PharMerica CORP
Form DEF 14A
April 30, 2014
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**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 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:

(2) Aggregate number of securities to which transaction applies:

(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

(4) Proposed maximum aggregate value of transaction:

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¨ Fee paid previously with preliminary materials.

¨ Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

(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 17, 2014**

PharMerica Corporation s Annual Meeting of Stockholders will be held on June 17, 2014, at 9:00 a.m. local time. We will meet at The Marriott Louisville located at 280 West Jefferson Street, Louisville, Kentucky 40202 (the Annual Meeting ). If you owned common stock at the close of business on April 21, 2014, you may vote at the Annual Meeting or any adjournments or postponements thereof. At the Annual Meeting, we plan to:

1. elect the nine directors named in the accompanying proxy statement for a term to expire at the Annual Meeting of Stockholders in 2015;

2. ratify the appointment of KPMG LLP as the Company s independent registered public accounting firm for the fiscal year ending December 31, 2014;

3. take an advisory vote to approve the compensation paid to the Company s named executive officers ( Say on Pay ); and

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

The Board of Directors is not aware of any other proposals for the Annual Meeting.

It is important that your common stock be represented at the Annual 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 Annual Meeting, you may, if you wish, withdraw your proxy and vote in person.

**Important Notice Regarding the Availability of Proxy Materials for the Annual Meeting to Be Held on June 17, 2014**

The Proxy Statement and 2013 Annual Report to Stockholders 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 30, 2014

**YOUR VOTE IS IMPORTANT. PLEASE COMPLETE AND RETURN THE ENCLOSED**

**PROXY PROMPTLY SO THAT YOUR VOTE MAY BE RECORDED**

**AT THE ANNUAL 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 17, 2014**

**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 Company s Annual Meeting of Stockholders to b held on Tuesday, June 17, 2014 at 9:00 a.m. local time, at The Marriott Louisville located at 280 West Jefferson Street, Louisville, Kentucky 40202 and thereafter as it may from time to time be adjourned or postponed (the Annual Meeting ). This proxy statement and the accompanying proxy are first being mailed to stockholders on or about April 30, 2014.

**Who May Vote**

Each stockholder of record at the close of business on April 21, 2014 (the Record Date ) is entitled to notice of and to vote at the Annual Meeting. On the Record Date, there were 29,992,221 shares of our common stock, par value of $0.01 per share (the common stock ) outstanding. On the Record Date, there were no shares of Preferred Stock, par value $0.01, outstanding. You may cast one vote for each share of common stock held by you on all matters presented at the Annual Meeting.

**How You May Vote**

You may vote (i) in person by attending the Annual 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 Annual 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 nine nominees named herein to the Board of Directors for a term to expire at the Annual Meeting of Stockholders in 2015;

2. FOR the ratification of the appointment of KPMG LLP as the Company s independent registered public accounting firm for the fiscal year ending December 31, 2014;

3. FOR the approval of the Say on Pay proposal; and

4. In the discretion of the proxy holders, FOR or AGAINST such other business as may properly come before the Annual 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 Annual 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 Annual Meeting and voting in person.

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**Quorum Requirement**

The Company is required to have a quorum of stockholders present to conduct business at the Annual Meeting. A majority of the shares entitled to vote at the Annual Meeting, represented in person or by proxy, constitutes a quorum for the transaction of business at the Annual Meeting. Proxies received but marked as abstentions or treated as broker non-votes will be included in the calculation of the number of shares considered to be present at the Annual Meeting in determining a quorum. If a quorum is not present at the Annual Meeting, we will be forced to reconvene the Annual Meeting at a later date.

**Required Vote**

Every holder of record of shares of common stock 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. Votes cast by proxy or in person at the Annual Meeting will be tabulated by one or more inspectors of election, appointed for the Annual Meeting, who will also determine whether a quorum is present for the transaction of business.

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 Annual Meeting to the stockholders. For the Annual Meeting, 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 Annual Meeting and entitled to vote on the matter is required to approve all other matters to be voted upon at the Annual Meeting.

**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 ratification of the appointment of the independent registered public accounting firm of the Company is considered a routine matter. The election of directors and the Say on Pay proposal are not considered routine matters. 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 the Broker is barred from exercising its discretionary authority to vote the shares because the proposal is a non-routine matter. With respect to the election of directors and Say on Pay proposal, Broker non-votes will not be counted as votes for or against these proposals. Broker non-votes also will not be counted in the determination of whether the total votes cast on a proposal represents over 50% of the outstanding common stock entitled to vote on the proposal.

**Advisory Proposals**

Because the vote on the Say on Pay proposal is advisory, it will not be binding on the Board of Directors or the Company. However, the Compensation Committee will take into account the outcome of the Say on Pay vote when considering future executive compensation arrangements.

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## PROPOSAL 1

## ELECTION OF DIRECTORS

Our Board currently consists of nine directors: Frank E. Collins, Esq., W. Robert Dahl, Jr., Marjorie W. Dorr, Thomas P. Gerrity, Ph.D., Patrick G. LePore, Thomas P. Mac Mahon, Robert A. Oakley, Ph.D., Geoffrey G. Meyers, 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 nine.

The Nominating and Corporate Governance Committee has recommended that the nine directors listed in the table below be nominated for election for a one-year term expiring at the 2015 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 nine 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.

## NOMINEES FOR ELECTION AT THE ANNUAL MEETING

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

| Name | Age | Position |
|---|---|---|
| Frank E. Collins, Esq. | 60 | Director |
| W. Robert Dahl, Jr. | 57 | Director |
| Marjorie W. Dorr | 52 | Director |
| Thomas P. Gerrity, Ph.D. | 72 | Director |
| Patrick G. LePore | 59 | Director |
| Thomas P. Mac Mahon | 67 | Director |
| Geoffrey G. Meyers | 69 | Director, Chairman |
| Robert A. Oakley, Ph.D. | 67 | Director |
| Gregory S. Weishar | 59 | Chief Executive Officer and Director |

**Nominees**

**Frank E. Collins, Esq.** Mr. Collins has served as a director since July 31, 2007. Mr. Collins serves as Chair of the Nominating and Governance Committee of the Board and served as a member of the Compensation Committee from June 2008 to June 2009. 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 Health Group Incorporated ( United ) in February 2008. Mr. Collins served as the Deputy General Counsel of United from February 2008 to July 2012. 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.

As a result of Mr. Collins experiences as General Counsel at a public managed healthcare organization, he possesses expertise in the areas of corporate governance, human resources and regulatory compliance and brings experience in the healthcare industry.

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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 is currently a private investor. He was the Chief Operating Officer of Arrowhawk Capital Partners, an investment company, from September 2009 until March 2012. Previously, from May 2007 to November 2009 he was the Vice President of Strategic Business Development and Vice Chairman of the Board of Directors of Golden Pond Healthcare, Inc. From April 1999 until June 2006, Mr. Dahl served as the head of Global Healthcare for the Carlyle Group, a leading private equity firm, 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 Applied Science, Inc., Pharm Blue Holdings LLC, Remedy Partners, Sprout Pharmaceuticals, Inc. and Virtual Office Works, LLC all of which are private companies. Mr. Dahl received a BA from Middlebury College and an MBA from the Harvard Graduate School of Business Administration.

Mr. Dahl s experience as a certified public accountant, investment banker, financial advisor and healthcare private equity investor provides him with financial literacy and expertise and knowledge of the healthcare industry, along with expertise in mergers and acquisitions.

**Marjorie W. Dorr.** Ms. Dorr has served as a director since January 22, 2009. Ms. Dorr serves as a member of the Audit Committee and served on the Compensation Committee between 2010 and 2013. Ms. Dorr served as Executive Vice President and Chief Strategy Officer for WellPoint, Inc. from 2005 to 2007. 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.

Ms. Dorr s experience as a senior executive of a large health benefits company equips her with expertise in pharmacy reimbursement practices and strategic planning.

**Thomas P. Gerrity, Ph.D.** Mr. Gerrity has served as a director since July 31, 2007. Mr. Gerrity serves as a member of the Compensation Committee and the 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 ICG Group, Inc. (formerly Internet Capital Group, Inc.), since 1998, and served as a member of the Corporation of the Massachusetts Institute of Technology from 2001-2011. Mr. Gerrity is the Chairman of the Board and General Partner of the Arden Fund I, a private real estate investment fund managed by the Arden Group in Philadelphia, Pennsylvania. Mr. Gerrity served as a director of Sunoco, Inc. from 1990 to May 2010. Mr. Gerrity served as a director of Federal National Mortgage Association from September 1991 until December 2006. He was also a director of Knight-Ridder, Inc. from 1998 to 2006; CVS Corporation from 1995 to 2007; and Hercules, Inc. from 2003 to 2008. Mr. Gerrity was the founder and Chief Executive Officer for 19 years of The Index Group, a leader in consulting to many corporations regarding IT strategy and overall corporate strategy and change management. Mr. Gerrity received his PhD in Management and MSEE and BSEE in Electrical Engineering and Computer Science from the Massachusetts Institute of Technology.

Mr. Gerrity, by virtue of his top management experience, his strategy consulting expertise, and his positions at the University of Pennsylvania, and by virtue of his education, possesses financial literacy and expertise, as well as strategic planning and general management, information systems and technology, organizational change management and corporate governance experience.

**Patrick G. LePore.** Mr. LePore was appointed to the Board on January 14, 2013. Mr. LePore serves as a Member of the Compensation Committee. From 2007 to 2012, Mr. LePore served as the Chairman of the Board

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of Par Pharmaceutical Companies, Inc. He was also their Chief Executive Officer until its acquisition by private equity investor TPG, in 2012. Mr. LePore was President of Cardinal Health, Inc. s healthcare marketing group prior to joining Par Pharmaceutical Companies Inc. Mr. LePore earned a B.A. degree from Villanova University, where he is also a trustee. Mr. LePore earned his MBA degree from Fairleigh Dickinson University.

Mr. LePore s experience as a former Chairman of the Board, and as a Chief Executive Officer at a successful pharmaceutical company makes him a valuable addition to the Board, especially with respect to pharmaceutical distribution. By virtue of his management experience, Mr. LePore will bring important insight to the Board. Mr. LePore is a member of the Compensation Committee.

**Thomas P. Mac Mahon.** Mr. Mac Mahon has served as a director since July 31, 2007. Between July 31, 2007 and December 31, 2010, Mr. Mac Mahon served as Chairman of the Board. He is currently chairman of the Compensation Committee. Mr. Mac Mahon served as Chairman of the Board, President and Chief Executive Officer and a member of the Executive and Management Committees of Laboratory Corporation of America Holdings or LabCorp, the second largest independent clinical laboratory company in the U.S., from January 1997 until his retirement in December 2006. Mr. Mac Mahon served as a director of LabCorp from 1995 to 2013 and of Golden Pond Healthcare from 2007 to 2009. Mr. Mac Mahon has been a director of Express Scripts since July 2001 and has served as its presiding director since May 2008. He also serves as a director of two start-up diagnostic companies called SYNAP Diagnostics and Aushon Biosystems, Inc.

Mr. Mac Mahon s experience as a former Chief Executive Officer and Chairman of the Board, and as a board member at premier clinical laboratory and pharmacy benefits management services companies provides him with in-depth knowledge of the healthcare and pharmacy services and distribution industries. Mr. Mac Mahon, by virtue of his previous senior-level executive positions and current board experiences, also possesses executive compensation experience.

**Geoffrey G. Meyers.** Mr. Meyers has served as a director since November 17, 2009 and as Chairman of the Board since January 1, 2011. On February 1, 2010, Mr. Meyers became a member of the Nominating and Governance Committee. Mr. Meyers is the retired Chief Financial Officer and Executive Vice President and Treasurer for Manor Care, Inc. where he had responsibility for administration and financial management from 1988 until 2006 and was a director of Health Care and Retirement Corp., a predecessor of Manor Care, Inc., from 1991 to 1998. Mr. Meyers has been a director of HCA Holdings, Inc. and Chairman of is audit committee since March 2011. Mr. Meyers is also the Chairman of the Board of the Trust Company of Toledo, a northwestern Ohio trust bank. He received his BA from Northwestern University and his MBA from The Ohio State University.

Mr. Meyers has over two decades of experience in the long term care industry, which provides us with valuable insight into the needs and operations of our customer base. Having served as the Chief Financial Officer of a large public company he also has expertise in finance and accounting matters, investor relations, human resources, information technologies, purchasing, corporate communications, risk management, reimbursement, strategic planning and development and acquisitions.

**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. In 2003, Mr. Oakley retired after more than 25 years service with the Columbus, Ohio-based Nationwide Companies, one of the largest diversified insurance and financial services organizations in the world. Mr. Oakley served on the boards of Ohio Casualty Corporation from March 2003 to September 2008, First Mercury Financial Corporation from January 2008 to August 2009 and the Physicians Assurance Corporation from January 2008 to August 2009. He received his BS from Purdue University and both an MBA and Ph.D. in Finance from The Ohio State University.

Mr. Oakley possesses financial literacy and expertise from his experiences as a former Chief Financial Officer and chair of audit committees at leading insurance and financial services companies, along with expertise in investor relations, risk management and strategic planning.

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**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.

Mr. Weishar has substantial senior executive experience in the pharmacy services industry and as Chief Executive Officer of the Company has intimate knowledge of our industry and business.

### Recommendation of Our Board of Directors

Our Board recommends a vote FOR the nine directors listed above to hold office until the 2015 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 2013, the Board held a total of six 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/she was a director and (ii) the total number of meetings of all Board Committees on which he/she served during the period which he/she was a director. The non-management members of the Board have met in executive session at all of the regularly scheduled meetings 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. All of the Company s directors attended the Company s 2013 Annual Meeting of Stockholders in person.

### 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 | |
| W. Robert Dahl, Jr. | Member | | |
| Marjorie W. Dorr | Member | | — |
| Thomas P. Gerrity, Ph.D. | | Member | Member |
| Patrick G. LePore | | — | Member |
| Thomas P. Mac Mahon | | | Chairman |
| Geoffrey G. Meyers | | Member | |
| 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 eight meetings in 2013. The Board has determined that Mr. Dahl, Ms. Dorr, and Mr. Oakley 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 they 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 seven meetings in 2013. 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, oversee, 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.

Since April 2008, the Compensation Committee has retained Frederic W. Cook & Co. ( Cook ) to serve as the Company s outside compensation consultant with respect to setting each year s executive compensation. See the discussion under Compensation Discussion and Analysis for more information on Cook s role in assisting the Company with its compensation policies and programs.

Cook is retained only by the Compensation Committee to assist in the determination, amount and form of executive and non-employee director compensation. Neither Cook nor any of its affiliates provides any additional services to the Company or its affiliates. The Compensation Committee has determined that the work of Cook did not raise any conflicts of interest in 2013. In making this assessment, the Compensation Committee considered the independence factors enumerated in Rule 10C-1(b) under the Securities Exchange Act of 1934, as amended (the Exchange Act ), including the fact that Cook does not provide any other services to the Corporation, the level of fees received from the Corporation as a percentage of Cook s total revenue, policies and procedures employed by Cook to prevent conflicts of interest, and whether the individual Cook advisers to Compensation Committee own any stock of the Corporation or have any business or personal relationships with members of the Compensation Committee or our executive officers.

## 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 stockholders 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 2013.

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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.

The Policy for Evaluation for Nominees to the Board of Directors specifies that diversity of experiences and expertise is a factor to be considered by the Nominating and Governance Committee in the director identification and nomination process. The Nominating and Governance Committee seeks nominees with a broad diversity of

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experience, professions, skills, geographic representation and backgrounds. The Committee does not assign specific weights to particular criteria and no particular criterion is necessarily applicable to all prospective nominees. The Company believes that the backgrounds and qualifications of the directors, considered as a group, should provide a significant composite mix of experience, knowledge and abilities that will allow the Board to fulfill its responsibilities. Nominees are not discriminated against on the basis of race, religion, national origin, sexual orientation, disability or any other basis proscribed by law.

The Committee has the authority under its charter to hire and pay a fee to consultants or search firms to assist in the process of identifying and evaluating candidates.

**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 (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. LePore, Mr. Mac Mahon, Mr. Meyers, 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. Mac Mahon, who serves as Chair, Mr. LePore, and Mr. Gerrity, 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 Compliance**

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, 2013, all filing requirements under Section 16(a) of 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

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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.

**Board Leadership Structure and Role in Risk Oversight**

The Company s Board is comprised of nine directors, eight of whom are considered independent. Our Chief Executive Officer, Gregory S. Weishar, is our only employee-director. Outside director Geoffrey G. Meyers serves as Chairman of the Board. The Board delegates certain duties as described above to its Audit, Nominating and Corporate Governance, and Compensation Committees. The Chairmen of these committees, respectively, are independent directors Robert A. Oakley, Frank E. Collins and Thomas P. Mac Mahon. We separate the roles of CEO and Chairman of the Board in recognition of the differences between the two roles. The CEO is responsible for setting the strategic direction for the Company and the day to day leadership and performance of the Company, while the Chairman of the Board is responsible for leading the Board in the execution of its fiduciary duties. The Chairman presides over meetings of the full Board.

The full Board is responsible for the Company s risk oversight process. The Board delegates to appropriate committees the oversight of particular subject areas of risk that are under the purview of those committees. For example, financial risk is overseen by the Audit Committee, while utilizing compensation strategies addressing Section 162(m) of the Internal Revenue Code is within the purview of the Compensation Committee. Strategic risks are overseen by the full Board. The Board (or appropriate Committee) receives regular reports from senior management on areas of material risk to the Company, including operational, financial, legal and regulatory compliance, and strategic risk. The chairman of each Committee reports to the full Board during the Committee reports portion of the next Board meeting each of the material matters considered by the Committee. This reporting process enables the Board and its Committees to coordinate the risk oversight role, particularly with respect to risk interrelationships. As part of the Board s risk oversight responsibilities it has established an enterprise risk management program, which at the management level, is overseen by the Company s Chief Financial Officer. Enterprise risks are identified and prioritized by management and the Board and a mitigation plan is developed. Management regularly reports on risk mitigation to the relevant Committee or the Board. Additional review or reporting on enterprise risks is conducted as needed or as requested by the Board or Committee.

**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 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;

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- 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 FOR 2013

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, 2013.

| Name | Fees Earned or Paid in Cash 2013 | Stock Awards(1)(2) | Total |
|---|---|---|---|
| Frank E. Collins, Esq. (3) | $ 74,500 | $ 90,007 | $ 164,507 |
| W. Robert Dahl, Jr. (3) (4) | $ 72,000 | $ 90,007 | $ 162,007 |
| Marjorie W. Dorr (3) | $ 76,500 | $ 90,007 | $ 166,507 |
| Thomas P. Gerrity, Ph.D. (3) | $ 76,500 | $ 90,007 | $ 166,507 |
| Patrick LePore (3) | $ 70,000 | $ 180,007 | $ 250,007 |
| Thomas P. MacMahon (3) | $ 82,000 | $ 90,007 | $ 172,007 |
| Geoffrey G. Meyers (3) | $ 123,000 | $ 90,007 | $ 213,007 |
| Robert A. Oakley, Ph.D. (3) | $ 85,500 | $ 90,007 | $ 175,507 |

(1) All stock awards are restricted stock units and are in shares of the Company s common stock. These amounts represent the aggregate grant date fair value computed in accordance with Financial Accounting Standards Board Accounting Standards Codification Topic 718, Compensation Stock Compensation ( FASB ASC Topic 718 ). The assumptions used in calculating the amounts are discussed in Note 10 of the Company s audited financial statements for the year ended December 31, 2013, included in the Company s Annual Report on Form 10-K filed with the SEC on February 28, 2014.

(2) The table below sets forth the grant date fair value of each equity award granted in 2013 computed in accordance with FASB ASC Topic 718:

| | Restricted Stock Units | |
|---|---|---|
| Name | Number of Awards Granted in 2013 | Grant Date Fair Value |
| Frank E. Collins, Esq. | 5,556 | $ 90,007 |
| W. Robert Dahl, Jr. | 5,556 | $ 90,007 |
| Marjorie W. Dorr | 5,556 | $ 90,007 |
| Thomas P . Gerrity, Ph.D. | 5,556 | $ 90,007 |
| Patrick G. LePore (7) | 11,556 | $ 180,007 |
| Thomas P . Mac Mahon | 5,556 | $ 90,007 |
| Geoffrey G. Meyers | 5,556 | $ 90,007 |
| Robert A. Oakley, Ph.D. | 5,556 | $ 90,007 |

(3) The table below sets forth the aggregate number of shares of restricted stock units and the aggregate number of stock options held by each non-employee director as of December 31, 2013:

| | Aggregate Awards Outstanding at December 31, 2013 | |
|---|---|---|
| Name | Restricted Stock Units (6) | Stock Options |
| Frank E. Collins, Esq. | 5,556 | |
| W. Robert Dahl, Jr. (5) | 35,210 | 9,568 |
| Marjorie W. Dorr (5) | 27,379 | 13,831 |
| Thomas P. Gerrity, Ph.D. | 5,556 | |
| Patrick G. LePore | 5,556 | |
| Thomas P. Mac Mahon | 5,556 | |
| Geoffrey G. Meyers (5) | 22,486 | 29,268 |
| Robert A. Oakley, Ph.D. | 5,556 | 13,600 |

(4) All Board of Director cash fees earned in fiscal year 2013 for W. Robert Dahl, Jr. were deferred at the Director s election per his deferred fee agreement.

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(5) Includes the following restricted stock units that have been deferred at the Director s election pursuant to his/her deferred fee agreements: W. Robert Dahl, Jr., 35,210; Marjorie W. Dorr, 27,379; and Geoffrey G. Meyers, 22,486.

(6) Restricted Stock Units Aggregate Awards Outstanding, as presented in the chart, represent outstanding and deferred shares.

(7) In addition to the 2013 annual grant of $90,007, Mr. LePore also received an initial grant upon joining the Board of Directors of $90,000.

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

*Annual Retainer* Each director receives an annual retainer of $50,000. 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 currently receives an additional retainer of $60,000 per year.

*Committee Chair Retainer* The Chairman of the Nominating and Governance Committee and the Chairman of the Compensation Committee each currently receive an additional annual retainer of $10,000. The Chairman of the Audit Committee currently receives an additional annual retainer of $15,000.

*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.

*Annual Restricted Stock Unit Grant* Each director received an annual award of restricted stock units valued at $90,000. The restricted stock units vest the earlier of the first anniversary of the grant date or the next annual stockholder meeting.

*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 units, 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 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.

*Stock Ownership Guidelines* We encourage our directors to own stock in the Company. The Compensation Committee adopted stock ownership guidelines to align long-term interests of directors with those of our stockholders and provide a continuing incentive to foster the Company s success. The stock ownership guidelines

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became effective July 1, 2008 and were updated on December 2, 2012, for directors. Under the stock ownership guidelines, directors are expected to own Company stock in the amount of 400% of their annual retainer (exclusive of board meeting fees), or $200,000. There is no required time period within which Director must attain the applicable stock ownership level under the guidelines, whether joining before or after the adoption of the guidelines. The following count towards meeting the stock ownership guidelines: all shares and vested options held but not unvested and unearned restricted stock/restricted stock units/performance shares and unvested stock options. 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 21, 2014, all directors own shares of the Company and the value of the directors ownership in the Company is as follows: Frank Collins - $1,103,965; Robert Dahl - $1,232,291; Marjorie Dorr - $1,311,493; Thomas Gerrity - $1,103,965; Patrick G. LePore - $318,021; Thomas Mac Mahon - $1,434,205; Geoffrey Meyers - $1,644,210; and Robert Oakley -$1,402,419.

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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 21, 2014.

| Name | Age | Position |
|---|---|---|
| Gregory S. Weishar | 59 | Chief Executive Officer and Director |
| David W. Froesel, Jr. | 62 | Executive Vice President, Chief Financial Officer and Treasurer |
| Suresh Vishnubhatla | 45 | Executive Vice President of Long-term Care Operations |
| Mark R. Lindemoen | 47 | Senior Vice President of Sales and Client Services |
| Robert A. McKay | 52 | Senior Vice President of Purchasing and Trade Relations |
| Thomas A. Caneris | 51 | Senior Vice President, General Counsel, Chief Compliance Officer and Secretary |
| Berard E. Tomassetti | 58 | Senior Vice President and Chief Accounting Officer |
| Jim Glynn | 55 | President of Amerita, Inc. |

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.

**David W. Froesel, Jr.** Mr. Froesel has served as our Executive Vice President, Chief Financial Officer and Treasurer since August 1, 2013, after serving as the Interim Chief Financial Officer beginning on April 12, 2013. Prior to that time, Mr. Froesel had been the principal of Froesel Consulting LLC since 2011. Mr. Froesel was Chief Financial Officer of BioScrip, Inc., from December 2010 to January 2011. Before that he was also Senior Vice President and Chief Financial Officer of Omnicare, Inc., from 1996 to 2009. He received a B.S. in Accounting from the University of Missouri-St. Louis and an M.S. in Accounting from St. Louis University, and he is a Certified Public Accountant.

**Suresh Vishnubhatla.** Mr. Vishnubhatla joined the Company in March 2011 as Chief Technology Officer. Prior to joining the Company, he served as Senior Vice President and Chief Technology Officer of Millennium Pharmacy Systems, Inc. from January 2007. Prior to joining Millennium Pharmacy Systems, Inc., Mr. Vishnubhatla held various positions with BodyMedia, Inc. from 2000 to 2006, finally serving as Senior Vice President, Products.

**Mark R. Lindemoen.** Mr. Lindemoen joined the Company as Senior Vice President of Sales and Client Services on September 27, 2012. Mr. Lindemoen is responsible for leading the Company s sales and client retention initiatives. Prior to joining the Company, Mr. Lindemoen was Vice President of Sales for Gulf South Medical Supply in Jacksonville, Florida. Prior to Gulf South, Mr. Lindemoen was the Vice President, Regional Segment Sales Health Systems for AmerisourceBergen in Thorofare, New Jersey, where he directed a $3.0 billion sales territory. Mr. Lindemoen previously served as a vice president for McKesson Medical Surgical and SCA Incontinence Care in Atlanta, Georgia.

**Robert A. McKay.** Mr. McKay has served as our Senior Vice President of Purchasing and Trade Relations since July 2010. He had previously served as Senior Vice President of Sales and Marketing from July 2007 to June 2010. Prior to joining the Company in July 2007, Mr. McKay was Vice President of Marketing and Trade Relations 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 is a retired United States Army officer.

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**Thomas A. Caneris.** Mr. Caneris has served as our Senior Vice President, General Counsel, and Secretary since August 2007 and Chief Compliance Officer since 2010. Prior to joining the Company, Mr. Caneris served as counsel to Convergys Corporation from September 2004.

**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 Healthcare, Inc. ( Kindred ) pharmacy business for over 6 years. Prior to joining Kindred s pharmacy business, Mr. Tomassetti was affiliated with Aperture, a credentials verification organization. Mr. Tomassetti was an auditor with Ernst & Young LLP for 7 years.

**Jim Glynn.** Mr. Glynn has been the President of the Company s specialty home infusion pharmacy, Amerita, Inc. ( Amerita ), since Amerita was acquired by the Company in December 2012. Prior to founding Amerita in 2006, Mr. Glynn served as Senior Vice President, Apria Healthcare, where he was responsible for Apria s Specialty Infusion division. From 1998 to 2002, Mr. Glynn served as Vice President of SPS Operations, Gentiva Health Services. Mr. Glynn got his start in the infusion industry with Coram Healthcare, where he served from 1991 to 1998.

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## COMPENSATION DISCUSSION AND ANALYSIS

### Executive Summary

Our executive compensation program is primarily structured to be competitive within the institutional pharmacy industry and focus our executives on enhancing revenues and increasing profitability by providing quality services, managing costs and making appropriate acquisitions. The Compensation Committee has adopted a compensation strategy in which total direct compensation is generally targeted at the 40th percentile and is expected to be achieved through a combination of below median base salary and median to 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 a high degree of accountability at the senior levels of the organization. Seventy-eight percent (78%) of the CEO s pay is at risk and the at risk pay for the remaining Named Executives ranges from 52% to 75%.

PharMerica had a strong 2013 as the Company focused on improving client retention and operating margins. Key accomplishments during 2013 were:

- adjusted EBITDA, a non-GAAP measure, increased 19% over 2012;
- record cash flows from operating activities of $155.7 million, an increase of 82% over 2012;
- achievement of strong shareholder return, with the Company s share price increasing 51% year over year;
- record adjusted diluted earnings per share of $1.83, an increase of 30% over 2012; and
- expansion of our business lines into oncology pharmacy services.

The Company s adjusted EBITDA of $124.1 million in 2013 was above the target set for the Company s 2013 short term incentive program, and funded an annual bonus pool of 131.5% of target for the Company EBITDA component of the plan.

The performance share unit component of our 2011-2013 long-term incentive program vested at 175% of target. Both Adjusted EBITDA and adjusted diluted earnings per share ( Adjusted Diluted EPS ) exceeded the maximum goal.

2013 long-term incentives were delivered in a combination of performance shares and restricted stock unit awards (weighted 50%/50%) to focus executives on long-term operating performance and support executive retention. For 2014, performance shares and restricted stock awards remained equally weighted.

The Compensation Committee is composed solely of independent directors. Over the years, the Company has adopted many contemporary best practices . These include the following:

- elimination of excise tax gross-up for change in control related payments for the CEO; and other new executives post-2008;
- adoption of anti-hedging/pledging policy;
- adoption of double trigger equity vesting for the CEO in the event of a change in control for equity awards granted after 2011;
- adoption of Stock Ownership Guidelines;
- adoption of a clawback provision for the CEO; and
- adoption of the following severance practices for the CEO for involuntary termination without cause or voluntary termination with good reason in non-change in control situations :
  - reduction in non-change in control severance multiple from 3X to 2X;

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conditioning severance payments and equity vesting on compliance with restrictive covenants (i.e., non-compete, non-solicitation, confidentiality and non-disparagement); cessation of severance payments and other benefits if CEO violates restrictive covenants ; and

changing the timing of severance from lump sum to installment payments over a 24-month period as a means to enforce restrictive covenants.

With respect to the other Named Executives, the employment agreements contain features such as 1X to 1.5X severance multiples in the event of a change of control.

The total direct compensation our Named Executives received in fiscal year 2013 as set forth in the Summary Compensation Table on page 28 is consistent with and reflects our compensation objectives.

**Introduction**

The Compensation Committee of the Board of Directors is principally responsible for reviewing and administering the Company s compensation policies and practices regarding the executive officers. The Compensation Committee is composed of three members, each of whom is (i) an independent director, (ii) qualified as a non-employee director, as defined under Section 16 of the Securities Exchange Act of 1934, as amended, and (iii) qualified as an outside director under Section 162(m) of the Internal Revenue Code. Pursuant to the terms of the Compensation Committee s written charter, which has been approved by the Board and is reviewed annually to ensure that it properly reflects the Compensation Committee s responsibilities, the Compensation Committee has the authority to establish the compensation structure for the Company s executive officers. The Compensation Committee makes its decisions after extensive review and consideration, including an annual review of our peer compensation practices.

This Compensation Discussion and Analysis provides information on our executive compensation philosophy, how and why compensation decisions are made and how the decisions align with the Company s and individual performance.

Cook has served as the Compensation Committee s outside Compensation Consultant since April 2008. Cook assisted the Compensation Committee in setting 2013 compensation levels and developing the structure of various incentive plans, providing the Committee with information on emerging trends and regulatory developments in executive and non-employee director compensation. Cook has recently provided input to the Company in establishing its 2014 Compensation program and advising the Committee in connection with the CEO s employment agreement. 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.

Our 2013 named executive officers (referred to herein as the Named Executives ) are the following executives: Mr. Weishar, our Chief Executive Officer; Mr. Froesel, our Executive Vice President, Chief Financial Officer and Treasurer; Mr. Berard Tomassetti, our Senior Vice President and Chief Accounting Officer who served as interim principal financial officer of the Company for a brief time during 2013; Mr. Glynn, the President of Amerita, our specialty infusion subsidiary; Mr. McKay, our Senior Vice President of Purchasing and Trade Relations; Mr. Caneris, our Senior Vice President, General Counsel, Chief Compliance Officer and Secretary; and Mr. Culotta, our former Executive Vice President and Chief Financial Officer, whose employment with the Company terminated on April 12, 2013.

**Executive Compensation Program Objectives**

Our executive compensation program is primarily structured to be competitive within the institutional pharmacy industry and focuses our executives on enhancing revenues and increasing profitability by providing quality services, managing costs and making appropriate acquisitions. 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. In addition, the program is designed to provide transparency to both our employees and stockholders. Each of these performance objectives is critical to our success.

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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 correlation 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 compensation level that delivers cash income to the Named Executives and reflects their job responsibilities, experience and value to the Company.
- Annual Cash Incentive Awards. This component of the compensation program rewards corporate 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 Executives with those of our stockholders by motivating these officers to manage the Company in a manner that fosters long-term performance, as reflected in changes in stock price and achievement of profitability objectives. Long-term incentives also serve as essential tools to promote executive retention through time-based vesting requirements.

**Benchmarking Process**

As discussed previously, we target Named Executives total direct compensation to fall slightly below the median range for equivalent positions at peer group companies. The actual positioning of target compensation for individual executives may range above or below the median based on executive skill set experience and performance, as well as responsibilities of the roles compared to similar positions in the market.

For 2013 compensation planning purposes, the Compensation Committee approved the use of a peer group composed of 12 companies that are relatively comparable in size as measured by annual revenue, operate within the same general industry space, or are competitors for customers and/or executive talent. The 2013 peer group consists of the following companies:

Amedisys, Inc.

Bio Script Inc.

Catalyst Health Solutions, Inc./formerly Healthextras, Inc.

Fred s, Inc.

Gentiva Health Services Healthsouth Corporation

Henry Schein, Inc.

Invacare Corporation

Kindred Healthcare Inc.

Magellan Health Services, Inc.

Omnicare, Inc.

PSS World Medical, Inc.

Universal American Corporation

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In 2014, Catalyst Health Solutions, Inc., formerly Healthextras, Inc. and PSS World Medical were removed from the peer group, because they had been acquired and are no longer available for inclusion in the peer group. Emeritus, Triple-S Management and MEDNAX were added to the peer group, in 2014. Our revenues approximate the 25$^{th}$ percentile to median of the peer companies.

**Components of the Executive Compensation Program**

Our Named Executive compensation program consists of base salary, annual cash incentives and long-term incentives. For our Named Executives, our program is structured so that variable, or at risk, compensation are targeted to range from approximately 52% to 78% 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 Executives were generally targeted to below median range for equivalent positions at the peer group companies. Actual salary for individual executives is positioned to reflect differences in job content, performance and experience. Competitive base salaries are essential to attracting and retaining executive management talent, and also serve to mitigate pressure that might otherwise exist to support high-risk business strategies if base salary was set materially below market rates.

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 are generally 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 Executives other than himself. A merit increase budget of two percent was adopted for 2013 for executives and employees.

**Annual Cash Incentives**

Pursuant to the Company s annual incentive program, our Named Executives 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, as well non-financial objectives that are expected to lead to increases in long-term stockholder value. 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 to reflect changes in strategic priorities.

*Mr. Weishar*

In 2013, the incentive opportunity for Mr. Weishar was based upon on an incentive formula tied to our adjusted EBITDA which is equal to our earnings before interest, taxes, integration, merger and acquisition related costs and other charges, depreciation and amortization expense, impairment charges of intangibles, the impact of Hurricane Sandy and other natural disasters, fines and penalties associated with governmental investigations, inquires and litigation and other accounting principle changes. Adjusted EBITDA was selected as the objective performance criterion because it is critical to focus our Named Executives on earnings and the achievement of cost savings.

Mr. Weishar s incentive formula was 2% of adjusted EBITDA for 2013, provided that adjusted EBITDA was at least $91.6 million for the year (but in no event could the incentive exceed $2 million). The minimum EBITDA level was set to correspond to the threshold level of adjusted EBITDA under the annual bonus program described below. The EBITDA incentive formula, which was adopted to enable tax deductibility for Mr. Weishar s annual bonus, established the maximum amount payable to Mr. Weishar for 2013; but he was not assured of earning this maximum amount. Based on 2013 adjusted EBITDA of $124.1 million, Mr. Weishar s maximum incentive award was $2 million. The Compensation Committee reduced the size of the award under the EBITDA incentive formula to the amount payable under the annual bonus program to equal a payout equal to the amount payable under the short-term incentive program, as described below. The annual short-term incentive program rewards company and individual performance.

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*Annual Cash Incentive*

The Compensation Committee established target award opportunities for the Named Executives under the 2013 annual bonus program, which were expressed as a percentage of base salary. These target award opportunities were individually negotiated with our Named Executives prior to their accepting employment with our Company, and in certain cases have been adjusted by the Compensation Committee in prior years to move the executives target compensation towards the median to above median range.

| Named Executive | 2013 Target Annual Bonus Award Opportunity (% of Base Salary) |
|---|---|
| Mr. Weishar | 125% |
| Mr. Froesel | 80% |
| Mr. Tomassetti | 50% |
| Mr. Glynn | 50% |
| Mr. McKay | 65% |
| Mr. Caneris | 70% |
| Mr. Culotta | 80% |

Annual bonuses are funded based on a combination of company financial performance as measured by adjusted EBITDA and individual performance relative to pre-established financial and non-financial objectives except in the case of Mr. Glynn, for whom the Adjusted EBITDA of Amerita is the performance metric. The Company, and in the case of Mr. Glynn, Amerita, must at least meet the threshold level of adjusted EBITDA in order for any payment to be made under the individual/group performance-based components. Under the program, (i) the bonus of the CEO and all Executive Vice Presidents is based 70% on Company performance and 30% on individual performance, (ii) the bonus of all the Senior Vice Presidents is based 50% on Company performance and 50% on individual performance, and (iii) the bonus of Mr. Glynn is based 100% on Amerita s performance, however, in each case, no payments are made under the program if the Company or Amerita fail to meet the threshold amount under the annual bonus program, respectively.

For the Named Executives, other than Mr. Glynn, the threshold performance level was set at 80% of the target performance and the maximum performance level was set at 120% of target performance; the same as in 2012.

| Executive | Title | Company Performance | Individual/ Group Performance |
|---|---|---|---|
| Gregory Weishar | Chief Executive Officer | 70% | 30% |
| David Froesel | Executive Vice President, Chief Financial Officer and Treasurer | 70% | 30% |
| Berard Tomassetti | Senior Vice President and Chief Accounting Officer | 50% | 50% |
| Robert McKay | Senior Vice President of Purchasing and Trade Relations | 50% | 50% |

| | | | |
|---|---|---|---|
| Thomas Caneris | Senior Vice President, General Counsel, Chief Compliance Officer and Secretary | 50% | 50% |
| Michael Culotta | Former Executive Vice President & Chief Financial Officer | 70% | 30% |

For the Named Executives, other than Mr. Glynn, the performance and payout levels for the Company adjusted EBITDA goal were as follows; with actual bonus amounts interpolated between the percentages set forth in the chart based on actual results if performance was above the threshold:

| | **Threshold:** | **Target:** | **Maximum:** |
|---|---|---|---|
| **Company Adjusted EBITDA Performance Level** | **$91.6 million** | **$114.5 million** | **$137.4 million** |
| Payout Level | 40% of Award Target | 100% of Award Target | 175% of Award Target |

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Individual goals were established at the beginning of 2013 (or in the case of Mr. Froesel, shortly following his date of hire) and were tailored to reflect priorities for each executive for 2013. Individual goals related to factors such as completing acquisitions, increasing sales and client retention, minimizing bad debt expense, implementing a tax savings program, implementing inventory management processes, lower costs for procuring drug inventory, meeting departmental budgets, increasing cash flows, outsourcing payroll, starting-up a drug warehouse and other strategic initiatives.

The Company achieved adjusted EBITDA of $124.1 million for 2013, which resulted in a 131.50% payout for the target award opportunities apportioned to the financial components. Payouts for the individual components for the Named Executives (other than Mr. Glynn) ranged from 81% to 104.3% of target, resulting in total bonus payments of 110% to 123% of target.

Prior to the acquisition of Amerita, Amerita s fiscal year end was June 30. The Company has now changed Amerita s fiscal year end to December 31st. For the calendar year 2013, Mr. Glynn s annual bonus was based on Amerita s fiscal year ended June 30, 2013 and Mr. Glynn was eligible for annual target bonus opportunities (represented as a percentage of base salary) of 50%. The threshold performance level for Mr. Glynn was set at 95% of the target performance and the maximum performance level was set at 121% of target performance.

For Mr. Glynn, the performance and payout levels for Amerita s adjusted EBITDA were as follows; with actual bonus amounts interpolated between the percentages set forth in the chart based on actual results if performance was above the threshold:

| **Amerita Adjusted EBITDA Performance Level** | **Threshold:** | **Target:** | **Maximum:** |
|---|---|---|---|
| Payout Level | 50% of Award Target | 100% of Award Target | 150% of Award Target |

Amerita achieved EBITDA of 95% of its target, which resulted in a payout of 50% of Mr. Glynn s targeted bonus amount. We are not disclosing Mr. Glynn s specific EBITDA goal used in calculating his annual cash incentive bonus because we believe such disclosure would cause the Company and Amerita competitive harm and we consider this information to be confidential business information. However, we believe that the goals are difficult to achieve and requires Mr. Glynn and Amerita to demonstrate significant success in the operation of the Amerita business to achieve substantial payouts. Mr. Glynn also received a discretionary bonus of $15,000 for the period between July 1, 2013 and December 31, 2013.

No discretion was used in funding the bonus pool or in allocating the bonus pool.

For more information on the 2013 annual incentive opportunities for our Named Executives, please refer to the Grants of Plan-Based Awards section of this proxy statement at page 30.

**Long-Term Incentives**

*The Company s 2013 Long-Term Incentive Grants*

Long-term target incentive opportunities are expressed as a percentage of base salary and vary among our Named Executives. Fiscal year 2013, long-term incentive opportunities for Messrs Weishar, Tomassetti, McKay, Caneris and Culotta were set to bring each executive s target total direct compensation in the median to above median range. for equivalent positions in peer companies and are shown below:

| Named Executive | 2013 Long-Term Incentive Award Opportunity (% of Base Salary) |
|---|---|
| Mr. Weishar | 233% |
| Mr. Tomassetti | 60% |
| Mr. McKay | 114% |
| Mr. Caneris | 138% |
| Mr. Culotta | 175% |

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In fiscal year 2013, the long-term component of our executive compensation program for Messrs Weishar, Tomassetti, McKay, Caneris and Culotta consisted of a combination of restricted stock units and performance share units. The Compensation Committee used performance share units to focus executives on longer-term operating performance expected to drive long-term stockholder value creation. Restricted stock units were granted to bolster the retention features of the executive compensation plan and further the goals of the Company s stock ownership guidelines. These restricted stock awards, and all prior restricted stock awards granted to the Named Executives vest in three equal annual installments. All restricted stock units which have been granted to the Named Executives under the Omnibus Incentive Plan have had a requirement that no restricted stock units may vest sooner than one year from the date of the grant. The performance shares vest at the end of a three year performance period subject to achievement of pre-established goals. The long-term incentive awards were granted in the following amounts as a percentage of each of the Named Executive s long-term incentive target award: 50% restricted stock units and 50% performance share units to balance executive retention with a focus on long-term stock price and operating performance.

The performance share units granted to our Chief Executive Officer and Executive Vice Presidents are based 85% on the achievement of an adjusted EBITDA target and 15% on the achievement of an Adjusted Diluted EPS target. Adjusted Diluted EPS is the net income for the applicable full year period and adding to net income the net of tax effect of any restructuring and impairment charges, integration, merger and acquisition related costs, the impact of Hurricane Sandy and other natural disasters, fines and penalties associated with governmental investigations, inquires and litigation and other charges and other non-recurring charges, divided by the weighted average of outstanding common stock shares and diluted equivalents on the last day of the applicable year. Adjusted EBITDA was selected as the performance measure for the 2013 performance share units to reinforce the importance of achievement of cost savings and earnings in the creation of long-term stockholder value. Adjusted Diluted EPS is used because we believe that in addition to EBITDA, our stockholders use EPS to measure the Company s performance. We believe the combination of adjusted EBITDA and Adjusted Diluted EPS ensures that executives consider the impact on margins in executing strategies to fuel the Company s profitable growth. The long-term incentives of Mr. McKay, Mr. Tomassetti and Mr. Caneris are based solely on adjusted EBITDA. For the 2013 performance share unit grants, performance will be measured based on 2015 adjusted EBITDA and Adjusted Diluted EPS performance. The adjusted EBITDA and Adjusted Diluted EPS performance objectives were set based on the Company s longer-range plan, and at the time of grant were viewed to be challenging, but achievable. The actual number of performance share units earned can range from 40% at threshold performance to 175% of the target award at maximum performance, depending upon performance relative to the predetermined adjusted EBITDA and/or Adjusted Diluted EPS goals.

In connection with joining the Company in 2013, Mr. Froesel received a time based restricted stock unit grant of 60,000 shares. The restricted stock units vest in three equal installments on each of the first three anniversary dates of his date of hire. He did not receive a grant under the above-described 2013 long-term incentive opportunity.

In connection with joining Amerita in 2013, Mr. Glynn received his long-term incentive through the Amerita, Inc. 2013 Stock Appreciation Rights Plan (the SAR Plan ). He did not receive a grant under the above-described 2013 long-term incentive opportunity. Mr. Glynn was awarded 19,412 SARs, valued at $550,000 or twice his 2013 annual base salary. Mr. Glynn s SARs will vest three years after the grant date, at which point he will have two years to exercise such fully vested SARs. Upon exercise, Amerita will pay the holder of the SARs an amount, in cash, determined by multiplying: (a) the excess of the fair market value of a share of Amerita common stock on the date of exercise of the SAR over the base value of such SAR, which shall not be less than 100% of the fair market value of the common stock on the date of grant, by (b) the number of shares as to which such SAR is exercised.

The purposes of the SAR Plan are (a) to enhance Amerita s ability to attract and retain the services of qualified officers and other key employees upon whose judgment, initiative and efforts the successful conduct and development of Amerita largely depends, and (b) to provide additional incentives to such persons or entities to devote their utmost effort and skill to the advancement and betterment of Amerita, by providing them an

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opportunity to participate in the success and increased value of Amerita. There are 150,000 shares of Amerita common stock allocated under the SAR Plan. Any SARs granted under the SAR Plan are subject to the Amerita Board s discretion with respect to, among other things, term and vesting, but no SAR may be exercisable more than ten (10) years after the date of its grant.

*The 2011-2013 Long-Term Incentive Program*

In fiscal year 2011, the long-term component of our executive compensation program for Messrs. Weishar, Tomassetti, Caneris, McKay and Culotta consisted of a combination of stock options and performance share units. The long-term incentive awards were granted in the following amounts as a percentage of the bonus target: 35% stock options, 35% restricted stock units, and 30% performance share units. These stock options vest in four equal annual installments. All options which have been granted under the Omnibus Incentive Plan are subject to the requirement that no options may best sooner than one year from the date of the grant. These restricted stock awards, and all prior restricted stock awards granted to the Named Executives vest in three equal annual installments. All restricted stock units which have been granted to the Named Executives under the Omnibus Incentive Plan have had a requirement that no restricted stock units may vest sooner than one year from the date of the grant. The Compensation Committee used adjusted EBITDA as of December 31, 2013 as the performance measurement for the 2011-2013 long-term performance incentive for Messrs Tomassetti, McKay and Mr. Caneris; and for Mr. Weishar used adjusted EBITDA and Adjusted Diluted EPS (85%/15% split) as of December 31, 2013 as the performance measurement for the 2011-2013 long-term performance incentive. Mr. Culotta s performance share units were forfeited in connection with his separation of employment. Mr. Froesel did not have an award, because he was not an employee of the Company in 2011. Mr. Glynn also did not have an award, because he was not associated with the Company in 2011 and did not participate in the 2011-2013 long-term incentive program.

| | **Threshold:** | **Target:** | **Maximum:** |
|---|---|---|---|
| **Adjusted EBITDA Performance Level** | **$81.18 million** | **$99 million** | **$118.8 million** |
| Payout Level | 30% of Award Target | 100% of Award Target | 175% of Award Target |

| | **Threshold:** | **Target:** | **Maximum:** |
|---|---|---|---|
| **Adjusted Diluted EPS** | **$1.02** | **$1.09** | **$1.16** |
| Payout Level | 30% of Award Target | 100% of Award Target | 175% of Award Target |

As the Company s 2013 adjusted EBITDA was $124.1 million, and Adjusted Diluted EPS was $1.65, payouts under the 2011-2013 Long-term Incentive Program were made at 175% of the target for each of adjusted EBITDA and Adjusted Diluted EPS.

*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 Executives (with the exception of equity awards granted prior to 2011 held by the CEO and all equity awards held by Mr. McKay Senior Vice President of Purchasing and Trade Relations and Mr. Glynn, who as President of Amerita is not subject to and does not receive any grant or benefits under the Omnibus Incentive Plan) may automatically vest upon certain terminations of a Named Executive s employment following a change in control. We believe that such a double trigger provision will encourage our executive officers to assess takeover bids objectively without regard to the potential impact on their job security while maintaining the retention power of the compensation program following a change in control. Unvested equity awards granted to our Senior Vice President of Purchasing and Trade Relations automatically vest upon a change in control as provided under terms of his employment agreement, which was entered into in 2007 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 Nominating and Governance 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 December 1, 2012 for certain key executive officers, including our Named Executives. Under the stock ownership guidelines, the CEO, Executive Vice Presidents, and Senior Vice Presidents are expected to own Company stock in the amount of 400%, 200%, and 100% of their annual base salary, respectively. Company Executives are expected to retain 50% of after-tax profit shares earned from the equity compensation program until the guidelines are achieved. Shares owned outright, held in a trust or other estate planning, and credited as deferred stock units or held in 401(k), and vested stock options count towards meeting the guidelines.

Each of the Named Executives, except Mr. Froesel, meets the ownership levels, as established under the guidelines. As of April 21, 2014, the value of the Named Executives ownership in the Company is as follows: Gregory Weishar - $22,991,053 (668.34% of target); David Froesel - $0 (0% of target); Robert McKay - $2,200,812 (729.95% of target); and Thomas Caneris - $2,683,951 (818.28% of target). Mr. Culotta s employment with the Company terminated on April 12, 2013. Mr. Tomassetti and Mr. Glynn were not subject to the guidelines in 2013.

*Policies with Respect to Speculation in the Company s Securities*

The Company, since its inception, has maintained a policy prohibiting speculative trading in the Company s stock and the trading of derivative securities of the Company. Additionally, short sales and buying stock on margin or placing stock in margin accounts are also prohibited.

*Benefits and Perquisites*

Our Named Executives 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 Executives, except for Mr. Glynn, 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.

*Clawback Policy*

The Company has a clawback policy that provides that payments that an executive officer may receive from the Company shall be subject to forfeiture or repayment to the extent required to comply with Section 304 of the Sarbanes-Oxley Act of 2002.

**The Prior Say On Pay Vote**

The Company conducted its third advisory vote on executive compensation last year at its 2013 Annual Meeting. While this vote was not binding on the Company, its Board of Directors or its Compensation Committee, the Company believes that it is important for its stockholders to have an opportunity to vote on this proposal on an annual basis as a means to express their views regarding the Company s executive compensation philosophy, the Company s compensation policies and programs, and the Company s decisions regarding executive compensation, all as disclosed in this proxy statement. The Company s Board of Directors and its Compensation Committee value the opinions of its stockholders and, to the extent there is any significant vote against the compensation of the Named Executives as disclosed in the proxy statement, the Company will consider its stockholders concerns and the Compensation Committee will evaluate whether any actions are necessary to address those concerns. In addition to the annual advisory vote on executive compensation, the Company discusses with its stockholders executive compensation and corporate governance issues, from time to time, through meetings and telephone calls.

At the 2013 Annual Meeting, more than 88% of the votes cast on the advisory vote on executive compensation proposal (Proposal 3) were in favor of the named executive compensation as disclosed in the proxy statement, and as a result our named executive compensation was approved. The Board of Directors and Compensation Committee reviewed these final vote results and determined that, given the significant level of support, no changes to our executive compensation policies and decisions were necessary at this time based on the vote results.

The Company has determined that its stockholders should vote on a say-on-pay proposal each year, consistent with the preference expressed by its stockholders at the 2011 Annual Meeting. Accordingly, the Company s Board of Directors recommends that you vote FOR Proposal 3 at the Annual Meeting. For more information, see Proposal 3 Advisory Vote to Approve the Compensation of the Company s Named Executives ( Say On Pay ) in this proxy statement.

**Employment Agreements**

The Company amended Mr. Weishar s employment agreement in February, 2014 to extend the agreement for three years and provide for continued vesting of his incentive awards for other than for cause terminations occurring on or after December 31, 2016, subject to compliance with restrictive covenants.

Our Board, based upon the recommendation of our Compensation Committee, approved the Company entering into employment agreements with Messrs Froesel, Caneris, McKay and Culotta at time of hire. Mr. Tomassetti does not have an employment agreement. Mr. Glynn s employment agreement was entered into in connection with the Company s acquisition of Amerita.

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 Executives with benefits upon certain terminations of employment. The employment agreements also contain change in control benefits for our Named Executives 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 Messrs Froesel, Caneris, Glynn and Culotta, following the date of termination. The Company believes these agreements are an appropriate 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 agreement of Mr. Caneris, which was entered into in 2007, contains provisions for tax gross-ups under section 280G and 4999 of the Internal Revenue Code ( Code ) necessary to make him whole in the case that excise taxes are imposed as a result of a change in control, and has not been amended. The gross-up payment does not provide for payment of ordinary income taxes on amounts that would otherwise be payable in the absence of the excise taxes. For a description of the material terms of the employment agreements with each of our Named Executives, see Narrative Disclosure to Summary Compensation Table and Grants of Plan Based Awards

Table below. Compensation that could potentially be paid to our Named Executives pursuant to the employment agreements upon a change in control is described below in Potential Payments upon Termination or Change in Control.

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The employment agreement of Mr. Culotta was terminated on April 12, 2013.

**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 Executives, 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 2014 Annual Meeting of Stockholders filed with the Securities and Exchange Commission.

*The Compensation Committee*

Thomas P. Mac Mahon, Chairman

Thomas P. Gerrity, Ph.D.

Patrick G. LePore

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## EXECUTIVE COMPENSATION

### Summary Compensation Table for 2011 2013

| Name and Principal Position | Year | Salary | Bonus | Stock Awards(1) | Option Awards(1) | Non-Equity Incentive Plan Compensation(2) | All Other Compensation(3) | Total |
|---|---|---|---|---|---|---|---|---|
| Gregory Weishar | 2013 | $ 837,699 | $ | $ 1,922,278 | $ | $ 1,218,936 | $ 17,940 | $ 3,996,853 |
| *Chief Executive Officer* | 2012 | $ 807,702 | $ | $ 1,922,285 | $ | $ 1,170,691 | $ 13,324 | $ 3,914,002 |
| | 2011 | $ 750,006 | $ | $ 1,218,763 | $ 656,750 | $ 1,297,417 | $ 17,599 | $ 3,94 |