

PharMerica CORP  
Form DEF 14A  
April 30, 2013  
Table of Contents

## SCHEDULE 14A INFORMATION

### Proxy Statement Pursuant to Section 14(a) of the Securities Exchange Act of 1934

Filed by the Registrant                       Filed by a party other than the Registrant

Check the appropriate box:

- Preliminary Proxy Statement
- Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))
- Definitive Proxy Statement
- Definitive Additional Materials
- Soliciting Material 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):

- 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:

## Edgar Filing: PharMerica CORP - Form DEF 14A

- (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:
  
  
  
  
  
  
  
  
  
  
- (5) Total fee paid:

- .. 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:

(2) Form, Schedule or Registration Statement No.:

(3) Filing Party:

(4) Date Filed:

**Table of Contents**

**PHARMERICA CORPORATION**

**1901 Campus Place**

**Louisville, KY 40299**

**NOTICE OF ANNUAL MEETING OF STOCKHOLDERS**

**TO BE HELD June 18, 2013**

PharMerica Corporation's Annual Meeting of Stockholders will be held on June 18, 2013, at 9:00 a.m. local time. We will meet at The Brown Hotel located at 335 West Broadway, Louisville, Kentucky 40202 (the "Annual Meeting"). If you owned common stock at the close of business on April 22, 2013, 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 2014;
  2. ratify the appointment of KPMG LLP as the Company's independent registered public accounting firm for the fiscal year ending December 31, 2013;
  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 18, 2013**

The Proxy Statement and 2012 Annual Report to Stockholders are available at [www.pharmerica.com/proxy](http://www.pharmerica.com/proxy).

On behalf of the Board of Directors of  
PharMerica Corporation,  
GREGORY S. WEISHAR

Chief Executive Officer

Louisville, Kentucky

April 30, 2013

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

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

Edgar Filing: PharMerica CORP - Form DEF 14A

**AT THE ANNUAL MEETING IF YOU DO NOT ATTEND PERSONALLY.**

**Table of Contents**

**TABLE OF CONTENTS**

	<b>Page</b>
<b><u>INFORMATION ABOUT THE MEETING</u></b>	1
<u>Who May Vote</u>	1
<u>How You May Vote</u>	1
<u>How You May Revoke or Change Your Vote</u>	1
<u>Quorum Requirement</u>	2
<u>Required Vote</u>	2
<u>How Abstentions will be Treated</u>	2
<u>How Broker-Non Votes will be Treated</u>	2
<u>Advisory Proposals</u>	2
<b><u>PROPOSAL 1</u></b>	3
<b><u>ELECTION OF DIRECTORS</u></b>	3
<b><u>NOMINEES FOR ELECTION AT THIS MEETING</u></b>	3
<u>Nominees</u>	3
<u>Recommendation of Our Board of Directors</u>	6
<u>Required Vote</u>	6
<b><u>CORPORATE GOVERNANCE</u></b>	6
<u>Meetings</u>	6
<u>Board Committees</u>	7
<u>Audit Committee</u>	7
<u>Compensation Committee</u>	7
<u>Nominating and Corporate Governance Committee</u>	8
<u>Board Independence</u>	9
<u>Compensation Committee Interlocks and Insider Participation</u>	10
<u>Section 16(a) Beneficial Ownership Reporting Compliance</u>	10
<u>Code of Ethics</u>	10
<u>Corporate Governance Guidelines</u>	10
<u>Board Leadership Structure and Role in Risk Oversight</u>	10
<u>Communication with the Board of Directors</u>	11
<b><u>DIRECTOR COMPENSATION FOR 2012</u></b>	12
<b><u>EXECUTIVE OFFICERS AND KEY EMPLOYEES</u></b>	15
<u>Executive Officers</u>	15
<b><u>COMPENSATION DISCUSSION AND ANALYSIS</u></b>	17
<u>Executive Summary</u>	17
<u>Introduction</u>	18
<u>Executive Compensation Program Objectives</u>	19
<u>Benchmarking Process</u>	20
<u>Components of the Executive Compensation Program</u>	20
<u>Base Salary</u>	20
<u>Annual Cash Incentives</u>	21
<u>Long-Term Incentives</u>	23
<u>The Prior Say on Pay Vote</u>	25
<u>Employment Agreements</u>	26
<u>Tax Deductibility of Compensation</u>	27
<b><u>COMPENSATION COMMITTEE REPORT</u></b>	27
<b><u>EXECUTIVE COMPENSATION</u></b>	28
<u>Summary Compensation Table for 2010-2012</u>	28
<u>Grants of Plan-Based Awards in 2012</u>	31
<u>Narrative Disclosure to Summary Compensation Table and Grants of Plan-Based Awards Table</u>	32
<u>Employment Agreement with Mr. Weishar</u>	32

**Table of Contents**

<u>Employment Agreements with other Named Executives</u>	36
<u>Severance Agreement with Mr. Monast</u>	39
<u>Severance Agreement with Mr. Culotta</u>	40
<u>2012 Annual Bonus Program</u>	40
<u>2012 Long-Term Incentive Program</u>	41
<u>Outstanding Equity Awards at December 31, 2012</u>	42
<u>Option Exercises and Stock Vested in 2012</u>	44
<u>Non-Qualified Deferred Compensation Table Fiscal Year 2012</u>	45
<u>Potential Payments upon Termination or Change-in-Control</u>	45
<u>Compensation Policies and Practices as they Relate to Risk Management</u>	48
<u>Equity Compensation Plan Information</u>	48
<u>CERTAIN RELATIONSHIPS AND RELATED PERSON TRANSACTIONS</u>	49
<u>Related Party Transaction Policy</u>	49
<u>PROPOSAL 2 RATIFICATION OF APPOINTMENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM</u>	49
<u>Independent Registered Public Accounting Firm Fees</u>	49
<u>Pre-Approval Policies and Procedures for Audit and Permitted Non-Audit Services</u>	50
<u>AUDIT COMMITTEE REPORT</u>	51
<u>PROPOSAL 3 ADVISORY VOTE TO APPROVE THE COMPENSATION OF THE COMPANY'S NAME EXECUTIVE OFFICERS ( SAY ON PAY )</u>	52
<u>Background of the Proposal</u>	52
<u>Say on Pay Proposal</u>	52
<u>Recommendation of Our Board of Directors</u>	52
<u>SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT</u>	53
<u>Security Ownership of Directors, Management, and Owners of More Than 5% of the Company's Stock</u>	53
<u>GENERAL INFORMATION</u>	55
<u>Shareholder Proposals for 2014 Annual Meeting</u>	55

**Table of Contents**

**PHARMERICA CORPORATION**

**1901 Campus Place**

**Louisville, KY 40299**

**PROXY STATEMENT**

**ANNUAL MEETING OF STOCKHOLDERS**

**To Be Held On June 18, 2013**

**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 be held on Tuesday, June 18, 2013 at 9:00 a.m. local time at The Brown Hotel located at 335 West Broadway, 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, 2013.

**Who May Vote**

Each stockholder of record at the close of business on April 22, 2013 (the Record Date), is entitled to notice of and to vote at the Annual Meeting. On the Record Date, there were 29,696,363 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 2014;
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, 2013;
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**

## Edgar Filing: PharMerica CORP - Form DEF 14A

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.



## **Table of Contents**

### **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.

**Table of Contents****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.

On January 14, 2013, we announced the Board decision to expand the number of directors from eight to nine, as provided in our By-laws, and appointed Patrick G. LePore as the ninth Director on the Board. Mr. LePore was identified and approved by the Nominating and Corporate Governance Committee and the Board.

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 2014 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:

<b>Name</b>	<b>Age</b>	<b>Position</b>
Frank E. Collins, Esq.	59	Director
W. Robert Dahl, Jr.	56	Director
Marjorie W. Dorr	51	Director
Thomas P. Gerrity	71	Director
Patrick G. LePore	58	Director
Thomas P. Mac Mahon	66	Director
Geoffrey G. Meyers	68	Director, Chairman
Robert A. Oakley	66	Director
Gregory S. Weishar	58	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

**Table of Contents**

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.

**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 Amkai LLC, Applied Science, Inc., Pharm Blue Holdings LLC, Remedy Partners, Sprout Pharmaceuticals, Inc. and Virtual Officeware, 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 Compensation Committee and the Audit Committee. 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.) 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 also served as Chief Executive Officer for 19 years at 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.

**Table of Contents**

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 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 of Par Pharmaceutical Companies, Inc. He was also their Chief Executive Officers 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 has served as a director of the Laboratory Corporation of America Holdings ( LabCorp ) since 1995. In addition, Mr. Mac Mahon served as a non-executive Chairman of the Board of LabCorp from January 2007 to May 2009; Executive Chairman of the Board from April 1996 to December 2006; and Vice-Chairman of the Board from April, 1995. From January 1997 until his retirement in December, 2006, Mr. Mac Mahon served as President and Chief Executive Officer and a member of the Executive and Management Committees of LabCorp. Mr. Mac Mahon was Senior Vice President of Hoffmann La Roche, Inc. from 1993 to December 1996 and President of Roche Diagnostics Group and a director and member of the Executive Committee of Hoffmann La Roche from 1988 to December 1996. Mr. Mac Mahon is a director and Corporate Governance Committee Chairperson of Express Scripts, Inc., and is a member of the Board of SynapDx Corporation 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, 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 its 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.

## **Table of Contents**

**Robert A. Oakley.** 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.

**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 2014 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 2012, the Board held a total of nine regular meetings. Each director attended at least 75% of the aggregate of (i) the total number of meetings of the Board during the period which he/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 2012 Annual Meeting of Stockholders in person.

**Table of Contents****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](http://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		Member
Thomas P. Gerrity, Ph.D.		Member	Member
Patrick G. LePore		—	Member
Thomas P. Mac Mahon			Chairman
Geoffrey G. Meyers		Member	
Robert A. Oakley	Chairman		
Gregory S. Weishar			
<b>Audit Committee</b>			

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 2012. 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 ten meetings in 2012. 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.

---

**Table of Contents**

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 2012. In making this assessment, the Compensation Committee considered the independence factors enumerated in new Rule 10C-1(b) under the Securities Exchange Act of 1934, 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 five meetings in 2012.

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;



## Table of Contents

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 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. In fiscal year 2012, the Committee paid fees in the amount of \$9,819.92 to Chartwell Partners to assist in locating Board candidates, and reimbursed such firm for expenses incurred in consideration of possible Board 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.

## Edgar Filing: PharMerica CORP - Form DEF 14A

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.

## **Table of Contents**

### **Compensation Committee Interlocks and Insider Participation**

The members of the Compensation Committee are Mr. Mac Mahon, who serves as Chair, Ms. Dorr, 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, 2012, all filing requirements under Section 16(a) of the Securities Exchange Act of 1934, as amended (the Exchange Act), applicable to its officers, directors and greater than 10% beneficial owners were complied with on a timely basis.

### **Code of Ethics**

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

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

### **Corporate Governance Guidelines**

The Board has adopted the PharMerica Corporation Corporate Governance Guidelines (the Guidelines). The Guidelines reflect the principles by which the Company will operate. The Guidelines cover various topics, including, but not limited to, Board size, director independence and other qualification standards, Board and committee composition, Board operations, director compensation and continuing education, director responsibilities, management succession, and annual performance evaluations. A copy of the Guidelines is available at the Company's website at [www.pharmerica.com](http://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

## **Table of Contents**

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;

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.

**Table of Contents****DIRECTOR COMPENSATION FOR 2012**

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, 2012.

Name	Fees Earned or Paid in		Total
	Cash 2012	Stock Awards(1)(2)	
Frank E. Collins (3)	\$ 81,750	\$ 90,003	\$ 171,753
W. Robert Dahl, Jr. (3)(4)	\$ 74,250	\$ 90,003	\$ 164,253
Marjorie W. Dorr (3)	\$ 79,250	\$ 90,003	\$ 169,253
Thomas P. Gerrity, Ph.D. (3)	\$ 85,250	\$ 90,003	\$ 175,253
Thomas P. MacMahon (3)	\$ 89,250	\$ 90,003	\$ 179,253
Geoffrey G. Meyers (3)	\$ 143,750	\$ 90,003	\$ 233,753
Robert A. Oakley, Ph.D. (3)	\$ 91,250	\$ 90,003	\$ 181,253

- (1) All stock awards are restricted stock units and vest into 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, 2012, included in the Company's Annual Report on Form 10-K filed with the SEC on February 7, 2013.
- (2) The table below sets forth the grant date fair value of each equity award granted in 2012 computed in accordance with FASB ASC Topic 718:

Name	Restricted Stock Units	
	Number of Awards Granted in 2012	Grant Date Fair Value
Frank E. Collins	9,657	\$ 90,003
Dr. Thomas P. Gerrity	9,657	\$ 90,003
Thomas P. MacMahon	9,657	\$ 90,003
Dr. Robert A. Oakley	9,657	\$ 90,003
W. Robert Dahl, Jr.	9,657	\$ 90,003
Marjorie W. Dorr	9,657	\$ 90,003
Geoffrey G. Meyers	9,657	\$ 90,003

- (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, 2012:

Name	Aggregate Awards Outstanding at December 31, 2012	
	Restricted Stock Units (6)	Stock Options
Frank E. Collins	9,657	15,424
W. Robert Dahl, Jr. (5)	29,654	9,568

Edgar Filing: PharMerica CORP - Form DEF 14A

Marjorie W. Dorr (5)	21,823	13,831
Dr. Thomas P. Gerrity	9,657	15,424
Thomas P. Mac Mahon	9,657	15,424
Geoffrey G. Meyers (5)	16,930	29,268
Dr. Robert A. Oakley	9,657	13,600

- (4) All Board of Director cash fees earned in fiscal year 2012 for W. Robert Dahl, Jr. were deferred at the Director's election per his deferred fee agreement.

---

**Table of Contents**

(5) The following Board of Director restricted stock units grants outstanding in 2012 for the following Directors were deferred at the Director's election per his/her deferred fee agreement: W. Robert Dahl, Jr., 29,654; Marjorie W. Dorr, 21,823; and Geoffrey G. Meyers, 16,930.

(6) Restricted Stock Units Aggregate Awards Outstanding, as presented in the chart, represent outstanding and deferred shares. 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 \$30,000 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 receives an annual award of restricted stock units valued at \$90,000. The restricted stock units issued prior to January 1, 2010 vests in three equal annual installments. The restricted stock units issued after January 1, 2010 vests 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 unit grant, the stock will be deferred as it vests. The minimum deferral period for an in-service distribution of any deferred amount is five years from the end of the year to 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

**Table of Contents**

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 22, 2013, the value of the directors' ownership in the Company is as follows: Frank Collins - \$616,290; W. Robert Dahl, Jr. - \$483,607; Marjorie Dorr - \$519,093; Thomas Gerrity - \$616,290; Patrick LePore - \$73,980; Thomas Mac Mahon - \$764,250; Geoffrey Meyers - \$668,163; and Robert Oakley - \$561,064.



**Table of Contents****EXECUTIVE OFFICERS AND KEY EMPLOYEES****Executive Officers**

The following table sets forth information with respect to executive officers of the Company as of April 22, 2013.

<b>Name</b>	<b>Age</b>	<b>Position</b>
Gregory S. Weishar	58	Chief Executive Officer and Director
David W. Froesel, Jr.	61	Chief Financial Officer
Mark R. Lindemoen	46	Senior Vice President of Sales and Client Management
Robert A. McKay	51	Senior Vice President of Purchasing and Trade Relations
Thomas A. Caneris	50	Senior Vice President, General Counsel, Chief Compliance Officer and Secretary
Anthony A. Hernandez	47	Senior Vice President of Human Resources
Suresh Vishnubhatla	44	Chief Technology Officer
Berard E. Tomassetti	57	Senior Vice President and Chief Accounting Officer

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

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

**David W. Froesel, Jr.** Mr. Froesel has served as our Chief Financial Officer since April 12, 2013. Mr. Froesel has 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. Prior to that, he was Vice President, Finance & Administration and Corporate Controller of subsidiaries of Mallinckrodt Group, Inc., a \$2.5 billion healthcare and specialty chemical company. 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.

**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.

**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.

**Table of Contents**

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

**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.

**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.

---

**Table of Contents**

**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 40<sup>th</sup> 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 Executive Officers ranges from 62% to 71%.

PharMerica had a strong 2012 as the Company focused on improving client retention and operating margins. Key accomplishments during 2012 were:

Adjusted EBITDA, a non-GAAP measure, increased 5.7% vs. 2011

Gross Margin expanded 220 basis points to 16.5%

Customer and client satisfaction levels are at all time highs as a result of the organization's focus on the customer and strategic investments in service technologies

Cash flows provided by operating activities were \$85.7 million, an increase of 220%

Expansion of our business lines into specialty infusion services.

Our adjusted EBITDA of \$104.1 million for our 2012 short term incentive plan was above target and funded an annual bonus pool of 119.2% of target.

Our 2010-2012 long-term incentive plan was paid at 53% of target. Adjusted EBITDA was between our threshold and target goal, while our return on invested capital was below threshold.

In 2012, the Company eliminated stock options and increased weighting of restricted stock units to enhance retention in the long-term incentive plan in light of a competitor's hostile takeover bid for the Company. 2012 long-term incentives were delivered in a combination of performance shares and restricted stock unit awards (weighted 40%/60%) to focus executives on long-term operating performance and support executive retention during this period of uncertainty. For 2013, performance shares and restricted stock awards were equally weighted.

The performance of the Company's Common Stock in 2012 was influenced by a significant factor outside of the Company's control; namely the hostile tender offer made by a competitor, which commenced on August 23, 2011 at an offer price of \$15 per share for the Company's Common Stock. This represented a 37% premium over the Company's closing price of \$10.93 on the day immediately preceding the announcement of the tender offer. The Company's Common Stock closed at \$15.18 on December 30, 2011, the last trading day of 2011, reflecting an approximate 39% premium over the price of the Company's Common Stock prior to the announcement of the tender offer. The tender offer was terminated on February 12, 2012 and the Company's Common Stock closed at \$12.50 on that date. During the tender offer, the stock reached a high point of \$16.40 per share on November 14, 2011. After the termination of the tender offer, the stock steadily declined until it reached its low post-tender offer price of \$9.28 on June 13, 2012.

The Company believes that the most appropriate analysis of the Company's Common Stock in 2012 is to use the price for its shares prior to the announcement of the tender offer (\$10.93) as the reference price for the



## **Table of Contents**

value of Company's shares on December 30, 2011; and not the exchange reported price of \$15.18 on that date because the exchange reported price had a significant takeover premium embedded therein. The existence of the takeover premium is evidenced by the increase in the price of the Company's Common Stock soon after the prospect of an acquisition was understood by the public and the subsequent decrease of the price of the stock once the prospect of an acquisition was no longer viable. Using \$10.93 as the beginning price, the stock increased 30% throughout the latter part of 2012, as the Common Stock closed at \$14.24 on December 31, 2012.

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 a clawback provision for the CEO

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

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

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 an 1X to 1.5X severance multiples change of control.

The total direct compensation our Named Executives received in fiscal year 2012 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.

## Edgar Filing: PharMerica CORP - Form DEF 14A

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.

## **Table of Contents**

Cook has served as the Compensation Committee's outside Compensation Consultant since April 2008. Cook assisted the Compensation Committee in setting 2012 compensation levels and developing the structure of various incentive plans, providing the Committee with information on emerging trends and regulatory developments in executive compensation and analyzing the effect of Sections 280G and 4999 of the Internal Revenue Code on the Company and its executives. Cook has recently assisted the Company in establishing its 2013 Compensation program and revising its executive stock ownership guidelines. 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 2012 Named Executives are the following executives: Mr. Weishar, our Chief Executive Officer; Mr. Culotta, our former Executive Vice President and Chief Financial Officer, whose employment with the Company terminated on April 12, 2013; Mr. Monast, our former Executive Vice President of Sales and Client Management whose employment with the Company terminated on August 1, 2012; 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. Hernandez, our Senior Vice President of Human Resources.

### **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.

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.





## **Table of Contents**

### **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 after adjusting for company size. 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 2012 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 2012 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

Fred s, Inc. which has significant pharmacy operations, was added to the peer group for 2012, and Res Care was removed because it is no longer a public company. No changes to the peer group were made for 2013.

Our revenues approximate the 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 53% to 79% 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 in the 25<sup>th</sup> percentile to 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.



## **Table of Contents**

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 2% was adopted for 2012 for executives and employees (other than Named Executives). For 2012, Messrs Weishar, Caneris and McKay received a 10% increase to base salary to align their compensation with the Company's compensation policy; however their long-term incentive opportunities were adjusted downward so that total direct compensation approximated the market's 40<sup>th</sup> percentile. Messrs. Monast and Culotta received 2% increases to base salary, which was the same as the Company's employees generally, because their salaries were already aligned with the Company's compensation policy.

### **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 2012, the incentive opportunity for Mr. Weishar was based upon 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 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 2012, provided that adjusted EBITDA was at least \$79.2 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 2012; but he was not assured of earning this maximum amount. Based on 2012 adjusted EBITDA of \$104.1 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 plan, as described below. The annual short-term incentive plan provides for a bonus based on company and individual performance.

**Table of Contents**

*Annual Cash Incentive*

The Compensation Committee established target award opportunities for the Named Executives under the 2012 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 market 40<sup>th</sup> percentile range.

**2012 Target Annual Bonus Award**

Named Executive	Opportunity (% of Base Salary)
Mr. Weishar	125%
Mr. Culotta	80%
Mr. Monast	75%
Mr. McKay	65%
Mr. Caneris	70%
Mr. Hernandez	65%

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. The breakdown for the Named Executives is as set forth in the chart below. The Company must at least meet the threshold level of adjusted EBITDA described below in order for any payment to be made under the individual/group performance-based components. Under the program, the bonus of the CEO and all Executive Vice Presidents is based 70% on Company performance and 30% on individual performance and the bonus of all the Senior Vice Presidents is based 50% on Company performance and 50% on individual performance; however no payments are made under the program if the Company fails to meet the threshold amount under the Plan.

Executive	Title	Company Performance	Individual/Group Performance
Gregory Weishar	Chief Executive Officer	70%	30%
Michael J. Culotta	Executive Vice President & Chief Financial Officer	70%	30%
William Monast	Executive Vice President Sales and Client Management	70%	30%
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%
Anthony Hernandez	Senior Vice President of Human Resources	50%	50%

The threshold performance level was set at 80% of the target performance (compared to 82.0% of target in 2011) and the maximum performance level was set at 120% of target performance (the same figure it was in 2011). We increased the payout level associated with threshold performance from 30% in 2011 to 40% in 2012 of the target payout. The changes were made to recognize that the 2012 EBITDA target goal was an aggressive target in light of the headwinds the Company faced as a result of the hostile tender offer.

The performance and payout levels for the 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 Threshold:

	Threshold:	Target:	Maximum:
Adjusted EBITDA Performance Level	\$79.2 million	\$99.0 million	\$118.8 million
Payout Level	40% of Award Target	100% of Award Target	175% of Award Target



**Table of Contents**

Individual goals were established at the beginning of 2012 and were tailored to reflect priorities for each executive for 2012. Individual goals related to factors such as increasing sales, minimizing bad debt expense, succession planning, account retention, cost control and other strategic initiatives.

The Company achieved adjusted EBITDA of \$104.1 million for 2012, which resulted in a 119.2% payout for the target award opportunities apportioned to the financial components. Payouts for the individual components for the Named Executives ranged from 79.2% to 108% of target, resulting in total bonus payments of 99.2% to 114.7% of target.

For more information on the 2012 annual incentive opportunities for our Named Executives, please refer to the Grants of Plan-Based Awards section of this proxy statement at page 31.

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

**Long-Term Incentives***The Company's 2012 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 2012, long-term incentive opportunities for our Named Executives were set to bring each executive's target total direct compensation in the 40<sup>th</sup> percentile range for equivalent positions in peer companies and are shown below:

Named Executive	2012 Long-Term Incentive
	Award Opportunity (% of Base Salary)
Mr. Weishar	233%
Mr. Culotta	175%
Mr. Monast	160%
Mr. McKay	114%
Mr. Caneris	138%
Mr. Hernandez	99%

In fiscal year 2012, the long-term component of our executive compensation program for each of our Named Executives 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 introduced to bolster the retention features of the executive compensation plan and further the goals of the Company's stock ownership guidelines. The restricted stock units vest in three equal annual installments. 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: 60% restricted stock units and 40% 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 earnings per share ( 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 impairment charges, integration, merger and acquisition related costs, the impact of Hurricane Sandy 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 2012 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

**Table of Contents**

the Company's profitable growth. The long-term incentives of Mr. McKay, Mr. Caneris and Mr. Hernandez are based solely on adjusted EBITDA. For the 2012 performance share unit grants, performance will be measured based on 2014 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 unit earned can range from 40% to 175% of the target award, depending upon performance relative to the predetermined adjusted EBITDA and/or Adjusted Diluted EPS goals.

*The 2010-2012 Long-Term Incentive Plan*

In fiscal year 2010, the long-term component of our executive compensation program for Messrs. Weishar, Culotta, Caneris, McKay and Hernandez 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: 50% stock options and 50% performance share units. The Compensation Committee used adjusted EBITDA as of December 31, 2012 as the performance measurement for the 2010-2012 long-term performance incentive for Mr. McKay, Mr. Caneris and Mr. Hernandez; and for Mr. Weishar and Mr. Culotta used adjusted EBITDA and ROIC (85%/15% split) as of December 31, 2012 as the performance measurement for the 2010-2012 long-term performance incentive.

	<b>Threshold:</b>	<b>Target:</b>	<b>Maximum:</b>
<b>Adjusted EBITDA Performance Level</b>	<b>\$102.700 million</b>	<b>\$126.165 million</b>	<b>\$157.708 million</b>
<b>Payout Level</b>	<b>81% of Award Target</b>	<b>100% of Award Target</b>	<b>125% of Award Target</b>

	<b>Threshold:</b>	<b>Target:</b>	<b>Maximum:</b>
<b>Adjusted ROIC Performance Level</b>	<b>7.25%</b>	<b>8.25%</b>	<b>9.25%</b>
<b>Payout Level</b>	<b>87% of Award Target</b>	<b>100% of Award Target</b>	<b>112% of Award Target</b>

As 2012 adjusted EBITDA was \$104.1 million, and ROIC was 6.30%, payouts under the 2010-2012 Long-term Incentive Plan were made at 53% of the target for adjusted EBITDA and no payout was made under the ROIC component of the plan.

*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 held by the CEO and Senior Vice President of Purchasing and Trade Relations) 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 maintains the retention power of the compensation program following a change in control, and will encourage our executive officers to assess takeover bids objectively without regard to the potential impact on their job security. Unvested equity awards granted to our CEO prior to January 31, 2010 and all unvested equity awards held by Senior Vice President of Purchasing and Trade Relations automatically vest upon a change in control as provided under terms of their employment agreements, which were entered into prior to the development of our overall executive compensation program and the decision to provide for "double trigger" vesting with respect to our executive officers generally. Mr. Weishar's new Employment Agreement, which became effective January 1, 2011, provides for a "double trigger" for future grants and awards made after January 1, 2011.

*Stock Ownership Guidelines*

We encourage our executive officers and other key employees to own stock in the Company. The Nominating and Governance Committee adopted new 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 new 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,

---

**Table of Contents**

and Senior Vice Presidents are expected to own Company stock in the amount of 400%, 200%, and 100% of their annual base salary, respectively. 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), count towards meeting the guidelines.

As of April 22, 2013, the value of the Named Executives' ownership in the Company is as follows: Gregory Weishar - \$6,523,434 (202% of target); Robert McKay - \$434,281 (153% of target); Thomas Caneris - \$387,351 (125% of target); and Anthony Hernandez - \$263,277 (109% of target). Mr. Monast's employment with the Company terminated on August 1, 2012, and Mr. Culotta's employment with the Company terminated on April 12, 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, 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.

**The Prior Say On Pay Vote**

The Company conducted its second advisory vote on executive compensation last year at its 2012 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 2012 Annual Meeting, more than 87% 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



## **Table of Contents**

support, no changes to our executive compensation policies and decisions were necessary at this time based on the vote results. Nevertheless, as discussed in this Compensation Discussion and Analysis, the Compensation Committee has made many past changes to the Company's executive compensation programs which demonstrate the Company's ongoing commitment to aligning the Company's executive compensation with the interests of its stockholders and current market practice. 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 a clawback provision for the CEO

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

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

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

Increase in CEO ownership requirement from 200% to 400% of base salary.

These changes build upon the Company's strong compensation governance framework and pay-for-performance philosophy.

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 2012 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**

On September 30, 2010, the Company entered into an employment agreement with Mr. Weishar effective January 1, 2011 which superseded his agreement of January 14, 2007. The contract was revised to further align the agreement with contemporary "best practices". These included:

Elimination of excise tax gross-up for change in control related payments

## Edgar Filing: PharMerica CORP - Form DEF 14A

Adoption of double trigger equity vesting in the event of a change in control for equity awards granted after December 31, 2010

Adoption of a clawback provision; and

Revised severance practices for involuntary termination without cause or voluntary termination with good reason in non-change in control situations

Reduced non-change in control severance multiple from 3X to 2X

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

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

---

## **Table of Contents**

Our Board, based upon the recommendation of our Compensation Committee, approved the Company entering into employment agreements with our remaining Named Executives at time of hire. We did not enter into any new agreements or materially modify existing agreements with our remaining Named Executives during 2012 or to date in 2013.

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 Mr. Culotta, Mr. Monast, Mr. Caneris and Hernandez 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 agreements of each of Messrs. Culotta and Caneris, which were entered into in 2007 and have not been amended, contain provisions for tax gross-ups under section 280G and 4999 of the Internal Revenue Code ( Code ) necessary to make the executives whole in the case that excise taxes are imposed on the executives as a result of a change in control. The gross-up payments do not provide for payment of ordinary income taxes on amounts that would otherwise be payable by the executives in the absence of the excise taxes. 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.

On August 1, 2012, Mr. Monast's employment agreement was terminated. On April 12, 2013, Mr. Culotta's employment agreement was terminated.

### **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 2013 Annual Meeting of Stockholders filed with the Securities and Exchange Commission.

*The Compensation Committee*

Thomas P. Mac Mahon, Chairman

Marjorie W. Dorr

Thomas P. Gerrity, Ph.D.

Patrick G. LePore\*

\* Mr. LePore joined the Compensation Committee on January 29, 2013.

**Table of Contents****EXECUTIVE COMPENSATION****Summary Compensation Table for 2010 2012**

Name and Principal Position	Year	Salary	Bonus	Stock Awards(1)	Option Awards(2)	Non-Equity Incentive Plan Compensation(3)	All Other Compensation(4)	Total
Gregory Weishar <i>Chief Executive Officer</i>	2012	\$ 807,702	\$	\$ 1,922,285	\$	\$ 1,170,691	\$ 13,324	\$ 3,914,003
	2011	\$ 750,006	\$	\$ 1,218,763	\$ 656,750	\$ 1,297,417	\$ 17,599	\$ 3,940,535
	2010	\$ 736,174	\$	\$ 913,189	\$ 912,424	\$	\$ 17,989	\$ 2,579,776
Michael Culotta (8) <i>Executive Vice President and Chief Financial Officer</i>	2012	\$ 438,157	\$	\$ 770,251	\$	\$ 404,092	\$ 10,513	\$ 1,623,013
	2011	\$ 429,563	\$	\$ 481,220	\$ 259,315	\$ 485,336	\$ 14,066	\$ 1,669,500
	2010	\$ 422,086	\$	\$ 366,514	\$ 366,201	\$	\$ 13,905	\$ 1,168,706
Robert McKay <i>Senior Vice President of Purchasing and Trade Relations</i>	2012	\$ 283,646	\$	\$ 330,292	\$	\$ 210,561	\$ 10,807	\$ 835,307
	2011	\$ 262,200	\$	\$ 302,135	\$ 117,586	\$ 227,701	\$ 11,344	\$ 920,966
	2010	\$ 257,642	\$	\$ 166,190	\$ 166,049	\$	\$ 10,639	\$ 600,520
Thomas Caneris <i>Senior Vice President, General Counsel, Chief Compliance Officer and Secretary</i>	2012	\$ 308,651	\$	\$ 435,061	\$	\$ 250,810	\$ 11,646	\$ 1,006,169
	2011	\$ 285,307	\$	\$ 354,044	\$ 137,787	\$ 257,198	\$ 7,995	\$ 1,042,331
	2010	\$ 275,093	\$	\$ 196,701	\$ 196,523	\$	\$ 10,359	\$ 678,676
Anthony Hernandez <i>Senior Vice President of Human Resources</i>	2012	\$ 242,326	\$	\$ 245,043	\$	\$ 159,601	\$ 10,563	\$ 657,533
	2011	\$ 221,419	\$	\$ 204,199	\$ 73,357	\$ 191,453	\$ 9,569	\$ 699,997
	2010	\$ 208,955	\$	\$ 103,673	\$ 103,587	\$	\$ 9,955	\$ 426,170
William Monast (5) <i>Executive Vice President of Sales and Client Management</i>	2012	\$ 242,160	\$	\$ 588,457	\$	\$	\$ 267,296	\$ 1,097,914
	2011	\$ 358,936	\$	\$ 367,639	\$ 198,106	\$ 378,705	\$ 20,828	\$ 1,324,214
	2010	\$ 352,690	\$	\$ 280,009	\$ 279,763	\$	\$ 6,433	\$ 918,895

- (1) These amounts represent the aggregate grant date fair value computed in accordance with 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, 2012 included in the Company's Annual Report on Form 10-K filed with the SEC on February 7, 2013. For 2012, 2011 and 2010, stock awards are made up of restricted stock unit awards and performance share unit awards as follows:

Name	Year	Restricted Stock Units	Performance Share Units
Gregory Weishar	2012	\$ 1,153,371	\$ 768,914
	2011	\$ 656,254	\$ 562,509
	2010	\$	\$ 913,189(6)
Michael Culotta	2012	\$ 462,151	\$ 308,100
	2011	\$ 259,119	\$ 222,101
	2010	\$	\$ 366,514(6)
Robert McKay	2012	\$ 198,175	\$ 132,117
	2011	\$ 201,421	\$ 100,714
	2010	\$	\$ 166,190(6)
Thomas Caneris	2012	\$ 261,042	\$ 174,019
	2011	\$ 236,029	\$ 118,015
	2010	\$	\$ 196,701(6)
Anthony Hernandez	2012	\$ 147,026	\$ 98,017
	2011	\$ 141,370	\$ 62,829
	2010	\$	\$ 103,673(6)
William Monast	2012	\$ 353,071	\$ 235,386
	2011	\$ 197,960	\$ 169,679

2010

\$

\$ 280,009(6)

**Table of Contents**

For performance share unit awards that are subject to performance conditions, the reported amount is the value at the grant date based upon the probable outcome of such conditions consistent with the estimate of aggregate compensation cost to be recognized over the service period determined as of the grant date under FASB ASC Topic 718, excluding the effect of estimated forfeitures. As a result of Mr. Monast's employment termination on August 1, 2012, and the termination of Mr. Culotta's employment on April 12, 2013, their performance share units were forfeited and their restricted stock units vested based on a pro-rata allocation of time employed.

- (2) As discussed in Note 10 of the Company's audited financial statements for the year ended December 31, 2012, included in the Company's Annual Report on Form 10-K filed with the SEC on February 7, 2013, the Company did not issue option awards to its executives in 2012. These amounts represent the aggregate grant date fair value computed in accordance with FASB ASC Topic 718, using the Black-Scholes-Merton model, for those awards granted in 2011 and 2010. 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, 2012. The option awards granted in 2011 and 2010 to the Named Executive had the following market value as of April 22, 2013. The closing market price of the Company's common stock on April 22, 2013 was \$12.33.

Name	Year of Grant	Total Granted Option Awards	Option Exercise Price	Grant Date Fair Value	Market Value of Option Awards (7)
Gregory Weishar	2011	182,801	\$ 10.84	\$ 656,750	\$ 272,373
	2010	155,836	\$ 18.48	\$ 912,424	\$
Michael Culotta	2011	72,178	\$ 10.84	\$ 259,315	\$ 107,545
	2010	62,545	\$ 18.48	\$ 366,201	\$
Robert McKay	2011	32,729	\$ 10.84	\$ 117,586	\$ 46,766
	2010	28,360	\$ 18.48	\$ 166,049	\$
Thomas Caneris	2011	38,352	\$ 10.84	\$ 137,787	\$ 57,144
	2010	33,565	\$ 18.48	\$ 196,523	\$
Anthony Hernandez	2011	20,418	\$ 10.84	\$ 73,357	\$ 30,423
	2010	17,692	\$ 18.48	\$ 103,587	\$
William Monast	2011	55,141	\$ 10.84	\$ 198,106	\$ 82,160
	2010	47,782	\$ 18.48	\$ 279,763	\$

- (3) These amounts represent amounts earned under the Company's short-term incentive plan for the fiscal years ended December 31, 2012, 2011 and 2010. Named Executives had to be employed with the Company on the date of payout to earn the bonuses under the short-term incentive plan. As a result of Mr. Monast's employment termination on August 1, 2012, he did not earn any bonus under the 2012 short-term incentive plan. However, as part of his severance, Mr. Monast received \$161,725, which is equal to the pro-rated bonus he would have received under the short-term incentive plan. The Company did not meet its threshold performance target and, therefore, there was no payment under the 2010 short-term incentive plan.

**Table of Contents**

- (4) The amounts in this column include the Company's contributions for the respective periods for the benefit of the Named Executives to the Company's 401(k) Plan, the taxable value of life insurance premiums and severance payments.

Name	Year	401(k)	Life	Severance	Total
		Matching	Insurance		
Gregory Weishar	2012	\$ 5,518	\$ 7,807	\$	\$ 13,324
	2011	\$ 10,101	\$ 7,498	\$	\$ 17,599
	2010	\$ 10,643	\$ 7,346	\$	\$ 17,989
Michael Culotta	2012	\$ 6,111	\$ 4,402	\$	\$ 10,513
	2011	\$ 9,880	\$ 4,186	\$	\$ 14,066
	2010	\$ 9,800	\$ 4,105	\$	\$ 13,905
Robert McKay	2012	\$ 9,312	\$ 1,495	\$	\$ 10,807
	2011	\$ 10,488	\$ 856	\$	\$ 11,344
	2010	\$ 9,800	\$ 839	\$	\$ 10,639
Thomas Caneris	2012	\$ 10,000	\$ 1,646	\$	\$ 11,646
	2011	\$ 7,055	\$ 940	\$	\$ 7,995
	2010	\$ 9,453	\$ 906	\$	\$ 10,359
Anthony Hernandez	2012	\$ 9,735	\$ 828	\$	\$ 10,563
	2011	\$ 8,857	\$ 712	\$	\$ 9,569
	2010	\$ 9,513	\$ 442	\$	\$ 9,955
William Monast	2012	\$ 5,443	\$ 1,110	\$ 260,744	\$ 267,296
	2011	\$ 18,980	\$ 1,848	\$	\$ 20,828
	2010	\$ 4,622	\$ 1,811	\$	\$ 6,433

- (5) Additionally, Mr. Monast is being included as a supplemental named executive officer, as his employment with the Company was terminated on August 1, 2012. Although he was not employed with the Company on December 31, 2012, his total compensation would have placed him among the three most highly compensated executive officers. Mr. Monast's employment with the Company terminated on August 1, 2012. For 2012, Mr. Monast's other compensation includes \$260,744 of severance payments.
- (6) In February 2013, the Company determined that the adjusted EBITDA amount was achieved under the 2010 long-term incentive plan. Therefore, a payout of performance share units was earned. As a result of Mr. Monast's employment termination on August 1, 2012, he did not earn any bonus under the 2010 long term incentive program. However, as part of his severance, Mr. Monast received \$161,725, which is equal to the pro-rated bonus he would have received under the short-term incentive plan. The following amounts were earned by the following Named Executive Officers:

Name	Grant Year	Performance Period Measurement Date	Performance	Market Value at Grant Date of Target Awards	Performance	Market Value at Vest Date of Earned Awards	Performance Shares	Market Value at Vest Date of Unearned Awards
			Share Units Granted at Target	Share Units Earned	Unearned			
Gregory Weishar	2010	12/31/2012	49,415	\$ 913,189	22,217	\$ 321,702	27,198	\$ 393,827
Michael Culotta	2010	12/31/2012	19,833	\$ 366,514	8,917	\$ 129,118	10,916	\$ 158,064
Robert McKay	2010	12/31/2012	8,993	\$ 166,191	4,756	\$ 68,867	4,237	\$ 61,352
Thomas Caneris	2010	12/31/2012	10,644	\$ 196,701	5,630	\$ 81,522	5,014	\$ 72,603
Anthony Hernandez	2010	12/31/2012	5,610	\$ 103,673	2,967	\$ 42,962	2,643	\$ 38,271
William Monast	2010	12/31/2012	15,152	\$ 280,009				

- (7) The market value of option awards is calculated by multiplying the difference between the closing market price and the option exercise price times the number of granted options assuming all are vested.



## Edgar Filing: PharMerica CORP - Form DEF 14A

- (8) On April 12, 2013, the Company and Michael J. Culotta, the Company's former Executive Vice President and Chief Financial Officer, mutually agreed to end Mr. Culotta's relationship with the Company effective immediately. Mr. Culotta will receive the benefits set forth in his existing employment agreement and Company equity award agreements for a termination without cause.

**Table of Contents****Grants of Plan-Based Awards in 2012**

The following table sets forth certain information concerning grants of awards to the Named Executives pursuant to the Omnibus Incentive Plan in the fiscal year ended December 31, 2012.

Name	Grant Date	Estimated Future Payouts Under Non-Equity Incentive Plan Awards (1)			Estimated Future Payouts Under Equity Incentive Plan Awards (2)			All Other Stock Awards: Number of Share of Stock or Units (3)	Grant Date of Stock Awards (4)
		Threshold	Target	Maximum	Threshold	Target	Maximum		
Gregory Weishar									
Short-term Incentive	1/18/2012	\$ 412,506	\$ 1,031,264	\$ 1,804,712					
Long-term Incentive	1/18/2012				22,549	56,372	98,651		\$ 768,914
Long-term Incentive	1/18/2012							84,558	\$ 1,153,371
Michael Culotta									
Short-term Incentive	1/18/2012	\$ 140,848	\$ 352,119	\$ 616,208					
Long-term Incentive	1/18/2012				9,035	22,588	39,529		\$ 308,100
Long-term Incentive	1/18/2012							33,882	\$ 462,150
Robert McKay									
Short-term Incentive	1/18/2012	\$ 75,328	\$ 188,320	\$ 329,560					
Long-term Incentive	1/18/2012				3,874	9,686	16,951		\$ 132,117
Long-term Incentive	1/18/2012							14,529	\$ 198,176
Thomas Caneris									
Short-term Incentive	1/18/2012	\$ 88,274	\$ 220,686	\$ 386,201					
Long-term Incentive	1/18/2012				5,103	12,758	22,327		\$ 174,019
Long-term Incentive	1/18/2012							19,138	\$ 261,042
Anthony Hernandez									
Short-term Incentive	1/18/2012	\$ 64,355	\$ 160,888	\$ 281,554					
Long-term Incentive	1/18/2012				2,874	7,186	12,576		\$ 98,017
Long-term Incentive	1/18/2012							10,779	\$ 147,025
William Monast									
Short-term Incentive	1/18/2012	\$ 110,336	\$ 275,840	\$ 482,720					
Long-term Incentive	1/18/2012				6,903	17,257	30,200		\$ 235,385
Long-term Incentive	1/18/2012							25,885	\$ 353,071

- (1) The amounts in the table represent the estimated possible payouts of cash awards under the formula-based and individual-based component of the Company's 2012 short-term incentive program which is tied to the Company's financial performance and group/individual performance. The Company's 2012 short-term incentive program is more fully described in the Narrative Disclosure to Summary Compensation Table and Grants of Plan-Based Awards Table section below. The performance cycle for the 2012 short-term incentive program began on January 1, 2012 and ended on December 31, 2012. As a result of Mr. Monast's termination of employment, he was not entitled to receive any payouts under the 2012 short-term incentive program. However, as part of his severance, Mr. Monast received \$161,725, which is equal to the pro-rated bonus he would have received under the short-term incentive plan.
- (2) The amounts in the table represent the estimated possible payouts of performance share unit awards under the Company's 2012 long-term incentive program which is tied to the Company's financial performance. The Company's 2012 long-term incentive program is more fully described in the Narrative Disclosure to Summary Compensation Table and Grants of Plan-Based Awards Table section below. The performance cycle for the performance share unit awards granted January 18, 2012 commenced on January 1, 2012 and ends on December 31, 2014. As a result of Mr. Monast's and Mr. Culotta's termination of employment, their performance shares were forfeited and they are not entitled to receive any payout of performance share units under the 2012 long-term incentive program.

## Edgar Filing: PharMerica CORP - Form DEF 14A

- (3) These restricted stock units were granted under the Company's 2012 long-term incentive program. Restricted stock units granted to Named Executives will vest in three equal annual installments beginning on the first anniversary of the grant date. As a result of the termination of Mr. Monast's employment on August 1, 2012, and Mr. Culotta's employment on April 12, 2013, their restricted stock units vested based on a pro-rata allocation of time employed.

---

**Table of Contents**

- (4) Represents the grant date fair value computed in accordance with FASB ASC Topic 718. For awards that are subject to performance conditions, the reported amount is the value at the grant date based upon the probable outcome of such conditions consistent with the estimate of aggregate compensation cost to be recognized over the service period determined as of the grant date under FASB ASC Topic 718, excluding the effect of estimated forfeitures.

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

*Employment Agreements*

During 2010, 2011 and 2012, all of our Named Executives were employed pursuant to employment agreements with the Company. Additional provisions of the employment agreements are set forth in the Compensation Discussion and Analysis.

*Employment Agreement with Mr. Weishar*

On September 30, 2010, the Company entered into an employment agreement with Mr. Weishar, our Chief Executive Officer, effective January 1, 2011, which superseded the previous employment agreement setting forth the terms and conditions of Mr. Weishar's employment entered into as of January 14, 2007, as amended. The original term of the agreement ends on December 31, 2013. The agreement automatically renews annually unless either Mr. Weishar or the Company give notice of non-renewal to the other at least 120 days prior to the expiration of the relevant period. The employment agreement provides that Mr. Weishar receives a minimum base salary of \$750,000 and is eligible to receive a performance-based annual cash bonus with a target payment equal to 125% of his annual base salary to the extent that the quantitative performance objectives established annually by the Board or the Compensation Committee are met.

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

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

a lump-sum cash payment equal to the sum of (i) any earned but unpaid base salary through the date of termination, (ii) any expense reimbursement payments then due, (iii) an amount in respect of any earned but unused paid time off through the date of termination (with the value of unused paid time off being equal to his then annual base salary divided by 250) (such benefits, the *Accrued Benefits*), plus a the lesser of his annual target bonus or his maximum award earned under the Compensation Committee resolutions that establish the negative discretion approach under the Omnibus Incentive Plan (based on actual performance during the entire year and without regard to discretionary adjustments), pro rated through the date of termination and payable on the date annual bonuses for the year of termination are payable to other senior executives; and

in the event a change in control has occurred within 12 months prior to the termination date, a lump-sum cash payment equal to three times the sum of his then annual base salary and annual target bonus for the calendar year in which termination occurs; or

in the event a change in control has not occurred within 12 months prior to the termination date, an amount equal to two times the sum of his then annual base salary and target bonus for the calendar year in which termination occurs, payable in equal monthly installments over the 24-month period following the termination date. However, if a change in control occurs after the termination date, the total amount of any unpaid installments shall be paid as a lump-sum cash payment on the date of the change in control. Additionally, if a change in control occurs after the termination date and either the Company gives written notice to Mr. Weishar of his termination after the Company has entered into a definitive agreement for one or more transactions that would result in a change in control, or the change in control occurs within 6 months after the termination date and Mr. Weishar's termination occurred at

---

**Table of Contents**

the request of a third party who had taken steps reasonably calculated to effect a change in control, then the Company will pay Mr. Weishar an additional lump-sum cash payment on the date of the change in control equal to the sum of his annual base salary as of the termination date and annual target bonus for the calendar year in which the termination date occurs.

In addition to the foregoing cash payments:

with respect to (i) compensatory stock options, compensatory restricted stock awards, performance-based equity awards and other equity based awards granted prior to January 1, 2011, and to the extent such awards would have vested, had their restrictions lapse or become exercisable prior to the third anniversary of the termination date, and (ii) compensatory stock options, compensatory restricted stock awards, performance-based equity awards and other equity based awards granted after January 1, 2011, such awards shall vest and have their restrictions lapse in connection with Mr. Weishar's termination of employment as of the termination date (except with respect to performance-based equity awards which shall vest as of the end of the applicable performance period). Performance-based equity awards will only vest to the extent applicable performance goals are achieved (disregarding any exercise of negative discretion that is not similarly applied to all senior executive participants). Compensatory stock options shall remain exercisable until the earliest of a change in control upon which all other compensatory stock options or similar awards cease to be exercisable, the second anniversary of the termination date or the expiration of their maximum stated term; and

coverage for a period of 24 months under the Company's welfare benefit plans at Mr. Weishar's expense, provided that for such 24 month period, the Company shall make payments to Mr. Weishar on a monthly basis equal to the after-tax cost of coverage for such plans.

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

Good Reason is defined as any material diminution in Mr. Weishar's authorities, titles or offices, or the assignment to him of duties that materially impair his ability to perform the duties normally assigned to the chief executive officer of a Company of the size and nature of the Company (other than a failure to be re-elected to the Board following nomination for election); any change in the reporting structure such that he reports to someone other than the Board; any relocation of the Company's principal office, or of his principal place of employment to a location more than 50 miles the existing principal office or principal place of employment; any material breach by the Company, or any of its affiliates, of any material obligation to Mr. Weishar under his employment agreement; or any failure of the Company to obtain the assumption in writing of its obligations to perform the employment agreement by any successor to all or substantially all of the business and assets of the Company within 15 days after any merger, consolidation, sale or similar transaction; in each case that either has not been consented to by Mr. Weishar or is not fully cured within 30 days after written notice to the Company requesting cure.

*Termination for Death or Disability* If Mr. Weishar's employment is terminated due to his death or disability (defined as his inability, due to physical or mental incapacity, to substantially perform his duties and responsibilities under this agreement for 180 days out of any 270 consecutive days), he (or his successors-in-interest) shall receive a lump-sum cash payment equal to the Accrued Benefits plus his annual target bonus for the calendar year in which termination occurs. In addition to the foregoing cash payment:

with respect to compensatory stock options, compensatory restricted stock awards, performance-based equity awards and other equity based awards, to the extent such awards would have vested, had their

---

**Table of Contents**

restrictions lapse or become exercisable prior to the first anniversary of the termination date, such awards shall vest and have their restrictions lapse in connection with Mr. Weishar's termination of employment as of the termination date. Compensatory stock options shall remain exercisable until the earliest of a change in control upon which all other compensatory stock options or similar awards cease to be exercisable, the first anniversary of the termination date or the expiration of their maximum stated term; and

coverage for a period of 12 months under the Company's welfare benefit plans at Mr. Weishar's expense, provided that for such 12 month period, the Company shall make payments to Mr. Weishar on a monthly basis equal to the after-tax cost of coverage for such plans.

*Termination Due to Non-Renewal of Employment Agreement or Other Terminations* If Mr. Weishar's employment is terminated because of the expiration of its term due to notice of non-renewal or for any other reason (including voluntary resignation), he will be entitled to receive a lump-sum cash payment equal to the Accrued Benefits. In addition to the foregoing cash payment:

in the case Mr. Weishar's employment is terminated in connection with of the expiration of the agreement's term due to notice of non-renewal by the Company, with respect to compensatory stock options, compensatory restricted stock awards, performance-based equity awards and other equity based awards, to the extent such awards would have vested, had their restrictions lapse or become exercisable prior to the second anniversary of the termination date, such awards shall vest and have their restrictions lapse in connection with Mr. Weishar's termination of employment as of the termination date (except with respect to performance-based equity awards which shall vest as of the end of the applicable performance period). Compensatory stock options shall remain exercisable until the earliest of a change in control upon which all other compensatory stock options or similar awards cease to be exercisable, the second anniversary of the termination date or the expiration of their maximum stated term; and

in the case of Mr. Weishar's employment is terminated in connection with of the expiration of the agreement's term due to his notice of non-renewal, with respect to compensatory stock options, compensatory restricted stock awards, performance-based equity awards and other equity based awards, to the extent such awards would have vested, had their restrictions lapse or become exercisable prior to the first anniversary of the termination date, such awards shall vest and have their restrictions lapse in connection with Mr. Weishar's termination of employment as of the termination date (except with respect to performance-based equity awards which shall vest as of the end of the applicable performance period). Compensatory stock options shall remain exercisable until the earliest of a change in control upon which all other compensatory stock options or similar awards cease to be exercisable, the first anniversary of the termination date or the expiration of their maximum stated term.

*Change in Control* In the event of the termination of Mr. Weishar's employment within 24 months after a change in control, either by the Company without Cause or due to his resignation with Good Reason, with respect to compensatory stock options, compensatory restricted stock awards, performance-based equity awards and other equity based awards, such awards shall vest and have their restrictions lapse in connection with Mr. Weishar's termination of employment as of the termination date. Performance-based equity awards will vest with respect to the target number of shares subject to the award. Compensatory stock options shall remain exercisable until the earliest the second anniversary of the termination date or the expiration of their maximum stated term. To the extent any award described in the preceding sentence is not assumed, converted or continued by the successor company (or, if applicable, the Company), then such awards shall vest and have their restrictions lapse immediately prior to the change of control, rather than as of the termination date. Change in control is defined as:

any person or group acquires stock of the Company that, together with stock held by such person or group, constitutes more than 50% of the total fair market value or total voting power of the stock of the Company;

---

**Table of Contents**

any person or group acquires (or has acquired during the 12-month period ending on the date of the most recent acquisition by such person or group) ownership of stock of the Company possessing 30% or more of the total voting power of the stock of the Company;

the consummation of a merger, consolidation, statutory share exchange or similar form of corporate transaction involving the Company that requires the approval of the Company's stockholders, whether for such transaction or the issuance of securities in the transaction (a Business Combination), unless immediately following such Business Combination either: (i) more than 50% of the total fair market value of the stock of the corporation resulting from such Business Combination (the Surviving Corporation) or the ultimate parent corporation of the Surviving Corporation (the Parent Corporation) is represented by stock of the Company that was outstanding immediately prior to such Business Combination (or, if applicable, is represented by shares of the Surviving Corporation or Parent Corporation into which stock of the Company was converted pursuant to such Business Combination) or (ii) 50% or more of the total voting power of Surviving Corporation or Parent Corporation is represented by stock of the Company that was outstanding immediately prior to such Business Combination (or, if applicable, is represented by shares of the Surviving Corporation or Parent Corporation into which stock of the Company was converted pursuant to such Business Combination);

during any twelve (12) month period a majority of the individuals who were members of the Board at the beginning of such period (the Incumbent Directors) are replaced, provided that any person becoming a director subsequent to the beginning of such period whose election or nomination for election was approved by a vote of at least a majority of the Incumbent Directors then on the Board (either by a specific vote or by approval of the proxy statement of the Company in which such person is named as a nominee for director, without written objection to such nomination) shall be an Incumbent Director; or

any person or group acquires (or has acquired during the 12-month period ending on the date of the most recent acquisition by such person or group) assets from the Company that have a total gross fair market value equal to or more than 50% of the total gross fair market value of all of the assets of the Company immediately prior to such acquisition or acquisitions (for this purpose, gross fair market value means the value of the assets of the Company, or the value of the assets being disposed of, determined without regard to any liabilities associated with such assets); provided, however that no change in control shall be deemed to occur as a result of a transfer to:

a stockholder of the Company (immediately before the asset transfer) in exchange for or with respect to its stock;

an entity, 50% or more of the total value or voting power of which is owned, directly or indirectly, by the Company;

a person or group that owns, directly or indirectly, 50% or more of the total value or voting power of all the outstanding stock of the Company; or

an entity, at least 50% of the total value or voting power of which is owned, directly or indirectly, by a person described above.

*Effect of Golden Parachute Tax* If the aggregate of payments, awards, benefits and distributions (or any acceleration of any payments, awards, benefits or distributions) due to Mr. Weishar under the employment agreement or under any other plan, program, agreement or arrangement of the Company (or of any of its affiliated entities) or any entity which effectuates a change in control (or any of its affiliated entities) (the 280G benefits), would, if received by him in full and valued under Section 280G of the Code, constitute parachute payments as such term is defined in and under Section 280G of the Code, and the payment the 280G benefits net federal, state and local taxes and excise taxes under Section 4999 of the Code would exceed \$1.00 less than three times Mr. Weishar's base amount (as defined under Section 280G), then such payments, benefits and distributions shall be reduced pro rata or eliminated to the extent necessary to ensure that such amounts do not

---

**Table of Contents**

constitute parachute payments. Such payments, benefits and distributions shall be reduced or eliminated in the following order: first, the elimination of cash benefits (other than cash benefits relating to the acceleration of equity awards) which do not constitute deferred compensation under Section 409A of the Code, then all other benefits (other than cash benefits relating to the acceleration of equity awards). To the extent the 280G benefits would not exceed \$1.00 less than three times Mr. Weishar's base amount, then they shall not be reduced or eliminated.

If it is established that 280G benefits have been made or provided for Mr. Weishar's benefit by the Company in excess of such limitations, Mr. Weishar shall repay such excess amount to the Company on demand, together with interest on such amount. In the event 280G benefits were not made by the Company should have been made, then the Company shall pay him an amount equal to such underpayment, together with interest on such amount.

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

*Non-Solicitation* Furthermore, Mr. Weishar agreed that during his employment with the Company and for a one-year period following the termination of his employment that he will not personally (i) other than in the course of performing his duties for the Company or its affiliates, directly or indirectly, for his own account or for the account of any other person, solicit for employment, hire, or otherwise interfere with the relationship of the Company with, any person who is an employee of, or a consultant to, the Company at the time of solicitation, hiring or interference, or (ii) in competition with the Company, directly or indirectly, individually or on behalf of other persons solicit or seek to do business with any entity which, as of the earlier of the date of termination of his employment or the date of solicitation, was a customer or a client of the Company or was, to his knowledge, being actively solicited by the Company to be a customer or client of the Company.

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

**Employment Agreements with other Named Executives**

On July 11, 2007, we entered into an employment agreement with Mr. Culotta that became effective on August 1, 2007, the first day of business operations of the Company. On July 31, 2007 we entered into an employment agreement with Mr. McKay, on August 7, 2007 we entered into an employment agreement with Mr. Caneris, on July 13, 2007 we entered into an employment agreement with Mr. Hernandez, and on April 20, 2009 we entered into an employment agreement with Mr. Monast. (Mr. Culotta, Mr. McKay, Mr. Caneris and Mr. Monast are collectively referred to in this section as the Executive Officers). The agreements of Messrs. Culotta, Monast, Hernandez and Caneris provide for an indefinite term of employment, subject to certain terminations of employment described in more detail below (the Employment Period). The agreement of Mr. McKay provides for a term that ended on December 31, 2011, subject to automatic renewal for unlimited one-year periods absent cancellation on 120 days prior written notice by the Company or Mr. McKay. Neither party submitted written notice of cancellation, therefore, Mr. McKay's agreement will now expire on December 31, 2013. On August 1, 2012, Mr. Monast's employment agreement was terminated. On April 12, 2013, Mr. Culotta's employment agreement was terminated.

Pursuant to the terms of the employment agreements Mr. Culotta, Mr. Monast, Mr. McKay, Mr. Caneris and Mr. Hernandez receive a minimum base salary of \$405,000, \$350,000, \$250,000, \$250,000, and \$205,000 respectively, which is reviewed annually by our Compensation Committee and/or our Chief Executive Officer.



---

**Table of Contents**

During the Employment Period, each of the Executive Officers are eligible to (i) participate in any short-term and long-term incentive programs established or maintained by the Company for senior level executives generally, (ii) participate in all incentive, savings and retirement plans and programs of the Company to at least the same extent as other senior executives of the Company, (iii) participate, along with their dependents, in all welfare benefit plans and programs provided by the Company to at least the same extent as other senior executives of the Company, and (iv) four weeks of paid vacation per calendar year.

The type of compensation due to each of the Executive Officers in the event of the termination of his Employment Period varies depending on the nature of the termination.

*Termination without Cause or Resignation for Good Reason* If, during the Employment Period, we terminate an Executive Officer's employment without Cause or he terminates his employment with Good Reason (as such terms are defined below), such Executive Officer will be entitled to receive:

A lump-sum cash payment equal to (i) the Executive Officer's base salary through the date of termination that has not yet been paid, (ii) a pro rata bonus for the calendar year of termination, to be determined using the Executive Officer's 100% target bonus, (iii) any accrued but unpaid vacation pay, and (iv) any other unpaid items that have accrued and to which the Executive Officer has become entitled as of the date of termination (collectively referred to herein as the "Accrued Obligations"); and

(i) Continued payment for 18 months of the Executive Officer's then current base salary and (ii) a bonus equal to the average of the annual bonuses earned by the Executive Officer over the three complete years prior to the date of termination (or, if less than three years, the average bonus earned during such shorter period).

In addition to the foregoing cash payments:

For the 18 month period following the date of termination, each Executive Officer will be entitled to receive a waiver of the applicable premium otherwise payable for COBRA continuation coverage for the Executive Officer, his spouse and eligible dependents, for health, prescription, dental and vision benefits; provided that to the extent COBRA continuation coverage eligibility expires before the end of such period, the Executive Officer will receive payment, on an after-tax basis, of an amount equal to such premium. The Company's obligations to provide such benefits will cease upon the date of commencement of eligibility of the Executive Officer under the group health plan of any other employer or the date of commencement of eligibility of the Executive Officer for Medicare benefits;

Each Executive Officer will be entitled to receive executive level outplacement assistance under any outplacement assistance program of the Company then in effect; and

Each outstanding option, restricted stock or other equity award held by the Executive Officer shall become vested to the extent provided for under the terms governing such equity incentive award; provided, however, that Mr. McKay's stock options and restricted stock units that would have become vested or exercisable on or before the third anniversary of the termination date, had his employment continued through such third anniversary, shall become fully vested and exercisable as of such termination date pursuant to the terms of his employment agreement.

The Company's obligation to provide any of the payments described above, to the extent not accrued as of the date of termination, will be conditioned upon the receipt from the Executive Officer of a valid release of claims against the Company. In addition, to the extent any of the foregoing payments, compensation or other benefits is determined to constitute "nonqualified deferred compensation" within the meaning of Section 409A of the Code and the Executive Officer is a specified employee for purposes of Section 409A, such payment, compensation or other benefit will not be paid or provided to the Executive Officer prior to the day that is six (6) months plus one (1) day after the date of termination.

"Cause" is generally defined in each of the employment agreements as the Executive Officer's (i) continued failure to substantially perform his duties over a period of not less than 30 days after a demand for substantial performance is delivered by our Board or Chief Executive Officer, (ii) willful misconduct materially and demonstrably injurious to the Company, (iii) commission of or indictment for a misdemeanor which, as



**Table of Contents**

determined in good faith by our Board, constitutes a crime of moral turpitude and gives rise to material harm to the Company, (iv) commission of or indictment for a felony, or (v) material breach of his obligations under the employment agreement.

Good Reason is generally defined in each of the employment agreements as (i) any reduction in the Executive Officer's base salary, incentive bonus opportunity or long-term incentive opportunity, other than reductions applicable to all members of senior management or (ii) material failure by the Company to comply with certain provisions of the employment agreement relating to the Executive Officer's position and duties and compensation, other than an isolated, insubstantial or inadvertent failure that is not taken in bad faith and is cured by the Company within 30 days of receipt of written notice thereof from the Executive Officer. In general, the Company will have 20 days to cure any conduct that gives rise to Good Reason.

*Termination for Death or Disability* If an Executive Officer's employment is terminated due to his or her death or disability (defined as a condition entitling the Executive Officer to benefits under the Company's long-term disability plan), the Company shall pay to the Executive Officer (his or her estate), the Accrued Obligations. In addition, if an Executive Officer's employment is terminated due to his or her death, each outstanding option, restricted stock unit or other equity award held by the Executive Officer shall become vested.

*Termination for Cause or Resignation other than for Good Reason* If an Executive Officer's employment is terminated by us for Cause or by the Executive Officer for other than Good Reason, the Company shall pay to the Executive Officer the Executive Officer's base salary through the date of termination that has not been paid and the amount of any declared but unpaid bonuses, accrued but unpaid vacation pay and unreimbursed employee business expenses.

*Change in Control* The employment agreements of Mr. Culotta, Mr. Monast, Mr. Caneris, and Mr. Hernandez have change in control provisions that formalize their severance benefits if they are terminated under the circumstances discussed below after a change in control of the Company. The employment agreements of Mr. Culotta, Mr. Monast, Mr. Hernandez, and Mr. Caneris do not entitle these officers to any additional payments or benefits solely upon the occurrence of a change in control. However, if, within one year following a change in control, their employment is terminated (i) by the Company or the officer following the occurrence of (A) a reduction in the officer's base salary other than a reduction that is based on the Company's financial performance or a reduction similar to the reduction made to the salaries provided to all or most other senior executives of the Company, (B) a significant change in the officer's responsibilities and/or duties which constitute a demotion, (C) a material loss of title or office, or (D) a relocation of the officer's principal place of employment of more than 50 miles, or (ii) by the Company without Cause (an event described in (i-ii) being a CIC Termination), the officer will be entitled to the same payments and benefits he or she would have received upon a termination without Cause or resignation for Good Reason, as described above. Mr. McKay's Employment Agreement provides for immediate vesting of any outstanding options, restricted stock or other equity incentive award upon a change in control of the Company. In the event of a CIC Termination, Mr. McKay will be entitled to the same payments and benefits he would have received upon a termination without Cause or resignation for good reason. In addition, subject to the officer's execution of a written release of claims against the Company, the officer will become vested in any outstanding options, restricted stock, or other equity incentive awards outstanding as of the date of such termination.

Change in Control means:

any person, as defined in the Securities Exchange Act of 1934, as amended, acquiring 40% or more of our common stock;

a majority of our directors being replaced under certain circumstances;

a merger or consolidation of the Company with any other Company (other than a merger or consolidation where the outstanding voting securities of the Company immediately prior to such an event continue to represent more than 40% of the combined voting power after such event or a merger or consolidation); and

**Table of Contents**

approval by our stockholders to liquidate or dissolve the Company or to sell all or substantially all of the Company's assets in certain circumstances.

In the event that any payments made and/or benefits provided to Mr. Culotta, Mr. Caneris, Mr. Hernandez and Mr. McKay in connection with a change in control pursuant to the employment agreement or any other agreement, plan or arrangement (the "Change in Control Payments") are determined to constitute a parachute payment (as such term is defined in Section 280G(b)(2) of the Code) and exceed the amount which can be deducted by us under Section 280G of the Code by (i) less than 10% of the aggregate value of the Change in Control Payment, then the Change in Control Payment shall be reduced to the maximum amount which can be deducted by us or (ii) more than 10% of the aggregate value of the Change in Control Payment, then we shall pay to the Executive Officer an additional amount which, after the imposition of all income and excise taxes thereon, is equal to the excise tax imposed under Section 4999 of the Code on the Change in Control Payment. The determination of whether any payment or benefit constitutes a parachute payment and, if so, the amount to be paid to the officer and the time of payment shall be made by a nationally-recognized independent accounting firm selected and paid for by us.

Each of Mr. Culotta, Mr. McKay, Mr. Caneris, Mr. Hernandez and Mr. Monast have also agreed to certain confidentiality, non-competition and non-solicitation provisions in their respective employment agreements.

*2012 Annual Cash Incentives Mr. Weishar*

Pursuant to the Company's 2012 short-term incentive program, the incentive opportunity for Mr. Weishar was based upon an incentive formula tied to our adjusted EBITDA which is equal to our earnings before interest, taxes, depreciation and amortization expense, merger, acquisition, integration costs and other charges, impact of the Hurricane Sandy disaster costs, and the impact of tax accounting matters. 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 2012, provided that adjusted EBITDA was at least \$79.2 million for the year (but in no event could the incentive exceed \$2.0 million). The Compensation Committee had the authority to reduce the annual amount payable under the EBITDA incentive formula based on its assessment of financial goals (e.g., adjusted EBITDA) and his individual performance.

*Separation Agreement with Mr. Monast*

Mr. Monast was formerly employed by the Company as Executive Vice President of Sales and Client Management, and originally entered into an employment agreement dated April 20, 2009, that granted him severance benefits. In connection with the termination of Mr. Monast's employment on August 1, 2012, the Company and Mr. Monast entered into a Separation of Employment and General Release (the "Separation Agreement") on September 13, 2012.

Consistent with the terms of his employment agreement, the Separation Agreement entitles Mr. Monast to receive (i) a payment of \$551,679, which is equivalent to 18 months of pay at his base salary rate of \$367,786 per year, payable in 18 monthly installments beginning on the first scheduled payroll following August 1, 2012; (ii) promptly following the effective date of the Separation Agreement, any unpaid base salary through August 1, 2012 and any unreimbursed travel and business expenses in the amount of \$5,167.60; (iii) a pro-rated bonus for the 2012 calendar year in the amount of \$161,725, which is equal to the pro-rated bonus he would have received under the short-term incentive plan; (iv) \$179,406 as his average annual bonus; (v) coverage under the Company's health, prescription, dental and vision benefits for 18 months following the termination date; and (vi) outplacement services. Additionally, effective as of the Separation Agreement, Mr. Monast's 9,725 restricted stock units vested and any and all other equity or equity based awards were forfeited.

---

**Table of Contents**

As a part of the terms of his Separation Agreement, Mr. Monast has agreed to certain confidentiality, non-competition and non-solicitation provisions.

*Separation Agreement with Mr. Culotta*

Mr. Culotta was formerly employed by the Company as Executive Vice President and Chief Financial Officer, and originally entered into an employment agreement dated July 11, 2007. In connection with the termination of Mr. Culotta's employment on April 12, 2013, the Company and Mr. Culotta entered into a Separation of Employment and General Release on April 22, 2013.

Under the terms of his employment agreement and separation agreement, Mr. Culotta will receive the benefits set forth in his existing employment agreement and Company equity award agreements for a termination without cause. These benefits generally consist of (1) a cash severance benefit equal to Mr. Culotta's base salary for 18 months, a bonus equal to the average of the annual bonuses earned by Mr. Culotta over the past three years, and a pro rata bonus for this calendar year based on Mr. Culotta's target bonus; (2) health insurance benefits for 18 months; and (3) executive level outplacement assistance. Additionally, in connection with his termination, Mr. Culotta's 14,835 restricted stock units vested and any and all other unvested equity or equity based awards were forfeited. Mr. Culotta has 90 days following his termination to exercise his vested stock options.

As a part of the terms of his separation agreement, Mr. Culotta has agreed to certain confidentiality, non-competition and non-solicitation provisions.

*Consulting Agreement with Interim Chief Financial Officer*

In connection the termination of Mr. Culotta's employment, on April 12, 2013, the Company appointed David W. Froesel, Jr., as interim Chief Financial Officer of the Company, effective immediately, while the Board of Directors conducts a search for a successor. In connection with Mr. Froesel's service as interim Chief Financial Officer and as a consultant to the Company, the Company entered into a Consulting Agreement with Froesel Consulting LLC (Froesel Consulting) on April 12, 2013 (the Consulting Agreement). During the term of the Consulting Agreement, Froesel Consulting will receive cash compensation of \$40,000 per month. The term of the Consulting Agreement is six months and may be renewed on a month to month basis as mutually agreed to by the Company and Froesel Consulting. The Consulting Agreement may be terminated by the Company at any time for Cause and by either party at any time upon 60 days prior written notice to the other party.

*2012 Annual Bonus Program*

Pursuant to the Company's 2012 short-term incentive program, our Named Executives had the opportunity to earn annual cash incentives for meeting annual performance goals. In 2012, the incentives were based upon the Company achieving adjusted EBITDA goals. For 2012, \$99 million of adjusted EBITDA was set as the target for the payment of bonuses. Adjusted EBITDA goals for threshold and maximum bonuses were \$79.2 and \$118.8 million, respectively.

Target bonus opportunities were expressed as a percentage of base salary and vary among our Named Executives. Mr. Weishar's target annual bonus is equal to 125% of his base salary. In fiscal year 2012, Mr. Culotta, Mr. Monast, Mr. McKay, Mr. Caneris, and Mr. Hernandez were eligible for annual target bonus opportunities (represented as a percentage of base salary) of 80%, 75%, 65%, 70% and 65% respectively.

The Company achieved adjusted EBITDA of \$104.1 million for the fiscal year ended December 31, 2012, therefore, bonuses were paid to the Named Executives at 99.2% to 114.8% pay out level. Mr. Monast's employment with the Company was terminated on August 1, 2012, and therefore Mr. Monast did not receive a payment under the 2012 short term incentive plan.

**Table of Contents***2012 Long-Term Incentive Program*

Pursuant to the Company's 2012 long-term incentive program (the 2012 LTIP), our Named Executives are eligible to receive restricted stock units and performance share unit awards based on pre-established performance objectives and goals. The 2012 LTIP performance criteria for the Chief Executive Officer and Executive Vice Presidents is based 85% on an adjusted EBITDA target and 15% on an adjusted diluted EPS target. For all other Named Executives, an adjusted EBITDA target accounts for 100% of the performance criteria. The 2012 LTIP performance cycle began on January 1, 2012 and ends on December 31, 2014.

Awards granted pursuant to the 2012 LTIP to our Named Executives in the following amounts as a percentage of the bonus target: 60% restricted stock units and 40% performance share units. On January 18, 2012, the Compensation Committee awarded restricted stock units and performance share units under the 2012 LTIP in the following amounts to the following Named Executives:

<b>Name</b>	<b>Year of Grant</b>	<b>Restricted Stock Units</b>	<b>Performance Share Awards</b>
Gregory Weishar	2012	84,558	56,372
Michael Culotta	2012	33,882	22,588
Robert McKay	2012	14,529	9,686
Thomas Caneris	2012	19,138	12,758
Anothny Hernandez	2012	10,779	7,186
William Monast	2012	25,885	17,257

In connection with Mr. Monast's employment termination on August 1, 2012, and Mr. Culotta's employment termination on April 12, 2013, they will not be eligible to receive a payment in connection with the performance share units.

**Table of Contents****Outstanding Equity Awards at December 31, 2012**

The following table sets forth certain information regarding equity-based awards of the Company held by the Named Executives as of December 31, 2012.

Name	Option Awards (6)					Stock Awards			
	Equity Incentive Plan Awards:					Restricted Stock Units	Performance Share Units		
	Number of Securities Underlying Unexercised Options (1)					Number of Shares or Units of Stock That Have Not	Market Value of Shares or	Unearned Rights	Unearned Shares, Units or Other Rights That Have Not
	Exercisable	Unexercisable (2)	Unearned Options	Exercise Price	Expiration Date	Vested	Vested	Vested (#)	Vested (\$)
Gregory Weishar									
2007 LTI Grant	300,553			\$ 16.31	8/7/2014				\$
2008 LTI Grant	85,500			\$ 15.10	3/10/2015				\$
2009 LTI Grant	124,998	41,666		\$ 14.89	3/3/2016				\$
2010 LTI Grant	77,918	77,918		\$ 18.48	3/16/2017			49,415 <sup>(3)</sup>	\$ 703,670
2011 LTI Grant	45,700	137,101		\$ 10.84	3/25/2018	40,360	\$ 574,726	51,892 <sup>(4)</sup>	\$ 738,942
2012 LTI Grant				\$		84,558	\$ 1,204,106	56,372 <sup>(5)</sup>	\$ 802,737
Michael Culotta (9)									
2007 LTI Grant	204,982			\$ 16.31	8/7/2014				\$
2008 LTI Grant	43,300			\$ 15.10	3/10/2015				\$
2009 LTI Grant	62,709	20,906		\$ 14.89	3/3/2015				\$
2010 LTI Grant	31,273	31,272		\$ 18.48	3/16/2017			19,833 <sup>(3)</sup>	\$ 282,422
2011 LTI Grant	18,044	54,134		\$ 10.84	3/25/2018	15,936	\$ 226,929	20,489 <sup>(4)</sup>	\$ 291,763
2012 LTI Grant				\$		33,882	\$ 482,480	22,588 <sup>(5)</sup>	\$ 321,653
Robert McKay									
2007 LTI Grant	62,661			\$ 16.31	8/7/2014				\$
2008 LTI Grant	19,800			\$ 15.10	3/10/2015				\$
2009 LTI Grant	28,434	9,478		\$ 14.89	3/3/2016				\$
2010 LTI Grant	14,180	14,180		\$ 18.48	3/16/2017			8,993 <sup>(3)</sup>	\$ 128,060
2011 STI Grant				\$		7,029	\$ 100,093		\$
2011 LTI Grant	8,182	24,547		\$ 10.84	3/25/2018	7,226	\$ 102,898	9,291 <sup>(4)</sup>	\$ 132,304
2012 LTI Grant				\$		14,529	\$ 206,893	9,686 <sup>(5)</sup>	\$ 137,929
Thomas Caneris									
2007 LTI Grant	67,481			\$ 16.75	8/21/2014				\$
2008 LTI Grant	21,400			\$ 15.10	3/10/2015				\$
2009 LTI Grant	30,591	10,200		\$ 14.89	3/3/2016				\$
2010 LTI Grant	16,783	16,782		\$ 18.48	3/16/2017			10,644 <sup>(3)</sup>	\$ 151,571
2011 STI Grant				\$		8,237	\$ 117,295		\$
2011 LTI Grant	9,588	28,764		\$ 10.84	3/25/2018	8,467	\$ 120,570	10,887 <sup>(4)</sup>	\$ 155,031
2012 LTI Grant				\$		19,138	\$ 272,525	12,758 <sup>(5)</sup>	\$ 181,674
Anothny Hernandez									
2007 LTI Grant	38,563			\$ 16.31	8/7/2014				\$
2008 LTI Grant	12,200			\$ 15.10	3/10/2015				\$
2009 LTI Grant	17,739	5,913		\$ 14.89	3/3/2016				\$
2010 LTI Grant	8,846	8,846		\$ 18.48	3/16/2017			5,610 <sup>(3)</sup>	\$ 79,886
2011 STI Grant				\$		5,701	\$ 81,182		\$
2011 LTI Grant	5,104	15,314		\$ 10.84	3/25/2018	4,508	\$ 64,194	5,796 <sup>(4)</sup>	\$ 82,535
2012 LTI Grant				\$		10,779	\$ 153,493	7,186 <sup>(5)</sup>	\$ 102,329

Edgar Filing: PharMerica CORP - Form DEF 14A

William Monast (7)

\$

\$

\$

(1) All options are to purchase shares of the Company's common stock.

(2) The unvested options held by the following Named Executives, excluding Mr. Monast, as of December 31, 2012 will vest as follows:



**Table of Contents**

Vesting Date	Unvested Options				
	Mr. Weishar	Mr. Culotta	Mr. McKay	Mr. Caneris	Mr. Hernandez
3/3/2013	41,666	20,906	9,478	10,200	5,913
3/16/2013	38,959	15,636	7,090	8,391	4,423
3/25/2013	45,700	18,044	8,182	9,588	5,104
3/16/2014	38,959	15,636	7,090	8,391	4,423
3/25/2014	45,700	18,045	8,182	9,588	5,105
3/25/2015	45,701	18,045	8,183	9,588	5,105

- (3) In February 2013, the Company determined that the adjusted EBITDA amount was achieved under the 2010 long-term incentive plan. Therefore, a payout of performance share units was earned by the Named Executive as follows:

Name	Grant Year	Performance Period Measurement Date	Performance Share Units Earned	Market Value at Vest Date of Earned Awards	Performance Shares	Market Value at Vest Date
					Unearned	of Unearned Awards
Gregory Weishar	2010	12/31/2012	22,217	\$ 321,702	27,198	\$ 393,827
Michael Culotta	2010	12/31/2012	8,917	\$ 129,118	10,916	\$ 158,064
Robert McKay	2010	12/31/2012	4,756	\$ 68,867	4,237	\$ 61,352
Thomas Caneris	2010	12/31/2012	5,630	\$ 81,522	5,014	\$ 72,603
Anthony Hernandez	2010	12/31/2012	2,967	\$ 42,962	2,643	\$ 38,271
William Monast (7)	2010	12/31/2012				

- (4) The unearned shares of performance share units held by Mr. Weishar, Mr. McKay, Mr. Caneris, and Mr. Hernandez will be earned on December 31, 2013 upon achievement of certain performance targets, provided that Mr. Weishar, Mr. McKay, and Mr. Caneris are respectively employed with the Company on the payout date in 2014. Mr. Culotta's employment with the Company terminated without cause on April 12, 2013, therefore he is not eligible to receive a payout under the performance share units.
- (5) The unearned shares of performance share units held by Mr. Weishar, Mr. McKay, Mr. Caneris, and Mr. Hernandez will be earned on December 31, 2014, upon achievement of certain performance targets, provided that Mr. Weishar, Mr. McKay, and Mr. Caneris are respectively employed with the Company on the payout date in 2015. Mr. Culotta's employment with the Company terminated without cause on April 12, 2013, therefore he is not eligible to receive a payout under the performance share units.
- (6) The total outstanding options awards as of December 31, 2012 held by the Named Executive had the following market value as of April 22, 2013. The closing price of the Company's common stock of April 22, 2013 was \$12.33.

**Table of Contents**

Name	Total Outstanding Option Awards	Option Exercise Price	Market Value of Outstanding Option Awards(8)
Gregory Weishar	300,553	\$ 16.31	\$
	85,500	\$ 15.10	\$
	166,664	\$ 14.89	\$
	155,836	\$ 18.48	\$
	182,801	\$ 10.84	\$ 272,373
Michael Culotta (9)	204,982	\$ 16.31	\$
	43,300	\$ 15.10	\$
	83,615	\$ 14.89	\$
	62,545	\$ 18.48	\$
	72,178	\$ 10.84	\$ 107,545
Robert McKay	62,661	\$ 16.31	\$
	19,800	\$ 15.10	\$
	37,912	\$ 14.89	\$
	28,360	\$ 18.48	\$
	32,729	\$ 10.84	\$ 48,766
Thomas Caneris	67,481	\$ 16.75	\$
	21,400	\$ 15.10	\$
	40,791	\$ 14.89	\$
	33,565	\$ 18.48	\$
	38,352	\$ 10.84	\$ 57,144
Anthony Hernandez	38,563	\$ 16.31	\$
	12,200	\$ 15.10	\$
	23,652	\$ 14.89	\$
	17,692	\$ 18.48	\$
	20,418	\$ 10.84	\$ 30,423
William Monast (7)		\$	\$

(7) Mr. Monast's employment with the Company was terminated on August 1, 2012. Mr. Monast had 80,188 vested stock option awards which expired 90 days after his termination, if not exercised prior to that, on November 1, 2012 and 9,725 restricted stock units which vested upon separation.

(8) The market value of option awards is calculated by multiplying the difference between the closing market price and the option exercise price times the number of granted options assuming all are vested.

(9) Mr. Culotta's employment with the Company terminated without cause on April 12, 2013. In connection with the termination of his employment, Mr. Culotta had 414,894 vested stock option awards which expire 90 days after his termination. He also had 14,835 restricted stock units which vested upon separation. All other equity based awards issued to Mr. Culotta were forfeited.

**Option Exercises and Stock Vested in 2012**

The following table sets forth information regarding each exercise of stock options and all vesting of stock during the year ended December 31, 2012:

Name	Option Awards		Stock Awards	
	Number of Shares Acquired on Exercise	Value Realized on Exercise	Number of Shares Acquired on Vesting	Value Realized on Vesting
Gregory Weishar		\$	20,180	\$ 251,039
Michael Culotta		\$	7,968	\$ 99,122

Edgar Filing: PharMerica CORP - Form DEF 14A

Robert McKay		\$	3,613	\$	44,945
Thomas Caneris		\$	4,234	\$	52,671
Anthony Hernandez		\$	2,254	\$	28,040
William Monast	13,785	\$	13,968	15,813	\$ 172,498

**Table of Contents****Non-Qualified Deferred Compensation Table Fiscal Year 2012**

Name	Executive Contributions in Last Fiscal Year(1)	Registrant Contributions in Last Fiscal Year	Aggregate Earnings in Last Fiscal Year	Aggregate Withdrawals/ Distributions	Aggregate Balance at Last Fiscal Year-End
Gregory Weishar	\$ 526,280	\$	\$ 412,854	\$	\$ 3,016,492
Michael Culotta	\$	\$	\$	\$	\$
Robert McKay	\$	\$	\$	\$	\$
Thomas Caneris	\$	\$	\$ 5	\$	\$ 51,705
Anthony Hernandez	\$	\$	\$	\$	\$
William Monast	\$	\$	\$ 18,796	\$ (318,493)	\$

(1) The amounts in this column are Named Executive elective deferrals representing the deferred portion of base salary otherwise payable in 2012 and reported as compensation in the Summary Compensation Table.

The Company maintains the PharMerica Corporation Deferred Compensation Plan (the "DCP") for certain management and highly compensated employees, including our Named Executives, whose base earnings are in excess of the qualified plan limit under Section 401(a)(17) of the Internal Revenue Code of 1986, as amended, for such year in which the deferral will take place. A participant in the DCP may elect to defer up to 50% of such participant's annual base salary and up to 100% of such participant's annual short-term incentive program cash bonus into the DCP during each plan year. In addition, the Company may, in its sole discretion, make discretionary contributions to a participant's account. Any additional amounts contributed by the Company to a participant's account will fully vest on the fourth anniversary of December 31 of the year in which the contribution was credited to the participant's account.

Deferred amounts are recorded in the participant's account in the form of bookkeeping entries only and will be adjusted for gains and losses based on investment elections made by the participant. Amounts credited to a participant's account (whether pursuant to a deferral by the participant or a contribution made by the Company) will increase or decrease in value based on the investment fund selected by the participant in his Deferral Election Agreement. A Named Executive can select to invest his deferred amounts in the same general investments offered under the PharMerica Corporation 401(k) Retirement Savings Plan. The Named Executives may change their investment elections at any time. Participant balances are unfunded and the participants would be unsecured creditors of PharMerica if the Company became insolvent or otherwise unable to pay the balances to the participant.

A participant under the DCP is generally entitled to a distribution from such participant's account upon (i) the participant's termination of employment, (ii) the date specified by the participant in the Deferral Election Agreement, not to be any sooner than five years from the end of the year in which the amounts are earned, (iii) the participant's death or disability, or (iv) the occurrence of an unforeseen financial emergency (but only to the extent such distribution is necessary to relieve the unforeseen financial emergency). Upon termination of his employment, a participant will receive 100% of such participant's account balance, payable in a lump-sum or in ten equal annual installments as selected by the participant when the participant initially enters the DCP. In the event a participant's employment is terminated, such participant will receive 100% of his or her account balance, payable in a lump-sum if the account balance is \$25,000 or less. In the event a participant dies before retirement or a termination of employment, such participant's beneficiary will receive 100% of the participant's account balance in accordance with the participant's distribution election.

**Potential Payments upon Termination or Change-in-Control**

The Employment Agreements of the Named Executives require the Company to provide compensation to our Named Executives in the event of certain terminations of employment or a change in control of the Company. The employment agreements we entered into with our Named Executives define "cause," "good reason" and "change in control" for purposes of determining payments upon termination of employment or a change in control of the Company. Please refer to "Narrative Disclosure to Summary Compensation Table and

**Table of Contents**

Grants of Plan-Based Awards Table Employment Agreements for the definitions of these terms and additional details on the severance and change-in-control provisions that affect our Named Executives.

The estimated payments and benefits that would be provided to each Named Executive as a result of a termination (i) without cause or good reason, (ii) with cause or without good reason, (iii) upon a change in control, (iv) upon death or disability, or (v) due to non-renewal of the employment agreement are set forth in the table below. Calculations for this table are based on the assumption that the termination took place on December 31, 2012, the individual was employed for the full year of fiscal 2012, and the individual did not retire from the Company after age 62 with five years of service. The amounts in the table below do not include payments and benefits to the extent they are provided on a non-discriminatory basis to salaried employees generally upon termination of employment. For a description of the payments to Mr. Monast in connection with his termination, please refer to Narrative Disclosure to Summary Compensation Table and Grants of Plan-Based Awards Table Separation Agreement with Mr. Monast .

	Gregory Weishar				
	Non-CIC			CIC	
	Termination by Company Without Cause or Resignation for Good Reason	Termination for Cause or Resignation other than for Good Reason	Termination for Death or Disability	Termination Due to Non-Renewal of Employment Agreement (1)	Termination by Company Without Cause or for Good Reason under Employment Agreement
<b>Incremental Compensation and Benefit Payments</b>					
Severance	\$ 3,712,550	\$	\$	\$	\$ 5,568,824
Pro-Rata Bonus	\$ 1,031,264	\$	\$ 1,031,264	\$	\$ 1,031,264
Stock Options Accelerated Vesting	\$ 466,143	\$	\$ 466,143	\$ 310,762	\$ 466,143
Restricted Stock Accelerated Vesting	\$ 1,778,832	\$	\$ 1,778,832	\$ 1,377,464	\$ 1,778,832
Performance Shares Accelerated Vesting	\$ 2,245,349	\$	\$ 1,463,877	\$ 1,442,612	\$ 2,245,349
Outplacement Services	\$	\$	\$	\$	\$
Health & Welfare Benefits	\$ 32,320	\$	\$ 15,391	\$	\$ 32,320
Excise Tax Gross Up	\$	\$	\$	\$	\$
<b>Totals</b>	<b>\$ 9,266,457</b>	<b>\$</b>	<b>\$ 4,755,506</b>	<b>\$ 3,130,837</b>	<b>\$ 11,122,732</b>

	Michael Culotta				
	Non-CIC			CIC	
	Termination by Company Without Cause or Resignation for Good Reason	Termination for Cause or Resignation other than for Good Reason	Termination for Death or Disability	Termination due to Non-Renewal of Employment Agreement	Termination by Company Without Cause or for Good Reason under Employment Agreement (2)
<b>Incremental Compensation and Benefit Payments</b>					
Severance	\$ 931,062	\$	\$	\$	\$ 769,266
Pro-Rata Bonus	\$ 352,118	\$	\$	\$	\$ 352,118
Stock Options Accelerated Vesting	\$	\$	\$ 184,054	\$	\$ 184,054
Restricted Stock Accelerated Vesting	\$ 279,799	\$	\$ 709,408	\$	\$ 709,408
Performance Shares Accelerated Vesting	\$	\$	\$ 584,149	\$	\$ 798,584
Outplacement Services	\$ 6,000	\$	\$	\$	\$ 6,000
Health & Welfare Benefits	\$ 29,733	\$	\$	\$	\$ 29,733
Excise Tax Gross Up	\$	\$	\$	\$	\$
<b>Totals</b>	<b>\$ 1,598,712</b>	<b>\$</b>	<b>\$ 1,477,611</b>	<b>\$</b>	<b>\$ 2,849,162</b>



**Table of Contents**

	Robert McKay		Non-CIC		CIC
	Termination by Company Without Cause or Resignation for Good Reason (7)	Termination for Cause or Resignation other than for Good Reason	Termination for Death or Disability	Termination due to Non-Renewal of Employment Agreement	Termination by Company Without Cause or for Good Reason under Employment Agreement (2)(3)
<b>Incremental Compensation and Benefit Payments</b>					
Severance	\$ 557,326	\$	\$	\$	\$ 455,383
Pro-Rata Bonus	\$ 188,324	\$	\$	\$	\$ 188,324
Stock Options Accelerated Vesting	\$ 83,459	\$	\$ 83,459	\$	\$ 83,459
Restricted Stock Accelerated Vesting	\$ 409,884	\$	\$ 409,884	\$	\$ 409,884
Performance Shares Accelerated Vesting	\$	\$	\$ 398,293	\$	\$ 398,293
Outplacement Services	\$ 6,000	\$	\$	\$	\$ 6,000
Health & Welfare Benefits	\$ 29,733	\$	\$	\$	\$ 29,733
Excise Tax Gross Up	\$	\$	\$	\$	\$
<b>Totals</b>	<b>\$ 1,274,725</b>	<b>\$</b>	<b>\$ 891,636</b>	<b>\$</b>	<b>\$ 1,571,075</b>

	Thomas Caneris		Non-CIC		CIC
	Termination by Company Without Cause or Resignation for Good Reason	Termination for Cause or Resignation other than for Good Reason	Termination for Death or Disability	Termination due to Non-Renewal of Employment Agreement	Termination by Company Without Cause or for Good Reason under Employment Agreement
<b>Incremental Compensation and Benefit Payments</b>					
Severance	\$ 610,675	\$	\$	\$	\$ 610,675
Pro-Rata Bonus	\$ 220,684	\$	\$	\$	\$ 220,684
Stock Options Accelerated Vesting	\$	\$	\$ 97,798	\$	\$ 97,798
Restricted Stock Accelerated Vesting	\$ 225,287	\$	\$ 510,395	\$	\$ 510,395
Performance Shares Accelerated Vesting	\$	\$	\$ 315,482	\$	\$ 436,598
Outplacement Services	\$ 6,000	\$	\$	\$	\$ 6,000
Health & Welfare Benefits	\$ 29,149	\$	\$	\$	\$ 29,149
Excise Tax Gross Up	\$	\$	\$	\$	\$ 517,885
<b>Totals</b>	<b>\$ 1,091,795</b>	<b>\$</b>	<b>\$ 923,675</b>	<b>\$</b>	<b>\$ 2,429,184</b>

	Anthony Hernandez		Non-CIC		CIC
	Termination by Company Without Cause or Resignation for Good Reason	Termination for Cause or Resignation other than for Good Reason	Termination for Death or Disability	Termination due to Non-Renewal of Employment Agreement	Termination by Company Without Cause or for Good Reason under Employment Agreement
<b>Incremental Compensation and Benefit Payments</b>					

Edgar Filing: PharMerica CORP - Form DEF 14A

Severance	\$ 476,935	\$	\$	\$	\$ 476,935
Pro-Rata Bonus	\$ 160,885	\$	\$	\$	\$ 160,885
Stock Options Accelerated Vesting	\$	\$	\$ 52,066	\$	\$ 52,066
Restricted Stock Accelerated Vesting	\$ 133,958	\$	\$ 298,869	\$	\$ 298,869
Performance Shares Accelerated Vesting	\$	\$	\$ 169,019	\$	\$ 237,238
Outplacement Services	\$ 6,000	\$	\$	\$	\$ 6,000
Health & Welfare Benefits	\$ 28,317	\$	\$	\$	\$ 28,317
Excise Tax Gross Up	\$	\$	\$	\$	\$ 347,729
<b>Totals</b>	<b>\$ 806,095</b>	<b>\$</b>	<b>\$ 519,954</b>	<b>\$</b>	<b>\$ 1,608,039</b>



**Table of Contents**

- (1) The table reflects the accelerated vesting of awards that would otherwise vest upon the second anniversary of his assumed termination date.
- (2) Amounts reflect the severance payment following any cutback required under his employment agreement to avoid excess parachutes under Internal Revenue Code Section 280G.
- (3) Immediately upon a change of control (with or without termination of Mr. McKay), all of Mr. McKay's unvested equity awards granted prior to January 18, 2012 shall have its vesting accelerated on the change of control date, which would have a value of \$202,991 on December 31, 2012.

**Compensation Policies and Practices as they Relate to Risk Management**

In 2012, the Compensation Committee evaluated the Company's compensation policies and practices as they related to risk management practices and risk-taking initiatives. As part of the evaluation, the Committee considered factors, including, but not limited to, (i) the allocation of compensation among base salary and short and long-term compensation target opportunities, (ii) the significant weighting of compensation towards long-term incentive compensation, (iii) the Company's practice of using Company-wide metrics, (iv) the mix of equity award instruments used under the Company's long-term incentive program that includes full value awards, and (v) the multi-year vesting of the Company's equity awards and its share ownership guidelines. In connection with its evaluation, it hired the Company's compensation consultant, Frederic W. Cook & Co., to prepare an assessment of the Company's executive compensation program and management assessed the Company's non-executive incentive compensation programs to determine if any practices might encourage excessive risk taking on the part of our officers and employees. Based on this evaluation, the Compensation Committee believes that the Company's overall compensation practices and approach to goal setting, setting of targets with payouts at multiple levels of performance, and evaluation of performance results for our employees are not reasonably likely to have a material adverse effect on the Company. In addition, the Compensation Committee believes that the mix and design of the elements of executive compensation do not encourage management to assume excessive risks, properly accounts for the time horizon of risk, discourages short-term risk taking, and encourages decision-making that is in the best long-term interests of the Company and its stockholders as a whole.

**Equity Compensation Plan Information**

The following table sets forth equity compensation plan information as of December 31, 2012:

Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants and rights (a)	Weighted-average exercise price of outstanding options, warrants and rights (b)	Number of securities remaining available for future issuance
			under equity compensation plans (excluding securities reflected in column (a)) (c)
Equity compensation plans approved by stockholders	3,557,620(1)	\$ 15.14(2)	3,015,100(3)

- (1) Includes the following: 2,424,285 shares of common stock to be issued upon exercise of outstanding stock options granted under the Omnibus Incentive Plan; 460,745 shares of common stock to be issued upon vesting of performance share units under the Omnibus Incentive Plan; 7,831 shares of common stock to be issued upon vesting of restricted stock awards under the Omnibus Incentive Plan; and 664,759 shares of common stock to be issued upon vesting of restricted stock units under the Omnibus Incentive Plan.

## Edgar Filing: PharMerica CORP - Form DEF 14A

- (2) The weighted average exercise price in column (b) does not take into account the 1,133,335 shares of common stock to be issued under restricted stock awards, performance share units and restricted stock units.
- (3) The 3,015,100 shares does not take into consideration the dilution of 1.65 shares of stock for any full-value award, including restricted stock awards, restricted stock units and performance share awards at target. The number of shares remaining available for future issuance calculated under the tangible share pool would be 2,331,162.

**Table of Contents**

**CERTAIN RELATIONSHIPS AND RELATED PERSON TRANSACTIONS**

**Related Party Transaction Policy**

The Audit Committee reviews and approves in advance all related-party transactions and addresses any proposed conflicts of interest and any other transactions for which independent review is necessary or desirable to achieve the highest standards of corporate governance.

**PROPOSAL 2 RATIFICATION OF APPOINTMENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

The Audit Committee has selected KPMG LLP, or KPMG, to serve as our independent registered public accounting firm for the 2013 fiscal year. The Audit Committee is satisfied with KPMG's reputation in the auditing field, its personnel, its professional qualifications and its independence. KPMG served as our independent registered public accounting firm in 2010, 2011, and 2012. KPMG representatives will attend the Annual Meeting and respond to questions where appropriate. Such representatives may make a statement at the Annual Meeting should they so desire.

Although it is not required to submit this proposal to the stockholders for approval, the Board believes it is desirable that an expression of stockholder opinion be solicited and presents the selection of the independent registered public accounting firm to the stockholders for ratification. Even if the selection of KPMG is ratified by the stockholders, the Audit Committee in its discretion could decide to terminate the engagement of KPMG and engage another firm if the committee determines that this is necessary or desirable.

**Independent Registered Public Accounting Firm Fees**

The Audit Committee of the Board of Directors has recommended to the Board the appointment of KPMG to audit the Company's consolidated financial statements and internal control over financial reporting for fiscal 2013, subject to ratification by the stockholders at the Annual Meeting.

The following table sets forth the aggregate fees billed to the Company for the years ended December 31, 2011 and 2012 by its independent registered public accounting firm, KPMG LLP.

<b>Description of Fees</b>	<b>2011</b>	<b>2012</b>
Audit Fees (1)	\$ 650,000	\$ 698,000
Audit Related Fees (2)	15,000	
Tax Fees		
All Other Fees		
<b>Total</b>	<b>\$ 665,000</b>	<b>\$ 698,000</b>

- (1) Audit Fees consist of fees billed for professional services rendered for the audit of the Company's consolidated annual financial statements and review of the interim consolidated financial statements included in quarterly reports and services that are normally provided by our independent registered public accountants in connection with statutory and regulatory filings or engagements. For the years ended December 31, 2011 and 2012, professional services provided by KPMG LLP were \$650,000 and \$698,000, respectively.
- (2) Audit-Related Fees consist of fees billed for assurance and related services that are reasonably related to the performance of the audit or review of the Company's consolidated financial statements and are not reported under Audit Fees. For the year ended December 31, 2011, Audit-Related Fees include \$15,000 for services performed by KPMG LLP.

**Table of Contents**

**Pre-Approval Policies and Procedures for Audit and Permitted Non-Audit Services**

The Audit Committee's charter provides that the Audit Committee will review, and approve in advance, in its sole discretion, all auditing services, internal control related services and permitted non-audit services, including fees and terms, to be performed for the Company by the independent registered public accounting firm, subject to the de minimus exceptions for non-audit services described in Section 10A(i)(1)(B) of the Securities and Exchange Act of 1934 which are approved by the Audit Committee prior to the completion of the audit. The Audit Committee may form and delegate to sub-committees of one or more members of the Audit Committee its authority to pre-approve audit and permitted non-audit services, including internal control related services, provided that any such sub-committee pre-approvals are presented to the full Audit Committee at the next scheduled Audit Committee meeting. All audit and permitted non-audit services and all fees associated with such services performed by KPMG in fiscal 2012 were approved by the full Audit Committee consistent with the policy described above.

---

**Table of Contents**

**AUDIT COMMITTEE REPORT**

The Audit Committee oversees the accounting and financial reporting processes of the Company on behalf of the Board. Management is responsible for the Company's financial reporting process including its system of internal controls and for the preparation of consolidated financial statements in accordance with accounting principles generally accepted in the United States. The independent registered public accounting firm is responsible for performing an independent audit of the Company's consolidated financial statements and its internal control over financial reporting in accordance with the standards of the Public Company Accounting Oversight Board (United States). The Audit Committee's responsibility is to select, evaluate and, when appropriate, replace the Company's independent registered public accounting firm and monitor and oversee the accounting and financial reporting processes of the Company, including the Company's internal control over financial reporting and the audit of the consolidated financial statements of the Company.

During the course of 2012 and the first quarter of 2013, the Audit Committee regularly met and held discussions with management and the independent registered public accounting firm. In the discussions related to the Company's consolidated financial statements for fiscal year 2012, management represented to the Audit Committee that such consolidated financial statements were prepared in accordance with accounting principles generally accepted in the United States. The Audit Committee reviewed and discussed with management and the independent registered public accounting firm the audited consolidated financial statements for fiscal year 2012.

In fulfilling its responsibilities, the Audit Committee discussed with the independent registered public accounting firm the matters that are required to be discussed by Statement on Auditing Standards No. 61, *Communication with Audit Committees*, as amended and as adopted by the Public Company Accounting Oversight Board in Rule 3200T. In addition, the Audit Committee received from the independent registered public accounting firm the written disclosures and letter required by Public Company Accounting Oversight Board Ethics and Independence Rule 3526, *Communication with Audit Committees Concerning Independence*, and the Audit Committee discussed with the independent registered public accounting firm that firm's independence. In connection with this discussion, the Audit Committee also considered whether the provision of services by the independent registered public accounting firm not related to the audit of the Company's consolidated financial statements for fiscal year 2012 was compatible with maintaining the independent registered public accounting firm's independence. The Audit Committee's policy requires that the Audit Committee must approve any audit or permitted non-audit service proposed to be performed by its independent registered public accounting firm in advance of the performance of such service.

Based upon the Audit Committee's discussions with management and the independent registered public accounting firm and the Audit Committee's review of the representations of management and the report and written disclosures of the independent registered public accounting firm provided to the Audit Committee, the Audit Committee recommended to the Board that the audited consolidated financial statements as of and for the year ended December 31, 2012 be included in the Company's Annual Report on Form 10-K for filing with the SEC. We also approved, subject to stockholder ratification, the selection of KPMG LLP as the Company's independent registered public accounting firm for the fiscal year ending December 31, 2013.

*The Audit Committee*  
Robert A. Oakley, Ph.D., Chairman

W. Robert Dahl, Jr.

Marjorie W. Dorr

---

**Table of Contents**

**PROPOSAL 3 ADVISORY VOTE TO APPROVE THE COMPENSATION OF THE COMPANY'S NAME EXECUTIVE OFFICERS  
( SAY ON PAY )**

**Background of the Proposal**

The Dodd-Frank Act requires all public companies, beginning with their stockholder meetings on or after January 21, 2011, to hold a separate non-binding advisory stockholder vote to approve the compensation of executive officers as described in the Compensation Discussion and Analysis, the executive compensation tables and any related information in each such company's proxy statement (commonly known as a "Say on Pay" proposal). Pursuant to Section 14A of the Securities Exchange Act of 1934, as amended, we are holding a separate non-binding advisory vote on Say on Pay at the Annual Meeting.

**Say on Pay Proposal**

As discussed in the "Compensation Discussion and Analysis" section of this proxy statement, our executive compensation program is primarily structured to be competitive within the institutional pharmacy industry and focus our executives on profitability, achieving cost savings and providing quality services to our customers and to provide transparency to both our employees and stockholders. The Compensation Committee has adopted a compensation strategy in which total direct compensation is generally targeted at the 40<sup>th</sup> 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. The Board of Directors believes that our compensation program for our executive officers is appropriately based upon our performance and the individual performance and level of responsibility of the executive officers. We urge you to read the "Executive Compensation" section of this proxy statement for details on the Company's executive compensation programs.

The Say on Pay proposal is set forth in the following resolution:

RESOLVED, that the compensation paid to PharMerica Corporation's named executive officers, as disclosed pursuant to Item 402 of Regulation S-K, including the Compensation Discussion and Analysis, compensation tables and narrative discussion is hereby APPROVED.

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

**Recommendation of Our Board of Directors**

Our Board recommends a vote FOR the Say on Pay proposal.

**Required Vote**

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 is required to approve the Say on Pay proposal. 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.

**Table of Contents****SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT****Security Ownership of Directors, Management, and Owners of More Than 5% of the Company's Stock**

Listed below are the outstanding shares of the Company's common stock beneficially owned as of April 22, 2013 by (i) the Named Executives, (ii) the Company's directors; (iii) the Company's directors and executive officers as a group, and (iv) each person or entity that we know (based on filings of Schedules 13D and 13G with the SEC) to be the beneficial owner of more than 5% of any class of our voting securities. Unless otherwise indicated below, the address of these parties is 1901 Campus Place, Louisville, Kentucky 40299. To our knowledge, except as indicated in the footnotes to this table and pursuant to applicable community property laws, the persons listed in the table have sole investment and voting power with respect to all Company securities owned by them.

As of April 22, 2013, there were 29,696,363 shares of the Company's common stock outstanding. Beneficial ownership is determined in accordance with the rules of the SEC and generally includes voting or investment power with respect to securities. Shares of common stock and restricted stock units, options, warrants and convertible securities that will vest or are currently exercisable or convertible within 60 days of April 22, 2013 into shares of our common stock are deemed to be outstanding and to be beneficially owned by the person holding the restricted stock units, options, warrants or convertible securities for the purpose of computing the percentage ownership of the person.

Name of Beneficial Owner	Amount and Nature of Beneficial Ownership	Percent of Class
<b>Named Executives, Directors and Nominees</b>		
Gregory Weishar (1)(3)	1,279,019	4.31%
Michael Culotta (1)(2)	555,945	1.87%
Thomas Caneris (1)	203,120	*
Robert McKay (1)(3)	191,251	*
Anthony Hernandez (1)(3)	110,236	*
William Monast	39,046	*
David W. Froesel, Jr.		*
Thomas Mac Mahon (1)(2)(3)	61,983	*
Geoffrey Meyers (1)(2)	54,190	*
Frank Collins (1)(2)	49,983	*
Thomas Gerrity (1)(2)	49,983	*
Robert Oakley (1)(2)(3)	45,504	*
Marjorie Dorr (1)(2)	42,100	*
W. Robert Dahl, Jr. (1)(2)	39,222	*
Patrick LePore (2)	6,000	*
All directors, nominees and executive officers of the Corporation as a group (16 Persons)	2,188,966	7.37%
<b>Other Security Holders with More Than 5% Ownership</b>		
Heartland Advisors, Inc. (4)	2,580,951	8.69%
BlackRock, Inc. (5)	2,397,987	8.08%
Shapiro Capital Management LLC (6)	1,913,140	6.44%
Harris Associates, L.P. (7)	1,738,100	5.85%
LSV Asset Management (8)	1,721,000	5.80%
The Vanguard Group, Inc. (9)	1,671,361	5.63%
Dimensional Fund Advisors LP (10)	1,503,630	5.06%

- (1) Includes for the following persons shares of the Company's common stock which may be acquired pursuant to the exercise of vested stock options: Mr. Weishar 760,994, Mr. Culotta 414,894, Mr. Caneris 174,022, Mr. McKay 158,007, Mr. Hernandez 97,982, Mr. Collins 15,424, Mr. Gerrity 15,424, Mr. Mac Mahon 15,424, Mr. Oakley 13,600, Mr. Dahl, Jr. 9,568, Mrs. Dorr 13,831, Mr. Meyers 29,268.

---

**Table of Contents**

- (2) Includes restricted stock units that will vest within 60 days of April 22, 2013 as follows: Mr. Culotta 14,835, Mr. Collins 9,657, Mr. Gerrity 9,657, Mr. Mac Mahon 9,657, Mr. Oakley 9,657, Mr. Dahl 9,657, Ms. Dorr 9,657, Mr. Meyers 9,657, and Mr. LePore 6,000. The following shares of restricted stock awards and/or restricted stock units have been deferred by the election of the director which they are entitled to receive upon a triggering event: Mr Dahl 19,997, Ms. Dorr 12,106, and Mr. Meyers 7,273.
- (3) Includes for the following persons shares of the Company's common stock which they own through their own investment: Mr. Weishar 183,746, Mr. McKay 7,000, Mr. Mac Mahon 12,000, and Mr. Oakley 3,000.
- (4) The shares included in the table are based solely on the Schedule 13G/A filed with the SEC on February 7, 2013, in which Heartland Advisors, Inc., an investment adviser registered with the SEC, states that by virtue of its investment discretion and voting authority granted by certain clients, it beneficially owns on behalf of others and shares voting and dispositive power over 2,580,951 shares of the Company's common stock as follows: The Heartland Value Plus Fund, a series of the Heartland Group, Inc., a registered investment company, owns 2,500,000 shares of the Company's various other accounts managed by Heartland Advisors, Inc. on a discretionary basis. Its business address is 789 North Water Street, Milwaukee, WI 53202.
- (5) The shares included in the table are based solely on the Schedule 13G/A filed with the SEC on February 1, 2013, in which BlackRock, Inc. states that it has sole voting and dispositive power over 2,397,987 shares of the Company's common stock. Its business address is 40 East 52nd Street New York, NY 10022.
- (6) The shares included in the table are based solely on the Schedule 13G filed with the SEC on February 11, 2013, in which Shapiro Capital Management, LLC states that it has sole voting power over 1,432,375 shares of the Company's common stock and shared voting power over 480,765 shares and of the Company's common stock. Its business address is 3060 Peachtree Road, Suite 1555 Atlanta, GA 30305.
- (7) The shares included in the table are based solely on the Schedule 13G/A filed with the SEC on February 11, 2013 by Harris Associates L.P., in which Harris Associates L.P. states that it has sole voting and dispositive power over 1,738,100 shares of the Company's common stock. Its business address is Two North LaSalle Street, Suite 500, Chicago, IL 60602-3790.
- (8) The shares included in the table are based solely on the Schedule 13G filed with the SEC on February 13, 2013, in which LSV Asset Management states that it has sole and dispositive power over 1,721,000 shares of the Company's common stock. Its business address is 155 N. Wacker Drive, Suite 4600 Chicago, IL 60606.
- (9) The shares included in the table are based solely on the Schedule 13G/A filed with the SEC on February 11, 2013, in which The Vanguard Group, Inc. states that it has sole voting power over 49,015 shares of the Company's common stock, shared dispositive power over 47,115 shares of the Company's common stock and sole dispositive power over 1,671,361 shares of the Company's common stock. Its business address is 100 Vanguard Blvd. Malvern, PA 19355.
- (10) The shares included in the table are based solely on the Schedule 13G filed with the SEC on February 11, 2013, in which Dimensional Fund Advisors LP states that it has sole voting over 1,478,930 shares of the Company's common stock and sole dispositive power over 1,503,630 shares of the Company's common stock. Its business address is Palisades West, Building One, 6300 Bee Cave Road, Austin, TX 78746.



---

**Table of Contents**

**GENERAL INFORMATION**

*Other Matters.* As of the date of this Proxy Statement, the Company did not know of any other matter that will be presented for consideration at the Annual Meeting. However, if any other matter should come before the Annual Meeting, the persons named in the enclosed proxy (or their substitutes) will have discretionary authority to vote on the matter.

*Multiple Stockholders Sharing the Same Address.* The SEC has adopted rules that permit companies and intermediaries such as brokers to satisfy delivery requirements for proxy statements and annual reports with respect to two or more stockholders sharing the same address by delivering a single proxy statement and annual report addressed to those stockholders. This process, which is commonly referred to as householding, potentially provides extra convenience for stockholders and cost savings for companies. The Company will deliver a single proxy statement and annual report to multiple stockholders sharing an address unless contrary instructions have been received from the affected stockholders.

Once you have received notice from your broker or us that we will be householding materials to your address, householding will continue until you are notified otherwise or until you revoke your consent. If, at any time, you no longer wish to participate in householding and would prefer to receive a separate proxy statement and annual report, or if you are receiving multiple copies of the proxy statement and annual report and wish to receive only one, please notify your broker if your shares are held in a brokerage account or the Company if you hold registered shares. You can notify us by sending a written request to Corporate Secretary, 1901 Campus Place, Louisville, Kentucky 40299 or by contacting the Corporate Secretary at (502) 627-7000.

**Stockholder Proposals for 2014 Annual Meeting.**

Any stockholder proposal intended to be considered for inclusion in the Company's proxy materials for presentation at the 2014 Annual Meeting of Stockholders must be in writing and received by the Corporate Secretary of the Company not later than December 31, 2013.

Under our By-laws, and as permitted by the rules of the SEC, certain procedures are provided that a stockholder must follow to nominate persons for election as directors or to introduce an item of business at an annual meeting of stockholders. These procedures provide that nominations for director nominees and/or an item of business to be introduced at an annual meeting of stockholders must be submitted in writing to the Secretary of the Company at our principal executive offices. We must receive the notice of your intention to introduce a nomination or to propose an item of business at our 2014 Annual Meeting of Stockholders:

not fewer than 90 days nor more than 120 days prior to the first anniversary of the preceding year's annual meeting (which will be June 18, 2014); or

if the date of the annual meeting is more than 30 days before or more than 70 days after such anniversary date, not earlier than 120 days prior to such annual meeting and not later than the close of business on the later of the 90th day prior to such annual meeting or the 10th day following the day on which public announcement of the date of such meeting is first made.

We must receive notice of your intention to introduce a nomination or other item of business at that meeting not earlier than February 18, 2014 and not later than March 20, 2014. If we do not receive notice during that period, or if we meet certain other requirements of the SEC rules, the persons named as proxies in the proxy materials relating to that meeting will use their discretion in voting the proxies when these matters are raised at the meeting.

Notice of a proposed item of business must include:

the name and address of the stockholder giving the notice and any beneficial owner on whose behalf the nomination or proposal is made, as they appear on the Company's books;

**Table of Contents**

the class and number of shares of the Company which are owned of record by such stockholder and beneficially by such beneficial owner;

a representation that the stockholder is a holder of record of stock of the Company entitled to vote at such meeting and intends to appear in person or by proxy at the meeting to propose such business or nomination; and

a representation whether the stockholder or the beneficial owner, if any, intends or is part of a group which intends (i) to deliver a proxy statement and/or form of proxy to holders of at least the percentage of the Company's outstanding capital stock required to approve or adopt the proposal or elect the nominee and/or (ii) otherwise to solicit proxies from stockholders in support of such proposal or nomination.

Notice of a director nomination must include (as to each person whom the stockholder proposes to nominate for election or reelection as a director):

all information relating to such person that is required to be disclosed in solicitations of proxies for election of directors, or is otherwise required, in each case pursuant to Regulation 14A under the Exchange Act, or any successor provisions, including such person's written consent to being named in the proxy statement as a nominee and to serving as a director if elected; and

a statement whether such person, if elected, intends to tender, promptly following such person's election or reelection, an irrevocable resignation effective upon such person's failure to receive the required vote for reelection at the next meeting at which such person would face reelection and upon acceptance of such resignation by the Board, in accordance with the Company's By-Laws.

Notice of a proposed item of business must include:

a brief description of the business desired to be brought before the meeting;

the text of the proposal or business (including the text of any resolutions proposed for consideration and in the event that such business includes a proposal to amend the By-Laws of the Company, the language of the proposed amendment);

the reasons for conducting such business at the meeting; and

any material interest in such business of such stockholder and of any beneficial owner on whose behalf the proposal is made.

The chairman of the Annual Meeting may refuse to allow the transaction of any business, or to acknowledge the nomination of any person, not made in compliance with the foregoing procedures.

*Expenses of Solicitation.* Proxies will be solicited by mail, telephone, or other means of communication. Solicitation also may be made by our directors, officers and regular employees. The entire cost of solicitation will be borne by the Company.

By Order of the Board of Directors,  
GREGORY S. WEISHAR

Chief Executive Officer

Louisville, Kentucky

April 30, 2013

**Table of Contents**

**Table of Contents**