Company, or (ii) the first anniversary of the termination date, in the case of non-renewal by Mr. Weishar, and all contractual restrictions on such award shall lapse as of the termination date; and

- any other equity-based award he shall have received shall also become fully vested, and shall become non-forfeitable, as of the termination date, to the extent that it would have become vested on or before (i) the second anniversary of the termination date, in the case of notice of non-renewal by the Company, or (ii) the first anniversary of the termination date, in the case of non-renewal by Mr. Weishar.

Change in Control In the event of a change in control of the Company, Mr. Weishar is not entitled to any cash compensation, except to the extent that the employment agreement is terminated under any of the circumstances described above. In addition, each compensatory stock option, including the initial awards referred to above, he has received shall become fully vested, and exercisable, on or before such change in control;

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each compensatory restricted stock award, including the initial award described above, he has received shall become fully vested as of the date of the change in control and all contractual restrictions on such award shall lapse as of such date; and

any other equity-based award he shall have received shall also become fully vested, and shall become non-forfeitable, as of the date of the change in control.

Change in control means:

a majority of our directors being replaced under certain circumstances;

any person, as such terms is used on Mr. Weishar s start date in Section 13(d) of the Securities Exchange Act of 1934, is or becomes a beneficial owner, of a percentage of the voting stock of the Company that is 40% larger than the percentage (if any) of the voting stock of the Company, thus measured, that such person beneficially owned upon the closing of the Pharmacy Transaction;

the Company combines with another entity and is the surviving entity, or all or substantially all of the assets or business of the Company, is disposed of pursuant to a sale, merger, consolidation or liquidation, unless the holders of the Company s common stock, immediately prior to such transaction own, directly or indirectly, more than two-thirds of the common stock of: (1) in the case of a combination in which the Company is the surviving entity, the surviving entity and (2) in any other case, the entity, if any, that succeeds to all or substantially all of the business and assets of the Company.

Tax Gross-Up Payments In the event that any payment or benefit made or provided to Mr. Weishar under the employment agreement is determined to constitute a parachute payment, as such term is defined in section 280G(b)(2) of the Code, the Company shall pay to Mr. Weishar, prior to the time any excise tax imposed by section 4999 of the Code is payable with respect to such payment or benefit, an additional amount which, after the imposition of all income and excise taxes thereon (and assuming all federal, state and other income taxes are imposed at the highest marginal rate), is equal to the excise tax on such payment or benefit. The determination of whether any payment or benefit constitutes a parachute payment and, if so, the amount to be paid to Mr. Weishar and the time of payment shall be made by a nationally-recognized independent accounting firm selected and paid for by the Company.

Mr. Weishar agreed that during his employment and for a two-year period following the termination of his employment that he will not, for himself or on behalf of any other person, partnership, company or corporation, directly or indirectly, engage in, acquire any significant financial or beneficial interest in, be employed by, participate materially in, own, manage, operate or control or be materially connected with, in any relevant manner (whether as a principal, partner, director, employee, consultant, independent contractor, agent or otherwise, and whether or not for compensation) any entity that competes materially with the business of the Company (considering only business conducted by the Company during the term of the employment agreement, or being actively planned by the Company as of the date of his termination) in the United States of America.

Furthermore, Mr. Weishar agreed that during his employment with the Company and for a one-year period following the termination of his employment that he will not personally (i) other than in the course of performing his duties for the Company or its affiliates, directly or indirectly (including, without limitation, by instructing others or by taking other action reasonably expected to induce others), for his own account or for the account of any other person, solicit for employment, hire, or otherwise interfere with the relationship of the Company with, any person who is an employee of, or a consultant to, the Company at the time of solicitation, hiring or interference, or (ii) in competition with the Company, directly or indirectly (including, without limitation, by instructing others or by taking other action reasonably expected to induce others), individually or on behalf of other persons solicit or seek to do business with any entity which, as of the earlier of the date of termination of his employment or the date of solicitation, was a customer or a client of the Company or was, to his knowledge, being actively solicited by the Company to be a customer or client of the Company.

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Mr. Weishar also agreed to certain confidentiality provisions in his employment agreement.

Employment Agreement with Janice Rutkowski

On July 11, 2007, we entered into an employment agreement with Ms. Rutkowski, which became effective on August 1, 2007, the first day of business operations of the Company. The term of the agreement ended August 15, 2008.

On July 25, 2008, Ms. Rutkowski and the Company entered into a Separation of Employment Agreement. Under the Separation Agreement, Ms. Rutkowski terminated her employment with the Company effective August 15, 2008. Pursuant to the Separation Agreement, Ms. Rutkowski agreed, among other things, to continue to be bound by the non-compete and non-solicit provisions of her employment agreement which prohibit her for a period of 24 months following her termination of employment from (i) directly or indirectly owning, managing, controlling or participating in the ownership, management, or control of, or from being employed or engaged by, or otherwise affiliated or associated with, as an officer, director, employee, consultant, independent contractor or otherwise, any business entity or otherwise that engages in any business that is engaged in hospital and long term care institutional pharmacy services, and (ii) soliciting any employee, officer, director or agent of the Company from terminating such relationship, or employing or otherwise being associated in business with any present or former employee or officer of the Company, or, directly or indirectly, soliciting or otherwise accepting business for hospital and long term care institutional pharmacy services from any client or prospective client of the Company or causing a client or prospective client t