SAFARI HOLDING CORP
Form S-4/A
June 27, 2007
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As filed with the Securities and Exchange Commission on June 26, 2007

Registration No. 333-142940

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Amendment No. 2

To

Form S-4

REGISTRATION STATEMENT

UNDER

THE SECURITIES ACT OF 1933

Form S-1

REGISTRATION STATEMENT

UNDER

THE SECURITIES ACT OF 1933

SAFARI HOLDING CORPORATION*

(Exact Name of Registrant as Specified in Its Charter)

Delaware	**5122**	**87-0792558**
(State or Other Jurisdiction of Incorporation or Organization)	(Primary Standard Industrial Classification Code Number)	(I.R.S. Employer Identification No.)

1901 Campus Place

Louisville, Kentucky 40299

(502) 263-7216

(Address, Including Zip Code, and Telephone Number, Including Area Code, of Registrant s Principal Executive Offices)

Gregory S. Weishar

Chief Executive Officer

Safari Holding Corporation

1901 Campus Place

Louisville, Kentucky 40299

(502) 263-7216

(Name, Address, Including Zip Code, and Telephone Number, Including Area Code, of Agent For Service)

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Approximate date of commencement of proposed sale to the public: As soon as practicable following the effective date of this Registration Statement and the date on which all other conditions to the completion of the transaction described in the enclosed document have been satisfied or waived.

If the securities being registered on this Form are being offered in connection with the formation of a holding company and there is compliance with General Instruction G, check the following box: ¨

If this form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. ¨____________________

If this form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. ¨

The registrant hereby amends this Registration Statement on such date or dates as may be necessary to delay its effective date until the registrant shall file a further amendment which specifically states that this Registration Statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933, as amended or until the Registration Statement shall become effective on such date as the Commission, acting pursuant to said Section 8(a), may determine.

*This registrant is currently named Safari Holding Corporation. Before the closing of the transaction, the registrant will change its name.

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Exhibit 99.1

[AmerisourceBergen Corporation Logo]

AmerisourceBergen Corporation
P.O. Box 959
Valley Forge, PA 19482

, 2007

Dear Fellow Stockholder:

It is my pleasure to inform you that our board of directors has approved the combination of the institutional pharmacy business of PharMerica, Inc., or PharMerica LTC, with the institutional pharmacy business of Kindred Healthcare, Inc., or Kindred. Following this transaction, based upon pro forma revenues for the year ended December 31, 2006, the new publicly traded company created by this combination, which we refer to as NewCo, will be the second largest provider of institutional pharmacy services in the United States. Upon completion of the transaction NewCo will be renamed PharMerica Corporation.

To effect the combination, AmerisourceBergen will distribute all of the outstanding shares of PharMerica LTC to its stockholders and Kindred will distribute all of the outstanding shares of Kindred Pharmacy Services, Inc., or KPS, to its stockholders. We refer to these distributions as the spin-offs. Immediately following the spin-offs, PharMerica LTC and KPS will be merged into subsidiaries of NewCo, with PharMerica LTC and KPS surviving the mergers as operating subsidiaries of NewCo. In the mergers, the stockholders of AmerisourceBergen and Kindred will receive shares of NewCo common stock in exchange for the shares of common stock of PharMerica LTC and KPS that they are entitled to receive in the spin-offs. After completion of the transaction, which is generally intended to be tax-free to our stockholders, AmerisourceBergen and Kindred stockholders will each initially own approximately 50% of the outstanding shares of NewCo common stock. The combination does not include PMSI or TMESYS, our workers compensation services businesses, or any other parts of AmerisourceBergen, all of which we will retain as part of AmerisourceBergen.

NewCo is a Delaware corporation formed in anticipation of the transaction. NewCo has applied for listing of its common stock on the New York Stock Exchange under the symbol PMC .

The record date will be 5:00 p.m. Eastern Time on , 2007 for purposes of determining the holders of record of AmerisourceBergen and Kindred common stock entitled to receive PharMerica LTC and KPS common stock in the spin-offs. We will complete the transaction on or about , 2007.

If you sell your AmerisourceBergen shares prior to the effective time of the transaction, you may also be selling your right to receive shares of NewCo s common stock. You are encouraged to consult with your financial advisor regarding the specific implications of selling your AmerisourceBergen common stock prior to or at the effective time of the transaction.

We believe that spinning off and combining the institutional pharmacy businesses of AmerisourceBergen and Kindred into a stand-alone, publicly traded company is beneficial to you, our associates, our customers and our suppliers. By separating PharMerica LTC from AmerisourceBergen, both companies will be able to focus on their core businesses. NewCo will also be able to provide incentives to its employees tied directly to the performance of the institutional pharmacy business, without the constraints of being part of the diversified organizations of their former parent companies, and to capitalize on the market capabilities of the combined entity. We also expect NewCo to be able to reduce its costs and operate more efficiently as a stand-alone business, primarily as a result of pharmacy consolidations and overhead reductions.

I encourage you to read the enclosed preliminary prospectus, which is being provided to all of the stockholders of AmerisourceBergen and Kindred. It describes the transaction in detail and contains important business and financial information about NewCo.

I look forward to your continued support as a stockholder of AmerisourceBergen as we continue to work on your behalf to build long-term stockholder value.

Sincerely,

R. David Yost
Chief Executive Officer

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[Kindred Logo]

Kindred Healthcare, Inc.

680 South 4th Street

Louisville, KY 40202

, 2007

Dear Fellow Stockholder:

I am pleased to inform you that our board of directors has approved the combination of our institutional pharmacy business, Kindred Pharmacy Services, Inc., or KPS, with the institutional pharmacy services business of AmerisourceBergen Corporation. Following this transaction, based upon pro forma revenues for the year ended December 31, 2006, the new publicly traded company created by this combination, which we refer to as NewCo and which upon completion of the transaction will be renamed PharMerica Corporation, will be the second largest provider of institutional pharmacy services in the United States.

To effect the combination, Kindred will distribute all of the outstanding shares of KPS to its stockholders and AmerisourceBergen will distribute all of the outstanding shares of PharMerica, Inc., or PharMerica LTC, to its stockholders. We refer to these distributions as the spin-offs. Immediately following the spin-offs, KPS and PharMerica LTC will be merged into subsidiaries of NewCo, with KPS and PharMerica LTC surviving the mergers as operating subsidiaries of NewCo. In the mergers, the stockholders of Kindred and AmerisourceBergen are entitled to receive shares of NewCo common stock in exchange for the shares of common stock of KPS and PharMerica LTC that they are entitled to receive in the spin-offs. After the completion of the transaction, which is generally intended to be tax-free to our stockholders, Kindred and AmerisourceBergen stockholders will each initially own approximately 50% of the outstanding shares of NewCo common stock.

NewCo is a Delaware corporation formed in anticipation of the transaction. NewCo has applied for listing of its common stock on the New York Stock Exchange under the symbol PMC .

The record date will be 5:00 p.m. Eastern Time on , 2007 for purposes of determining the holders of record of Kindred and AmerisourceBergen common stock entitled to receive KPS and PharMerica LTC common stock in the spin-offs. We will complete the transaction on or about , 2007.

If you sell your Kindred shares prior to the effective time of the transaction, you may also be selling your right to receive shares of NewCo s common stock. You are encouraged to consult with your financial advisor regarding the specific implications of selling your Kindred common stock prior to or at the effective time of the transaction.

We believe that spinning off and combining the institutional pharmacy businesses of Kindred and AmerisourceBergen into a stand-alone, publicly traded company unlocks significant value to you and is beneficial to the customers, patients and employees of both organizations. Moreover, we believe that the strong fundamentals of the institutional pharmacy business, including the growth in the elderly population and the increased usage of prescription medication along with the growth prospects and efficiencies available to NewCo, has the potential to build long-term stockholder value. In particular, we believe that NewCo s scale will be sufficiently large that its prospects for growth and profitability will be greater than those of either KPS or PharMerica LTC on a stand-alone basis, mainly as a result of the anticipated synergies primarily relating to pharmacy consolidations and overhead reductions and other efficiencies of a larger entity.

I encourage you to read the enclosed preliminary prospectus, which is being provided to all of the stockholders of Kindred and AmerisourceBergen. It describes the transaction in detail and contains important business and financial information about NewCo.

I look forward to your continued support as a stockholder of Kindred as we continue to work on your behalf to build long-term stockholder value.

Sincerely,

Paul J. Diaz

President and Chief Executive Officer

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[PharMerica Logo]

PharMerica Corporation

1901 Campus Place

Louisville, KY 40299

, 2007

Dear Stockholder:

We are very pleased that you will soon be a stockholder of PharMerica Corporation, which we refer to in this document as NewCo. NewCo was formed on October 23, 2006 in anticipation of the spin-offs of the institutional pharmacy services businesses of AmerisourceBergen Corporation and Kindred Healthcare, Inc. and the subsequent merger of those businesses into two of NewCo s subsidiaries. Upon completion of the transaction, NewCo will change its name to PharMerica Corporation. Following the transaction, you will be a stockholder of the second largest provider of institutional pharmacy services in the United States, based upon pro forma revenues for the year ended December 31, 2006.

Our goal is to become the premier institutional pharmacy services business in the United States. We believe that our combined strengths, such as our knowledge of the institutional pharmacy market, our cost-effective services and our relationships with our customers, will position us to achieve our goals.

We believe that as a stand-alone, publicly traded company, PharMerica Corporation will be able to effectively execute its business strategy, satisfy the capital needs of the combined businesses and enhance stockholder value. We will focus on increasing our market share through both organic growth and, where appropriate, accretive acquisitions. We also will have the ability to offer our employees equity incentives linked to the performance of our stock, which we believe will directly align their interests with those of all of our stockholders.

We have applied for listing of PharMerica Corporation common stock on the New York Stock Exchange under the symbol PMC .

I encourage you to learn more about NewCo and our proposed business strategy by reading the enclosed preliminary prospectus. Our board, management and employees are excited about our future, and we look forward to your support and participation in our success.

Sincerely,

Gregory S. Weishar

Chief Executive Officer

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The information in this prospectus is not complete and may be changed. We may not distribute or issue these securities until the registration statement filed with the Securities and Exchange Commission is effective. This prospectus is not an offer to distribute these securities and we are not soliciting offers to receive these securities in any state where the offer or distribution is not permitted.

SUBJECT TO COMPLETION, DATED JUNE 26, 2007

PRELIMINARY PROSPECTUS

Safari Holding Corporation

Common Stock

The boards of directors of AmerisourceBergen Corporation, which we refer to as AmerisourceBergen, and Kindred Healthcare, Inc., which we refer to as Kindred, have determined to form Safari Holding Corporation, which we refer to as NewCo, as a new publicly traded company that will acquire and operate their combined institutional pharmacy services businesses following a series of transactions, which we refer to collectively as the transaction. As a result of the transaction, the stockholders of AmerisourceBergen and Kindred will each initially own approximately 50% of the outstanding shares of NewCo common stock. To effect the transaction, AmerisourceBergen and Kindred will distribute their respective institutional pharmacy services businesses of PharMerica, Inc., which we refer to as PharMerica LTC, and Kindred Pharmacy Services, Inc., which we refer to as KPS, to their respective stockholders. We refer to these distributions as the spin-offs. Each of PharMerica LTC and KPS will then merge with a different wholly-owned subsidiary of NewCo, which we refer to as the mergers. In the mergers, the shares of PharMerica LTC and KPS common stock that stockholders of AmerisourceBergen and Kindred are entitled to receive in the spin-offs will be converted into shares of NewCo common stock. Shares of PharMerica LTC and KPS common stock will not be delivered to stockholders of AmerisourceBergen and Kindred, but will be held in trust by the distribution agent until they are converted into shares of NewCo common stock in connection with the mergers. Following consummation of the mergers, PharMerica LTC and KPS will be operating subsidiaries of NewCo. Upon completion of the transaction, NewCo will change its name to PharMerica Corporation and PharMerica LTC will change its name to PharMerica Long-Term Care, Inc.

Immediately following the transaction, our assets and business will consist almost exclusively of the institutional pharmacy services businesses of AmerisourceBergen and Kindred that are reported as the long-term care business of AmerisourceBergen s PharMerica segment and Kindred s Pharmacy Division in their respective financial statements. The combination will not include AmerisourceBergen s workers compensation services business and its retail pharmacy business, both of which were reported in its PharMerica segment but are being retained by AmerisourceBergen. Following the transaction, stockholders of AmerisourceBergen and Kindred will continue to own the shares of AmerisourceBergen and Kindred that they owned before the transaction, as well as shares of NewCo.

No vote or other action is required by you to receive shares of our common stock in connection with the transaction. You will not be required to pay anything for the new shares or to surrender any of your shares of AmerisourceBergen or Kindred common stock. We are not asking you for a proxy and you should not send us a proxy or your share certificates.

There currently is no trading market for our common stock. We have applied for listing of our common stock on the New York Stock Exchange, or NYSE, under the symbol PMC .

In reviewing this preliminary prospectus, you should carefully consider the matters described under the caption Risk Factors beginning on page 19.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved these securities or determined if this preliminary prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

The date of this preliminary prospectus is , 2007.

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This preliminary prospectus is being furnished solely to provide information to the stockholders of AmerisourceBergen and Kindred who will receive shares of our common stock in connection with the transaction. It is not and is not intended to be construed as an inducement or encouragement to buy or sell any of our securities or any securities of either AmerisourceBergen or Kindred. This preliminary prospectus describes our business, the relationship among AmerisourceBergen, Kindred and NewCo, and how the transaction affects AmerisourceBergen and Kindred and their respective stockholders, and provides other

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information to assist you in evaluating the benefits and risks of holding our common stock that you will receive in connection with the transaction. You should be aware of certain risks relating to the transaction, our business and the ownership of our common stock, which are described under the heading Risk Factors.

You should not assume that the information contained in this preliminary prospectus is accurate as of any date other than the date set forth on the cover. Changes to the information contained in this preliminary prospectus may occur after that date, and we undertake no obligation to update this information, except in the normal course of our public disclosure obligations and practices.

References in this preliminary prospectus to we, us or our are to Safari Holding Corporation, which we refer to as NewCo , and which will be renamed PharMerica Corporation upon consummation of the transaction, and its subsidiaries assuming consummation of the transaction, unless the context indicates a different usage. References to former parent company or companies are, as applicable, to AmerisourceBergen Corporation, which we refer to as AmerisourceBergen, and to Kindred Healthcare, Inc., which we refer to as Kindred . We refer to PharMerica, Inc. (excluding the workers compensation services business and retail pharmacy business) as PharMerica LTC and to Kindred Pharmacy Services, Inc. as KPS .

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QUESTIONS AND ANSWERS ABOUT THE TRANSACTION

Q: Why am I receiving this document?

A: You are receiving this document because you were a holder of shares of AmerisourceBergen and/or Kindred common stock on the record date for the spin-offs of the institutional pharmacy services businesses of AmerisourceBergen and Kindred and, as such, will be entitled to receive shares of our common stock upon completion of the transaction described in this preliminary prospectus. We are sending you this document to inform you about the transaction, the distributions and the subsequent combination of the institutional pharmacy services businesses of AmerisourceBergen and Kindred into one stand-alone, publicly traded company and to provide you with information about our company and its business and operations upon completion of the transaction.

Q: What do I have to do to participate in the transaction?

A: Nothing. You will not be required to pay any cash or deliver any other consideration in order to receive the shares of our common stock that you will be entitled to receive upon completion of the transaction. In addition, you are not being asked to provide a proxy with respect to any of your shares of AmerisourceBergen or Kindred common stock in connection with the transaction and you should not send us a proxy or your share certificates.

Q: What is NewCo?

A: We were formed as Safari Holding Corporation, a Delaware corporation, in anticipation of the transaction. Upon completion of the transaction, we will be a holding company for PharMerica LTC and KPS and will change our name to PharMerica Corporation.

Q: What are PharMerica LTC and KPS?

A: PharMerica LTC and KPS are subsidiaries of AmerisourceBergen and Kindred, respectively. These subsidiaries contain AmerisourceBergen s and Kindred s institutional pharmacy services businesses. The assets and liabilities of PharMerica LTC are largely those that AmerisourceBergen reported as the long-term care business of the PharMerica segment in its financial statements prior to the spin-off of PharMerica LTC (excluding AmerisourceBergen s workers compensation services business and its retail pharmacy business, which will be retained by AmerisourceBergen). The assets and liabilities of KPS are largely those that Kindred reported as the Pharmacy Division segment in its financial statements prior to the spin-off of KPS.

Q: How will AmerisourceBergen and Kindred combine PharMerica LTC and KPS?

A: AmerisourceBergen and Kindred will combine PharMerica LTC and KPS in two steps.

First, AmerisourceBergen and Kindred will distribute all of the outstanding shares of common stock of PharMerica LTC and KPS, respectively, to the holders of AmerisourceBergen and Kindred common stock, respectively, on the record date. We refer to these distributions as the spin-offs.

Second, immediately after the spin-offs, Hippo Merger Corporation, a Delaware corporation and wholly-owned subsidiary of NewCo, will merge with and into PharMerica LTC, with PharMerica LTC as the surviving corporation, and Rhino Merger Corporation, a Delaware corporation and wholly-owned subsidiary of NewCo, will merge with and into KPS, with KPS as the surviving corporation. At the effective time of the mergers, PharMerica LTC and KPS will become wholly-owned subsidiaries of NewCo, and the shares of PharMerica LTC and KPS common stock will be converted into shares of our common stock.

Q: Will AmerisourceBergen or Kindred control NewCo after the spin-offs?

A: No. After the spin-offs, NewCo will be a stand-alone, publicly traded company, and neither AmerisourceBergen nor Kindred will have any ownership interest in us.

Q: Why are AmerisourceBergen and Kindred spinning off and combining their institutional pharmacy services businesses?

A: AmerisourceBergen s and Kindred s boards of directors have determined that it is in the best interests of their stockholders to combine their institutional pharmacy businesses in a new stand-alone, publicly traded company. In making the determination to approve the transaction, AmerisourceBergen s and Kindred s respective boards of directors considered that the transaction would:

- enable investors to invest directly in a stand-alone institutional pharmacy services company;
- allow Kindred and AmerisourceBergen to focus on their core businesses;
- allow resources to be applied directly and more efficiently in the institutional pharmacy services business;
- create a larger and more competitive institutional pharmacy services business;
- provide the institutional pharmacy services business with direct access to capital to pursue their business strategy; and
- create more effective equity incentives for the key employees of AmerisourceBergen, Kindred and NewCo.

See The Transaction Reasons of the AmerisourceBergen Board of Directors for the Transaction and The Transaction Reasons of the Kindred Board of Directors for the Transaction.

Q: What is the record date for the spin-offs?

A: The record date is , 2007, and ownership will be determined as of 5:00 p.m., Eastern Time, on that date. When we refer to the record date, we are referring to that time and date.

Q: When will the transaction occur?

A: The transaction is expected to occur on or about , 2007. We refer to this date as the closing date.

Q: How does my ownership in AmerisourceBergen or Kindred change as a result of the transaction?

A: The number of shares of AmerisourceBergen and Kindred common stock you own will not change as a result of the transaction, although the value of shares of AmerisourceBergen and Kindred common stock may decline as a result of the transaction because AmerisourceBergen and Kindred will no longer own their respective institutional pharmacy services businesses.

Q: Will shares of PharMerica LTC or KPS be distributed to me as a result of the spin-offs?

A: No. In connection with the spin-offs, AmerisourceBergen and Kindred will each distribute a single certificate representing all of the outstanding shares of PharMerica LTC and KPS common stock, respectively, to The Bank of New York, whom we refer to as the distribution agent. The distribution agent will hold the certificates in trust for your benefit until the shares represented by the certificates are converted into shares of our common stock in the mergers.

Q: Will shares of NewCo be distributed to me as a result of the mergers?

A: Yes. At the effective time of the mergers, shares of PharMerica LTC and KPS common stock will be converted into shares of our common stock. If you are an AmerisourceBergen stockholder, you will be entitled to receive approximately shares of our common stock in respect of each share of AmerisourceBergen

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common stock held by you on the record date for the spin-offs. If you are a Kindred stockholder, you will be entitled to receive approximately shares of our common stock in respect of each share of Kindred common stock held by you on the record date for the spin-offs. If, however, you sell your AmerisourceBergen or Kindred shares prior to the effective time of the transaction, you may also be selling your right to receive shares of our common stock. You are encouraged to consult with your financial advisor regarding the specific implications of selling your AmerisourceBergen or Kindred common stock prior to or at the effective time of the transaction.

Q: How will shares of NewCo be distributed to me?

A: Prior to the effective time, we will deposit with the distribution agent for your benefit the shares of our common stock issuable to you in the mergers. At the effective time, AmerisourceBergen and Kindred will instruct the distribution agent to make book-entry credits for the shares of our common stock that you are entitled to receive. Since shares of our common stock will be in uncertificated book-entry form, you will receive share ownership statements in place of physical share certificates.

Q: How will fractional shares be treated in the mergers?

A: You will not receive fractional shares of our common stock in the mergers. The distribution agent will aggregate and sell on the open market the fractional shares of our common stock that would otherwise be issued in the mergers, and if you would be entitled to receive a fractional share of our common stock in connection with the mergers, you will instead receive the net cash proceeds of the sale attributable to such fractional share.

Q: Do I have appraisal rights?

A: No. AmerisourceBergen and Kindred stockholders do not have any appraisal rights in connection with the transaction.

Q: How will NewCo s common stock trade?

A: There is currently no public market for our common stock. We have applied for listing of our common stock on the NYSE under the symbol PMC .

We anticipate that trading in our common stock will commence on a when-issued basis shortly before the record date. When-issued trading in the context of the transaction refers to trading in NewCo common stock on or before the closing date, prior to the issuance of our common stock in the mergers. When-issued trades will generally settle within three days after the closing date. On the first trading day following the closing date, we expect when-issued trading in respect of our common stock to end and regular way trading to begin. Regular way trading typically involves a trade that settles on the third full trading day following the date of the trade.

Q: At what price will my NewCo stock trade?

A: We cannot predict the trading price for NewCo s common stock before or after the closing date.

Q: What are the U.S. federal income tax consequences to me of the transaction?

A: Except with respect to cash you receive in lieu of fractional shares of our common stock, we expect the transaction to qualify for tax-free treatment to you for U.S. federal income tax purposes. See The Transaction Material U.S. Federal Income Tax Consequences of the Transaction.

Q: Who is the transfer agent for NewCo common stock?

A: The Bank of New York is the transfer agent for our common stock.

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SUMMARY

This summary highlights selected information contained in this preliminary prospectus. We urge you to carefully read this preliminary prospectus in its entirety. References in this preliminary prospectus to we, us or our are to Safari Holding Corporation, which we refer to as NewCo and which will be renamed PharMerica Corporation upon consummation of the transaction, and its subsidiaries assuming consummation of the transaction, unless the context indicates a different usage. References to former parent company or companies are, as applicable, to AmerisourceBergen Corporation, which we refer to as AmerisourceBergen, and to Kindred Healthcare, Inc., which we refer to as Kindred . We refer to PharMerica, Inc. (excluding the workers compensation services business and retail pharmacy business) as PharMerica LTC and to Kindred Pharmacy Services, Inc. as KPS . The unaudited pro forma financial and operating information for NewCo for the three months ended March 31, 2007 contained elsewhere in this preliminary prospectus is based upon information for both KPS and PharMerica LTC for the three months ended March 31, 2007. The unaudited pro forma financial and operating information for NewCo for the year ended December 31, 2006 contained in this preliminary prospectus is based upon information for KPS for the year ended December 31, 2006 and for PharMerica LTC for the year ended September 30, 2006. The unaudited pro forma financial and statistical information for NewCo as of March 31, 2007 is based upon information for KPS and PharMerica LTC as of March 31, 2007.

Our Company

We are an institutional pharmacy services company servicing healthcare facilities. We are the second largest institutional pharmacy services company in the United States based upon pro forma revenues of PharMerica LTC and KPS for the year ended December 31, 2006. As of March 31, 2007, we operated more than 120 institutional pharmacies in 40 states that serve approximately 310,000 licensed beds for patients and residents of long-term care facilities. We provide pharmacy services to approximately 4,300 facilities, including 225 skilled nursing facilities owned by Kindred. We also provide pharmacy management services to long-term acute care hospitals including substantially all of the long-term acute care hospitals operated by Kindred, which accounted for revenues of approximately $51 million for the year ended December 31, 2006. We generate a substantial amount of our revenue through reimbursement from government-sponsored programs, such as Medicare and Medicaid. For the year ended December 31, 2006, we derived approximately 55% of our pro forma revenues from Medicare, 17% from Medicaid and 28% from private payors, such as commercial insurance companies, health maintenance organizations, preferred provider organizations and contract providers.

Our core business provides pharmacy products and services to residents and patients in long-term healthcare facilities, including skilled nursing facilities, assisted living facilities, hospitals and other alternative care settings. We purchase, repackage and dispense prescription and non-prescription pharmaceuticals in accordance with physician orders and deliver such medication to healthcare facilities for administration to individual patients and residents. Our institutional pharmacies typically service healthcare facilities within a radius of 120 miles or less of our pharmacy locations at least once each day. Each institutional pharmacy provides 24-hour, seven-day per week on-call pharmacist services for emergency dispensing, delivery and/or consultation. We also provide various supplemental healthcare services that complement our institutional pharmacy services, such as infusion therapy services and formulary management and other pharmacy consulting services.

Our assets and liabilities will consist almost exclusively of those that AmerisourceBergen and Kindred attribute to their institutional pharmacy businesses and that were reported as the long-term care business of AmerisourceBergen s PharMerica segment (excluding AmerisourceBergen s workers compensation services business and retail pharmacy businesses, which will be retained by AmerisourceBergen) and Kindred s Pharmacy Division segment in their financial statements. After the transaction, we will be a stand-alone, publicly traded company.

We were incorporated in Delaware in October 2006. From our incorporation until the consummation of the mergers, AmerisourceBergen and Kindred have owned and will each own 50% of our common stock. At the effective time of the mergers, the shares of our common stock owned by AmerisourceBergen and Kindred will be returned to us, and shares of PharMerica LTC and KPS common stock will be converted into shares of our common stock. Following the conversion, we will be a stand-alone, publicly traded company, and neither AmerisourceBergen nor Kindred will have any ownership interest in us.

Our principal executive offices will be located at 1901 Campus Place, Louisville, Kentucky 40299 and our main telephone number will be (502) 263-7216. We were incorporated in Delaware on October 23, 2006.

The Transaction

Assets and Liabilities Transferred

We have entered into a master transaction agreement, dated October 25, 2006, as amended, by and among AmerisourceBergen, PharMerica LTC, Kindred, KPS, Kindred Healthcare Operating, Inc. (which we refer to as KHO), NewCo, Hippo Merger Corporation and Rhino Merger Corporation, which we refer to as the master transaction agreement, that governs the separation and spin-offs of the PharMerica LTC and KPS businesses from AmerisourceBergen and Kindred, respectively, the conversion of shares of PharMerica LTC and KPS common stock into shares of our common stock in the mergers and the distribution of those shares. The master transaction agreement also contains provisions that govern our organization and operations following consummation of the transaction. The master transaction agreement identifies the assets to be transferred, the liabilities to be assumed and contracts to be assigned to PharMerica LTC and KPS in the spin-offs and describes how these transfers, assumptions and assignments will occur. In general, these assets, liabilities and contracts will be those relating to the institutional pharmacy services businesses of PharMerica LTC and KPS and their respective employees, excluding certain businesses that are being retained by AmerisourceBergen comprised of PMSI, Inc., or PMSI, and TMESYS, Inc., or TMESYS, AmerisourceBergen s workers compensation businesses and of AmerisourceBergen s retail pharmacy business.

Cash Distributions to Parent Companies; NewCo Financing

Immediately prior to the spin-offs, PharMerica LTC will make a cash distribution to AmerisourceBergen, which we refer to as the AmerisourceBergen cash distribution, and KPS will make a cash distribution to KHO, which we refer to as the Kindred cash distribution. The AmerisourceBergen cash distribution and the Kindred cash distribution will each be in an amount equal to $125 million as adjusted for changes to the working capital of PharMerica LTC or KPS, as applicable, outside of an agreed upon working capital range.

The boards of directors of AmerisourceBergen and Kindred considered a number of alternatives and structures for the transaction, including the final structure that calls for the AmerisourceBergen cash distribution and the Kindred cash distribution. The AmerisourceBergen cash distribution reflects the fact that AmerisourceBergen has historically funded the daily operations of PharMerica LTC through a centralized cash management and debt management system. The net amounts contributed to PharMerica LTC, including the assumption of third party debt, have exceeded the $125 million AmerisourceBergen cash distribution contemplated in the transaction.

The Kindred cash distribution reflects the fact that Kindred has funded through capital contributions several acquisitions made by KPS and the development of new pharmacy locations that will remain with KPS as part of the transaction. In the last two fiscal years, Kindred has contributed approximately $120 million to KPS for acquisition and development projects. In addition, although Kindred s stockholders will directly benefit from the transaction through their ownership of NewCo common stock, Kindred s board of directors also considered the impact on Kindred of earnings foregone as a result of the transaction, particularly in light of the funding by Kindred of KPS s growth.

To finance the cash distributions, each of PharMerica LTC and KPS will enter into a financing arrangement prior to the spin-offs in an amount sufficient to fund its cash distribution. We refer to these financings as the initial financings. At closing, we will enter into a new senior secured credit facility in an amount sufficient to refinance the initial financings immediately after closing and to provide us with sufficient cash for operations following the closing.

Spin-offs of PharMerica LTC and KPS

Prior to the mergers, AmerisourceBergen and Kindred will distribute all of the outstanding shares of common stock of PharMerica LTC and KPS, respectively, to the distribution agent in trust for the benefit of the holders of AmerisourceBergen and Kindred common stock, respectively, on , the record date for the distributions. In connection with the distributions, which we refer to as the spin-offs, AmerisourceBergen and Kindred will each deliver a single certificate representing all of the outstanding shares of common stock of PharMerica LTC and KPS, respectively, to the distribution agent on the closing date. The distribution agent will hold these shares in trust for the benefit of the holders of record of AmerisourceBergen common stock and Kindred common stock on the record date pending conversion of such shares into shares of our common stock in the mergers. After the spin-offs, AmerisourceBergen and Kindred will not retain any ownership interest in PharMerica LTC or KPS.

The Mergers of PharMerica LTC and KPS with Subsidiaries of NewCo

Immediately after the spin-offs, Hippo Merger Corporation, a Delaware corporation and wholly-owned subsidiary of NewCo, will merge with and into PharMerica LTC, with PharMerica LTC as the surviving corporation. Simultaneously, Rhino Merger Corporation, a Delaware corporation and wholly-owned subsidiary of NewCo, will merge with and into KPS, with KPS as the surviving corporation. At the effective time of the mergers, PharMerica LTC and KPS will become wholly-owned subsidiaries of NewCo, and the shares of PharMerica LTC and KPS common stock will be converted into shares of our common stock. Each AmerisourceBergen stockholder will be entitled to receive approximately shares of our common stock in respect of each share of AmerisourceBergen common stock held on the record date and each Kindred stockholder will be entitled to receive approximately shares of our common stock in respect of each share of Kindred common stock held on the record date. If a holder of AmerisourceBergen or Kindred shares sells such shares prior to the effective time of the transaction, such holder may also be selling the right to receive shares of our common stock. Such stockholder is encouraged to consult with its financial advisor regarding the specific implications of selling its AmerisourceBergen or Kindred common stock prior to or at the effective time of the transaction. AmerisourceBergen stockholders and Kindred stockholders will each initially own approximately 50% of the outstanding shares of our common stock.

Distribution Procedures

Prior to the effective time, we will deposit with the distribution agent for your benefit the shares of our common stock issuable to you in the mergers. At the effective time, AmerisourceBergen and Kindred will instruct the distribution agent to make book-entry credits for the shares of our common stock that you are entitled to receive. Since shares of our common stock will be in uncertificated book-entry form, you will receive share ownership statements in place of physical share certificates.

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Fractional Shares

You will not receive fractional shares of our common stock in the mergers. The distribution agent will aggregate and sell on the open market the fractional shares of our common stock that would otherwise be issued in the mergers, and if you would be entitled to receive a fractional share of our common stock in connection with the mergers, you will instead receive the net cash proceeds of the sale attributable to such fractional share.

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The following diagrams illustrate the different steps, ownership positions and transfers associated with the transaction:

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Conditions to the Completion of the Transaction

The completion of the transaction is subject to the satisfaction or waiver of a number of conditions, including the following:

- absence of legal prohibitions on the completion of the transaction and absence of any pending action or proceeding by any governmental authority seeking to make the transaction illegal or otherwise prohibit consummation of the transaction;
- receipt of certain regulatory permits, consents and approvals as described below in Regulatory Approvals ;
- delivery of opinions of counsel to AmerisourceBergen and Kindred with respect to certain tax matters and receipt by AmerisourceBergen and Kindred of private letter rulings from the Internal Revenue Service, or the IRS, with respect to certain tax matters. See The Transaction Material U.S. Federal Income Tax Consequences of the Transaction ;
- payment by PharMerica LTC and KPS, respectively, of the AmerisourceBergen cash distribution and the Kindred cash distribution;
- receipt of all waivers, consents and amendments required under the existing credit agreements of AmerisourceBergen and Kindred;
- satisfaction of the board of directors of each of AmerisourceBergen and Kindred that, after giving effect to the transaction, NewCo will be solvent;
- satisfaction of the board of directors of (1) Pharmacy Corporation of America, a wholly-owned subsidiary of PharMerica, Inc., which we refer to as PCA, that, after giving effect to the transfer of PCA s wholly-owned subsidiaries PMSI and TMESYS to AmerisourceBergen or a subsidiary of AmerisourceBergen, PCA will be solvent, (2) PharMerica, Inc. (i) that the AmerisourceBergen cash distribution will be made out of surplus as defined in Section 170 of the Delaware General Corporation Law, which we refer to as the DGCL, and (ii) that, after giving effect to such distribution, PharMerica LTC will be solvent, and (3) AmerisourceBergen (i) that the spin-off of PharMerica LTC to the stockholders of AmerisourceBergen will be made out of surplus as defined in Section 170 of the DGCL and (ii) that, after giving effect to such distribution, AmerisourceBergen will be solvent;
- satisfaction of the board of directors of (1) KPS (i) that the Kindred cash distribution will be made out of surplus as defined in Section 170 of the DGCL and (ii) that, after giving effect to such distribution,

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KPS will be solvent, (2) KHO (i) that the distribution of KPS to Kindred will be made out of surplus as defined in Section 170 of the DGCL and (ii) that, after giving effect to such distribution, KHO will be solvent and (3) Kindred (i) that the spin-off of KPS to the stockholders of Kindred will be made out of surplus as defined in Section 170 of the DGCL and (ii) that, after giving effect to such distribution, Kindred will be solvent; and

accuracy as of the date specified in the master transaction agreement of the representations and warranties made by AmerisourceBergen and Kindred, to the extent specified in the master transaction agreement and material compliance by AmerisourceBergen and Kindred with their respective obligations under the master transaction agreement.

Regulatory Approvals

Under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended, the transaction could not be completed unless the parties had filed required notifications with the Federal Trade Commission and the Antitrust Division of the United States Department of Justice and applicable waiting time requirements had expired. AmerisourceBergen and Kindred filed the required notification and report forms on August 15, 2006, and the applicable waiting period expired on September 14, 2006.

In addition, PharMerica LTC and KPS are subject to extensive federal, state and local regulations that govern institutional pharmacies and healthcare facilities. Pursuant to such regulations, institutional pharmacies must be properly licensed by the applicable state board of pharmacy and the U.S. Drug Enforcement Administration, or the DEA. Institutional pharmacies must also obtain the permits required under applicable controlled substances laws and by the applicable state board of pharmacy and the DEA. In addition, institutional pharmacies must have appropriate authorizations from state Medicaid and the federal Medicare programs to receive reimbursement for covered items and services. It is a condition to the completion of this transaction that we receive all of the permits, consents and approvals listed above, other than those permits, consents and approvals the failure of which to obtain would not, individually or in the aggregate, have an effect that would reasonably be expected to be adverse and material to our business and operation. We are working to obtain the required regulatory permits, consents and approvals.

Termination of the Master Transaction Agreement

The master transaction agreement may be terminated at any time before the effective time of the transaction in specified ways, including the following:

by mutual written agreement of AmerisourceBergen and Kindred;

by either AmerisourceBergen or Kindred if:

the transaction has not been consummated on or before September 30, 2007, *provided* that neither AmerisourceBergen nor Kindred may terminate the master transaction agreement for this reason if its breach of any provision of the master transaction agreement has resulted in the failure of the transaction to be consummated on or before such date, *provided*, *further* that either party may extend such date until October 31, 2007 if the transaction has not been consummated solely as a result of the failure to satisfy the mutual closing condition requiring receipt of certain state and federal permits and approvals if either AmerisourceBergen or Kindred delivers a notice to the other indicating that it believes in good faith that such condition will be satisfied by October 31, 2007; or

any applicable law makes the transaction illegal or completion of the transaction is enjoined;

by AmerisourceBergen if any of the mutual closing conditions or the closing conditions for the benefit of AmerisourceBergen, PharMerica LTC and Hippo Merger Corporation have not been satisfied by

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September 30, 2007, *provided* that AmerisourceBergen may not terminate the master transaction agreement for this reason if its breach of any provision of the master transaction agreement has resulted in the failure of such condition to closing to be satisfied; or

by Kindred if any of the mutual closing conditions or the closing conditions for the benefit of Kindred, KHO, KPS and Rhino Merger Corporation have not been satisfied by September 30, 2007, *provided* that Kindred may not terminate the master transaction agreement for this reason if its breach of any provision of the master transaction agreement has resulted in the failure of such condition to closing to be satisfied.

In addition, the master transaction agreement contains other conditions that allow for its termination that, as of the date of this preliminary prospectus, have been met.

If the master transaction agreement is validly terminated, the agreement will become void without any liability on the part of any party unless the termination results from a party s knowing and willful breach of certain provisions of the master transaction agreement or the tax matters agreement, dated October 25, 2006, among NewCo, AmerisourceBergen, PharMerica LTC, Kindred and KPS, which we refer to as the tax matters agreement, or knowing and willful failure to use reasonable best efforts to fulfill a closing condition.

Post-Closing Indemnities

After the effective time, AmerisourceBergen and Kindred will severally and not jointly indemnify us, and we will indemnify each of AmerisourceBergen and Kindred, for all damages, liabilities and expenses resulting from a breach by the applicable party of the covenants contained in the master transaction agreement. AmerisourceBergen and Kindred will severally and not jointly indemnify us for all damages, liabilities and expenses incurred by us relating to the entities, assets and liabilities retained by the applicable parent company, and we will indemnify AmerisourceBergen and Kindred for all damages, liabilities and expenses incurred by each of them relating to our entities, assets and liabilities. AmerisourceBergen and Kindred will severally and not jointly indemnify us against all damages, liabilities and expenses resulting from a breach of their respective representations and warranties in the master transaction agreement, provided that each parent company will only be liable to us for breaches of its representations and warranties to the extent our damages from such breaches exceed $30 million in the aggregate (and only to the extent that our damages exceed $30 million) and each parent company will generally not be liable for damages in excess of $155 million. The representations and warranties in the master transaction agreement will survive the effective time for a period of 15 months.

In addition, AmerisourceBergen and Kindred will severally and not jointly indemnify us, and we will indemnify each of AmerisourceBergen and Kindred, for all damages, liabilities and expenses resulting from a breach by the applicable party of any of the representations, warranties or covenants contained in the tax matters agreement. We also will indemnify each of AmerisourceBergen and Kindred for all damages, liabilities and expenses arising out of any tax imposed with respect to the applicable spin-off if such tax is attributable to any act, any failure to act or any omission by us or any of our subsidiaries. AmerisourceBergen and Kindred will severally and not jointly indemnify us for all damages, liabilities and expenses relating to pre-closing taxes or taxes imposed on us or our subsidiaries because PharMerica LTC or KPS was part of the consolidated return of the applicable parent company, and we will indemnify each of AmerisourceBergen and Kindred for all damages, liabilities and expenses relating to post-closing taxes of us or our subsidiaries.

Relationship with the Parent Companies after the Transaction

NewCo will be an independent, publicly traded company after the transaction. We will, however, have agreements with AmerisourceBergen and Kindred providing for future services to and by us. We are a party to the tax matters agreement, which governs our respective obligations with respect to taxes for the periods before and after the closing of the transaction. We also will purchase pharmaceuticals from AmerisourceBergen for a period of five years after the closing of the transaction pursuant to a prime vendor agreement with AmerisourceBergen Drug Corporation, a wholly-owned subsidiary of AmerisourceBergen. Under the prime vendor agreement, AmerisourceBergen Drug Corporation also will support the distribution of pharmaceuticals that we purchase directly from manufacturers and provide inventory management support and packaging services. In addition, we will provide institutional pharmacy services to 225 nursing centers operated by Kindred and provide pharmacy management services to 81 long-term acute care hospitals operated by Kindred. For a period of five years after the closing of the transaction, Kindred will provide us with information services and support. In addition, for a period of up to 12 months after the closing of the transaction, Kindred and AmerisourceBergen will provide us with certain corporate administrative services, such as accounting, treasury, human resources, tax, risk management, internal audit, employee benefit administration and financial reporting, and we will provide AmerisourceBergen with certain transition services for AmerisourceBergen s workers compensation services business. For a description of additional agreements we have entered into or will enter into with AmerisourceBergen, Kindred or one of their subsidiaries, see Additional Agreements with AmerisourceBergen and Kindred.

Dividend Policy

Currently, we do not intend to pay dividends on our common stock in the foreseeable future. Instead, we intend to retain all available funds and any future earnings for use in the operation of our business.

Management of NewCo

Pursuant to the terms of the master transaction agreement, our board of directors will initially consist of nine directors, four of whom will be designated by AmerisourceBergen, four of whom will be designated by Kindred and one of whom will be our chief executive officer, Mr. Gregory S. Weishar. AmerisourceBergen intends to designate , , and R. David Yost, AmerisourceBergen s Chief Executive Officer, as its four nominees to our board of directors while Kindred intends to designate , , Edward L. Kuntz, Executive Chairman of the board of directors of Kindred, and Paul J. Diaz, Kindred s President and Chief Executive Officer, as its four nominees to our board of directors. Messrs. Yost, Kuntz and Diaz have agreed that they will serve as directors no longer than through the 2008 annual meeting of our stockholders. In addition, Messrs. Kuntz and Diaz have agreed that they would resign from our board of directors if requested by Kindred s Nominating and Corporate Governance Committee.

Pursuant to the terms of the master transaction agreement, AmerisourceBergen and Kindred have designated Mr. Weishar as our Chief Executive Officer, Michael J. Culotta as our Chief Financial Officer and Mark A. McCullough as our Chief Operating Officer and will also designate by mutual agreement the individuals who will initially serve as our chief administrative officer and general counsel.

Stockholder Rights

Upon consummation of the transaction, the rights of NewCo stockholders will be governed by the DGCL and NewCo s certificate of incorporation and bylaws.

Capital Stock

Immediately following the transaction, our authorized capital stock will consist of 175,000,000 shares of common stock, par value $0.01, and 1,000,000 shares of preferred stock, par value $0.01. Immediately following the transaction, we expect that approximately 30 million shares of our common stock will be issued and outstanding. No shares of our preferred stock will be outstanding immediately after the transaction.

Listing and Trading of NewCo Common Stock

We have applied for listing of our common stock on the NYSE under the symbol PMC . The shares of our common stock distributed to AmerisourceBergen and Kindred stockholders will be freely transferable, except for shares received by individuals who are our affiliates. See The Transaction Listing and Trading of Our Common Stock.

AmerisourceBergen and Kindred Stock Options

For purposes of the applicable AmerisourceBergen and Kindred equity plans, the spin-offs will result in a termination of employment for PharMerica LTC and KPS employees. Options to purchase AmerisourceBergen and Kindred common stock held by these employees that are vested at the time of the spin-offs will remain exercisable for AmerisourceBergen or Kindred common stock, as applicable, for a certain period of time following the spin-offs, as provided for in the relevant equity plan or award agreement.

Options held by PharMerica LTC and KPS employees that are unvested as of the distribution time will cease to represent rights with respect to AmerisourceBergen or Kindred common stock, as applicable, and will be deemed in the spin-offs to be converted into stock options to purchase PharMerica LTC or KPS common stock, as applicable, and will then be converted in the mergers into stock options to purchase our common stock, which we refer to as NewCo Options. The NewCo Options will be granted pursuant to the NewCo Omnibus Incentive Plan and will have the same terms and conditions as applied to the respective AmerisourceBergen or Kindred options immediately prior to the transaction. See The Transaction Treatment of Stock Options and Restricted Shares Held by Employees of PharMerica LTC and KPS for more discussion of the NewCo Options.

AmerisourceBergen and Kindred Restricted Stock

In the spin-offs, PharMerica LTC and KPS employees, as well as AmerisourceBergen and Kindred employees, who hold restricted shares of AmerisourceBergen and Kindred common stock will receive for each such restricted share the same number of shares of our common stock in the transaction as stockholders of AmerisourceBergen and Kindred, as applicable, receive. Shares of our common stock received by holders of AmerisourceBergen restricted stock will continue to be subject to restrictions on vesting and transferability. Shares of our common stock received by holders of Kindred restricted stock will not be subject to restrictions on vesting and transferability.

In connection with the spin-offs, unvested restricted shares of AmerisourceBergen and Kindred common stock held by PharMerica LTC and KPS employees will be cancelled, and we will make substitution grants of restricted shares to these employees pursuant to the NewCo Omnibus Incentive Plan. The substitution grants will have the same terms and conditions as apply to the AmerisourceBergen or Kindred restricted shares immediately before the transaction. See The Transaction Treatment of Stock Options and Restricted Shares Held by Employees of PharMerica LTC and KPS for more discussion of AmerisourceBergen and Kindred Restricted Stock.

U.S. Federal Income Tax Consequences

It is a condition to closing that (i) AmerisourceBergen receive a private letter ruling from the IRS that the spin-off of PharMerica LTC and the subsequent merger of PharMerica LTC and distribution of our common stock will qualify for tax-free treatment to holders of AmerisourceBergen common stock (except with respect to cash received in lieu of a fractional share) and, generally, to AmerisourceBergen and (ii) Kindred receive a private letter ruling from the IRS that the spin-off of KPS and the subsequent merger of KPS and distribution of our common stock will qualify for tax-free treatment to holders of Kindred common stock (except with respect to cash received in lieu of a fractional share) and, generally, to Kindred. Although AmerisourceBergen and Kindred

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coordinated their discussions with the IRS, each of AmerisourceBergen and Kindred applied for a separate private letter ruling that will only address tax matters relating to its respective company and stockholders. These private letter rulings have been received by both AmerisourceBergen and Kindred.

The IRS rulings do not address all of the issues that are relevant to determining whether the transaction will qualify for tax-free treatment because the IRS will not rule on certain issues. As a condition to closing, each of AmerisourceBergen and Kindred are to receive an opinion of counsel that the transaction will generally qualify for tax-free treatment to you and to AmerisourceBergen or Kindred, as the case may be. The opinions are intended to cover those issues that the rulings do not. The IRS rulings and opinions of counsel do not address state, local or foreign tax consequences of the spin-offs, mergers and distribution of our common stock, and you should consult your own tax advisor as to the particular tax consequences of the transaction to you. The IRS rulings and the opinions rely on representations, assumptions and undertakings made by AmerisourceBergen and Kindred (and their subsidiaries) and us. If such representations, assumptions or undertakings are incorrect, the IRS rulings or the opinions may not be valid. See the tax-related risk factors under Risk Factors Risk Factors Relating to the Transaction.

Appraisal Rights

No AmerisourceBergen or Kindred stockholder will have any appraisal rights in connection with the transaction.

Accounting Treatment

The transaction will be accounted for under the purchase method of accounting under accounting principles generally accepted in the United States, with KPS treated as the accounting acquiror.

Risk Factors

You should review the risks relating to the transaction, our business and ownership of our common stock described in Risk Factors.

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SUMMARY SELECTED HISTORICAL AND PRO FORMA FINANCIAL DATA

General

We are providing the following summary selected financial data of PharMerica LTC and KPS and pro forma financial data of NewCo to help you in your analysis of the financial aspects of the transaction. We derived this information from the audited and unaudited financial statements of PharMerica LTC and the audited and unaudited financial statements of KPS for the periods presented and the unaudited pro forma condensed financial statements of NewCo included elsewhere in this preliminary prospectus. You should read this information in conjunction with the other financial information and Management s Discussion and Analysis of Financial Condition and Results of Operations included in this preliminary prospectus. See also Unaudited Pro Forma Condensed Financial Information and Index to Financial Statements.

Summary Selected Financial Data of PharMerica LTC

The following table sets forth the summary selected historical financial and statistical data of PharMerica LTC. The following summary selected historical financial data should be read in conjunction with Management s Discussion and Analysis of Financial Condition and Results of Operations, the financial statements and notes thereto of PharMerica LTC, as well as other financial information related to PharMerica LTC, each of which is included elsewhere in this preliminary prospectus. The following table sets forth summary selected financial data of PharMerica LTC as of and for the fiscal years ended September 30, 2006, 2005 and 2004, as of March 31, 2007 and for the six months ended March 31, 2007 and 2006. The financial data as of September 30, 2006 and 2005 and for the fiscal years ended September 30, 2006, 2005 and 2004 have been derived from financial statements of PharMerica LTC, which have been audited by Ernst & Young LLP, an independent registered public accounting firm. The financial data as of March 31, 2007 and for the six months ended March 31, 2007 and 2006 have been derived from unaudited financial statements of PharMerica LTC. The financial data as of September 30, 2004 have been derived from unaudited financial statements of PharMerica LTC. In the opinion of management of PharMerica LTC, the unaudited financial statements include all adjustments (consisting of only normal recurring adjustments) necessary for a fair presentation of the unaudited financial data have been reflected therein.

(dollars in thousands)	Six months ended March 31,		Year ended September 30,		
	2007	**2006**	**2006**	**2005**	**2004**
Statement of operations data:					
Revenues	$ 626,741	$ 590,569	$ 1,199,969	$ 1,118,266	$ 1,103,725
Gross profit	94,688	88,809	178,263	163,302	160,753
Selling, general and administrative expenses	80,802	74,888	149,951	139,418	126,925
Operating income (a)	13,886	13,921	28,312	23,884	33,828
Net income	$ 8,269	$ 8,295	$ 16,757	$ 13,792	$ 20,061

	March 31,	September 30,		
	2007	**2006**	**2005**	**2004**
Balance sheet data:				
Cash and cash equivalents	$ 7,114	$ 3,769	$ 7,374	$ 5,487
Total assets	315,692	314,300	266,620	250,358
Capital lease obligations	338	929	2,049	3,113
Parent s investment	270,402	256,816	209,842	165,746
Working capital	$ 213,496	$ 197,363	$ 162,930	$ 124,871
Statistical data:				
Number of customer licensed beds at end of period	237,405	235,979	238,190	246,895

(a) Includes depreciation and amortization expense of $7.5 million and $6.4 million for the six months ended March 31, 2007 and 2006, respectively, and $13.6 million, $12.7 million and $12.5 million for the years ended September 30, 2006, 2005 and 2004, respectively.

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Summary Selected Financial Data of KPS

The following table sets forth summary selected historical financial and statistical data of KPS. The following summary selected historical financial data should be read in conjunction with Management s Discussion and Analysis of Financial Condition and Results of Operations, the financial statements and notes thereto of KPS as well as other financial information related to KPS, each of which is included elsewhere in this preliminary prospectus. The following table sets forth summary selected financial data for KPS as of and for the fiscal years ended December 31, 2006, 2005 and 2004, as of March 31, 2007 and for the three months ended March 31, 2007 and 2006. The financial data as of December 31, 2006, 2005 and 2004 and for the years ended December 31, 2006, 2005 and 2004, have been derived from financial statements of KPS which have been audited by PricewaterhouseCoopers LLP, an independent registered public accounting firm. The financial data as of March 31, 2007 and for the three months ended March 31, 2007 and 2006 have been derived from unaudited financial statements of KPS. In the opinion of management of KPS, all adjustments (consisting of only normal recurring adjustments) necessary for a fair presentation of the unaudited financial data have been reflected therein.

(dollars in thousands)	**Three months ended March 31,**		**Year ended December 31,**		
	2007	**2006**	**2006**	**2005**	**2004**
Statement of operations data:					
Revenues	$ 174,704	$ 156,208	$ 652,608	$ 522,225	$ 360,035
Gross profit	21,903	26,107	94,664	83,131	57,655
Selling, general and administrative expenses	21,011	16,478	73,612	48,867	38,193
Operating income (a)	892	9,629	21,052	34,264	19,462
Net income	$ 542	$ 5,843	$ 12,799	$ 21,007	$ 12,062
		March 31,		**December 31,**	
		2007	**2006**	**2005**	**2004**
Balance sheet data:					
Cash and cash equivalents		$ 2,639	$ 3,730	$ 1,378	$ 2,033
Total assets		238,446	236,784	194,623	63,650
Long-term debt, including capital lease obligations					
Stockholders equity		190,394	198,301	170,389	44,490
Working capital		$ 68,463	$ 79,148	$ 72,301	$ 28,953
Statistical data:					
Number of customer licensed beds at end of period:					
Affiliated		28,341	30,232	28,657	28,634
Non-affiliated		74,985	72,339	64,625	37,561
		103,326	102,571	93,282	66,195

(a) Includes depreciation and amortization expense of $2.8 million, $1.8 million, $8.8 million, $5.8 million and $2.4 million for the three months ended March 31, 2007 and 2006 and for the years ended December 31, 2006, 2005 and 2004, respectively.

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Summary Selected Unaudited Pro Forma Condensed Financial Data of NewCo

The following table sets forth summary selected unaudited pro forma condensed financial information based upon the historical consolidated financial statements of KPS and the historical financial statements of PharMerica LTC adjusted to give effect to (1) the spin-offs of KPS and PharMerica LTC from their respective parent companies, Kindred and AmerisourceBergen, (2) the Kindred and AmerisourceBergen cash distributions and the related financing arrangements to fund the cash distributions, (3) the merger of each of KPS and PharMerica LTC into separate subsidiaries of NewCo and the refinancing of the temporary bank financing arrangements with the senior secured credit facility and (4) the distribution of NewCo common stock to the stockholders of Kindred and AmerisourceBergen. Upon completion of the transaction, NewCo will change its name to PharMerica Corporation.

The unaudited pro forma condensed statements of operations were prepared using (1) the unaudited consolidated statement of operations of KPS and the unaudited statement of operations of PharMerica LTC for the three months ended March 31, 2007, (2) the audited consolidated statement of operations of KPS for the year ended December 31, 2006 and (3) the audited statement of operations of PharMerica LTC for the year ended September 30, 2006, each of which is included elsewhere in this preliminary prospectus. The unaudited pro forma condensed balance sheet was prepared using the unaudited consolidated balance sheet of KPS and the unaudited balance sheet of PharMerica LTC as of March 31, 2007 included elsewhere in this preliminary prospectus. The unaudited pro forma condensed financial information is based upon the assumptions and adjustments in the accompanying notes to the unaudited pro forma condensed financial statements. The unaudited pro forma condensed statements of operations for the three months ended March 31, 2007 and for the year ended December 31, 2006 give effect to the transaction as if it occurred on January 1, 2006. The unaudited pro forma condensed balance sheet gives effect to the transaction as if it had occurred on March 31, 2007.

The transaction will be accounted for using the purchase method of accounting under accounting principles generally accepted in the United States, with KPS treated as the accounting acquiror. Under the purchase method of accounting, the deemed purchase price has been allocated to the underlying tangible and intangible assets and liabilities acquired based upon their respective fair values with any excess deemed purchase price allocated to goodwill. The adjustments to estimated fair values included herein are based upon a preliminary review of the purchased assets of PharMerica LTC. We expect to complete at a later date appraisals of PharMerica LTC assets at the level of detail necessary to finalize the required purchase price allocation. The final purchase price determination and allocation based upon these appraisals may be materially different than that reflected in the unaudited pro forma condensed financial statements presented herein.

Overall, we estimate that we will incur transition, integration and capitalized acquisition fees and expenses totaling approximately $18 million to complete the transaction, all of which has been reflected in the unaudited pro forma condensed balance sheet. The unaudited pro forma condensed statement of operations does not include the impact of these non-recurring transaction related costs. Upon closing the transaction, we expect to implement a plan to integrate the operations of KPS and PharMerica LTC which will generate certain additional non-recurring charges. Management cannot currently identify the timing, nature and amount of such charges. However, any such charges (which may be substantial) could affect the results of NewCo in the period in which such charges are incurred. See Management s Discussion and Analysis of Financial Condition and Results of Operations.

The unaudited pro forma condensed financial statements do not include the realization of any cost savings from operating efficiencies, synergies or other restructuring activities which might result from the transaction. The unaudited pro forma condensed financial statements should be read in conjunction with the historical financial statements and accompanying notes of KPS and PharMerica LTC that are included herein.

The unaudited pro forma condensed financial statements should not be taken as representative of the future consolidated results of operations or financial condition of NewCo.

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(dollars in thousands, except per share amount)	Pro forma Three months ended March 31, 2007	Pro forma Fiscal year ended December 31, 2006
	(unaudited)	
Statement of operations data:		
Revenues	$ 487,106	$ 1,852,577
Gross profit	67,670	273,546
Selling, general and administrative expenses	59,275	228,004
Operating income (a)	8,395	45,542
Net income	2,183	15,711
Diluted earnings per common share	$ 0.07	$ 0.52

	Pro forma as of March 31, 2007
	(unaudited)
Balance sheet data:	
Cash and cash equivalents	$ 7,110
Total assets	776,838
Long-term debt, including capital lease obligations	275,338
Stockholders equity	398,788
Working capital	$ 306,178

(a) Includes depreciation and amortization expense of $6.9 million and $25.0 million for the three months ended March 31, 2007 and for the year ended December 31, 2006, respectively.

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RISK FACTORS

You should consider carefully the risks described below, together with all of the other information included in this preliminary prospectus, in evaluating our company and our common stock. If any of the risks described below actually occurs, it could have a material adverse effect on our business, financial results, financial condition and stock price.

Risk Factors Relating to the Transaction

We have no history operating as a stand-alone, publicly traded company on which you can evaluate our performance.

Before the transaction, we operated as separate businesses of two different companies. We have no operating history as a combined business or as a stand-alone, publicly traded company. Accordingly, there can be no assurance that our business strategy and operations will be successful on a combined stand-alone basis. We may not be able to grow or integrate our business as planned and may not be profitable.

No historical financial statements showing our operation of the businesses of PharMerica LTC and KPS as a combined, stand-alone company exist upon which you can evaluate our prospects.

Since we have not operated the businesses of PharMerica LTC and KPS on a combined, stand-alone basis, we do not have any historical financial statements as an independent, stand-alone company upon which you can evaluate us. While we have included a balance sheet as of March 31, 2007 elsewhere in this preliminary prospectus, it reflects our status as a newly organized company with no operating history and provides minimal information about us.

The historical and pro forma financial information contained in this preliminary prospectus may not be indicative of our future results as a stand-alone, publicly traded company.

The historical financial statements of PharMerica LTC and KPS and pro forma financial statements giving effect to the transaction have been created from AmerisourceBergen s and Kindred s financial information. Accordingly, the historical financial information we have included in this preliminary prospectus may not reflect what our financial position, results of operations and cash flows would have been had we been operated as a combined business and a stand-alone, publicly traded company during the periods presented or be indicative of what our results of operations, financial position and cash flows may be in the future. This is primarily a result of the following factors:

- the historical financial statements do not reflect certain changes that will occur in our funding and operations as a result of the separation of PharMerica LTC and KPS from AmerisourceBergen and Kindred, respectively;
- our historical financial information reflects estimated allocations for services historically provided by our parent companies to PharMerica LTC and KPS, and we expect these allocations to be different from the costs we will incur for these services in the future;
- our historical financial information does not reflect the debt or debt servicing cost we will incur in connection with the transaction and our obligations to obtain certain goods and services from our parent companies after the transaction; and
- the historical financial information and pro forma adjustments do not reflect the potential for increased or duplicative costs we may incur in becoming a stand-alone, publicly traded company, such as costs attributable to transition agreements we have with Kindred and AmerisourceBergen, changes in our historical cost structure due to NewCo s differing personnel needs, financing activities and operations, or the impact, which may be negative if not offset by other cost synergies, of ongoing contractual relationships with Kindred and AmerisourceBergen described under Additional Agreements with AmerisourceBergen and Kindred.

For these or other reasons, our future financial performance may be worse than the performance implied by the historical and pro forma financial information we have presented in this preliminary prospectus.

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For additional information about the past financial performance of each of the combined businesses, please see Unaudited Pro Forma Condensed Financial Information, Selected Historical Financial Data, Management s Discussion and Analysis of Financial Condition and Results of Operations, and the historical financial statements and the accompanying notes of PharMerica LTC and KPS included elsewhere in this preliminary prospectus.

The integration of our pharmacy businesses will be time consuming, may distract our management from our operations, and will be expensive, all of which could have a material adverse effect on our operating results.

If we are unsuccessful in integrating the institutional pharmacy operations of AmerisourceBergen and Kindred, or if the integration is more difficult than anticipated, we may experience disruptions to our operations. A difficult or unsuccessful integration of these businesses would likely have a material adverse effect on our results of operations.

Some of the risks that may affect our ability to integrate or realize any anticipated benefits include those associated with:

- conforming standards, processes, procedures and controls of the businesses;
- difficulties in transferring processes and know-how;
- difficulties in the assimilation of acquired operations, technologies or products;
- diversion of management s attention from business concerns; and
- adverse effects on employees and business relationships with customers and suppliers.

We will need to either contract for or internally develop a number of key services and functions that our parent companies have historically provided to us.

We have not previously performed the various corporate functions required of a publicly traded company. Our former parent companies performed many important corporate functions for each of the businesses before the transaction, including finance, treasury, tax administration, risk management, accounting, internal audit, financial reporting, legal, regulatory, human resources, employee benefit administration, communications, information technology and business development services. After the transaction, AmerisourceBergen and Kindred will provide a number of services to us under various agreements, such as accounting, treasury, human resources, risk management, tax, internal audit, employee benefit administration and financial reporting services. In addition, Kindred will provide us with certain information services and support for approximately five years following the closing of the transaction, and AmerisourceBergen will sell to us our pharmaceutical requirements and support the distribution of our direct purchases from manufacturers as well as provide other inventory and packaging services. When the agreements covering these services terminate, we will need to replace these services internally or through third parties. The supplies and services obtained from AmerisourceBergen and Kindred will be provided at fair market value, which nonetheless may be higher than the costs borne by PharMerica LTC and KPS in the past. Replacement services may be available only on terms that are less favorable to us or may not be available to us at all.

We will also need to replicate certain facilities, systems and infrastructure to which we will no longer have access as well as hire new employees to provide these services. There can be no assurance that we will be able to obtain these services or hire the necessary employees at similar cost-levels or at all. In addition, our management will have to spend considerable time in building an independent infrastructure for corporate, administrative and information technology functions. These initiatives will be costly to implement and the scope and complexity of these projects may be materially higher than we expect.

If we do not have adequate systems and business functions of our own or cannot obtain them from third party providers at an acceptable cost, we may not be able to operate our business effectively, which could have a material adverse effect on our profitability.

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We may not realize the benefits we expect by combining the institutional pharmacy businesses of the parent companies into a new publicly traded company and may experience increased costs after the transaction which could decrease our overall profitability.

Before the transaction, our business was part of two separate public companies. We may experience difficulties in integrating the two businesses into one company, and the transaction may result in increased costs and inefficiencies in our business operations and management. Integration of our businesses may cost significantly more or take longer than we anticipate, which could decrease our profitability or otherwise impact our expected cost-savings. In addition, prior to the transaction our businesses took advantage of the economies of scale of our former parent companies. As a separate, stand-alone, publicly traded company, we may be unable to obtain goods, services and technology at prices or on terms as favorable as those obtained prior to the transaction, which could decrease our overall profitability. Furthermore, we may not be successful in transitioning from the services and systems provided by our former parent companies and we may incur substantially higher costs for implementation than currently anticipated. At such point in time as we begin to operate these functions independently, if we do not have in place our own adequate systems and business functions, or outsource them from other providers, we may not be able to operate our business effectively or at comparable costs and it may have a material adverse effect on our profitability. If we fail to realize the anticipated benefits of the transaction, including, without limitation, the anticipated cost-savings resulting from operating synergies and growth opportunities from combining the businesses, it could have a material adverse effect on our profitability.

If the spin-offs, mergers and distribution of our common stock do not qualify as tax-free transactions, tax could be imposed on AmerisourceBergen, Kindred and their respective stockholders.

If the spin-offs, mergers and distribution of our common stock do not qualify as tax-free transactions, tax could be imposed on AmerisourceBergen, Kindred and their respective stockholders. If the spin-offs fail to qualify for tax-free treatment, the deemed receipt of shares of PharMerica LTC or KPS will be treated as a taxable distribution to you. See The Transaction Material U.S. Federal Income Tax Consequences of the Transaction.

While AmerisourceBergen and Kindred have each received a private letter ruling from the IRS that the spin-off of PharMerica LTC and KPS, respectively, and the subsequent merger of PharMerica LTC and KPS, as well as the distribution of our common stock, will qualify for tax-free treatment to holders of AmerisourceBergen and Kindred common stock, respectively (except with respect to cash received in lieu of a fractional share) and are each to receive an opinion of counsel that the transaction will generally qualify for tax-free treatment to you and to AmerisourceBergen or Kindred to cover issues that the IRS rulings do not address, the IRS could still determine that the spin-offs, mergers and distribution of our common stock should be treated as a taxable transaction to you (and to AmerisourceBergen and Kindred). This could occur if the IRS determines that any of the representations, assumptions or undertakings that were included in the request for the private letter rulings are false or have been violated or if it disagrees with the conclusions in the opinions that are not covered by the IRS rulings. In addition, events occurring after the distribution of our common stock could cause AmerisourceBergen or Kindred to recognize a gain on the spin-off of PharMerica LTC or KPS, respectively, and we could be required to indemnify AmerisourceBergen or Kindred for such tax. See Restrictions on our operations and our obligations to indemnify in connection with the tax-free treatment of the transaction could materially and adversely affect us.

Restrictions on our operations and our obligations to indemnify in connection with the tax-free treatment of the transaction could materially and adversely affect us.

Certain tax-related restrictions and indemnities set forth in the tax matters agreement agreed to by AmerisourceBergen, Kindred and us in order to maintain the tax-free treatment of the transaction limit our discretion in the operation of our business and could adversely affect us. Under these provisions, we:

- have generally undertaken to maintain our current business as an active business for a period of two years following the completion of the mergers;

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- are generally restricted, for a period of two years following the mergers, from (i) reacquiring our stock, (ii) issuing stock to any person other than as compensation for services, (iii) making changes in our equity structure, (iv) liquidating, merging or consolidating certain of our subsidiaries, (v) transferring certain material assets except in the ordinary course of business, and (vi) entering into negotiations with respect to, or consenting to, certain acquisitions of our stock;

- are generally restricted from taking any other action (including an action that would be inconsistent with the representations relied upon by AmerisourceBergen and Kindred described above) that could jeopardize the tax-free status of the spin-offs; and

- have generally agreed to indemnify AmerisourceBergen and Kindred for taxes and related losses incurred as a result of the spin-offs failing to qualify as tax-free transactions provided such taxes and related losses are attributable to any act, failure to act or omission by us or our subsidiaries, including our failure to comply with applicable representations, undertakings and restrictions placed on our actions under the tax matters agreement.

These prohibitions could discourage, delay or prevent equity financings, acquisitions, investments, strategic alliances, mergers and other transactions possibly resulting in a material adverse effect on our business. In addition, any indemnity obligations to AmerisourceBergen or Kindred could have a material adverse effect on our financial position and liquidity.

Following the transaction, we will have substantial indebtedness, which could restrict our ability to pay dividends and have a negative impact on our financing options and liquidity.

We will be a substantially leveraged business following the transaction. Prior to the transaction, PharMerica LTC and KPS will enter into a financing arrangement under which they will each incur $125 million of indebtedness, for a total of $250 million, which we refer to as the initial financings. PharMerica LTC and KPS will use the proceeds of these initial financings to make cash distributions in the amount of such borrowings to their parent companies immediately prior to the spin-offs.

At closing, we will enter into a new senior secured credit facility with a syndicate of lenders arranged by J.P. Morgan Securities Inc. and borrow $275 million to refinance the outstanding indebtedness of PharMerica LTC and KPS incurred in the initial financings and to pay transaction fees and expenses. The senior secured credit facility will provide for term and revolving credit borrowings. As a result, on or shortly after the closing date, we will have approximately $275 million in debt outstanding under the term loan portion of the credit facility and expect to have available $100 million under the revolving credit portion of the credit facility. Our senior secured credit facility will permit us, subject to specified conditions and covenants, to incur additional indebtedness. If we incur additional debt, the risks associated with our leverage, including our ability to service our debt, would increase. The amount of this outstanding indebtedness could limit our ability to pay dividends and to obtain additional financing in the future for working capital, capital expenditure and acquisition purposes. In addition, our financing costs will be higher than they were as part of our former parent companies. We are not required to make any repayments under the credit facility prior to maturity, however, we may use available cash to repay a portion of our debt at our discretion.

Our ability to make payments on our existing and future debt and to fund working capital needs and planned capital expenditures will depend on our ability to generate cash in the future, which is largely subject to general economic, financial, competitive, regulatory, legislative and other factors that are beyond our control. Cost containment and lower reimbursement levels relative to increases in cost by third party payors, including federal and state governments, could have a significant negative impact on our business and on our cash flows. Our operating margins continue to be under pressure because of continuing regulatory scrutiny and growth in our operating expenses, such as product and labor costs.

As a result of these and other factors, we cannot assure you that our business will generate sufficient cash flows from operations or that future borrowings will be available to us in amounts sufficient to enable us to pay our indebtedness or to fund our other liquidity needs. If we do not generate or are unable to borrow sufficient

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amounts of cash on satisfactory terms to meet these needs, we may need to seek to refinance all or a portion of our indebtedness on or before maturity, sell assets, curtail discretionary capital expenditures or file for bankruptcy protection.

See Management s Discussion and Analysis of Financial Condition and Results of Operations Liquidity and Capital Resources.

Our financing arrangements will subject us to various restrictions that could limit our operating flexibility.

Our senior secured credit facility will contain various covenants that will restrict our ability to, among others, incur additional indebtedness, make investments, sell assets, pay dividends or repurchase stock. The covenants also will require us to maintain a maximum leverage and a minimum fixed charge coverage ratio. The restrictions and covenants in our expected financing arrangements may limit our ability to respond to market conditions, provide for capital investment needs or take advantage of business opportunities by limiting the amount of additional borrowings we may incur. See Management s Discussion and Analysis of Financial Condition and Results of Operations Liquidity and Capital Resources.

We will no longer be able to rely on our former parent companies for diversification of business risk or to provide capital resources.

Before the transaction, we were operated as separate businesses of two different companies. Following the transaction, we will have less financial and other resources than our former parent companies. Our ability to satisfy our obligations and maintain profitability will be solely dependent upon our performance and we will not be able to rely upon the financial and other resources of our former parent companies.

We may be required to satisfy certain indemnification obligations to our former parent companies or may not be able to collect on indemnification rights from our former parent companies.

Under the terms of the master transaction agreement, AmerisourceBergen and Kindred will severally and not jointly indemnify us, and we will indemnify each of AmerisourceBergen and Kindred, for all damages, liabilities and expenses resulting from a breach by the applicable party of the covenants contained in the master transaction agreement. AmerisourceBergen and Kindred will severally and not jointly indemnify us for all damages, liabilities and expenses incurred by us relating to the entities, assets and liabilities retained by the applicable parent company, and we will indemnify AmerisourceBergen and Kindred for all damages, liabilities and expenses incurred by each of them relating to our entities, assets and liabilities. AmerisourceBergen and Kindred will severally and not jointly indemnify us against all damages, liabilities and expenses resulting from a breach of their respective representations and warranties in the master transaction agreement, provided that each parent company will only be liable to us for breaches of its representations and warranties to the extent our damages from such breaches exceed $30 million in the aggregate (and only to the extent that our damages exceed $30 million) and each parent company will generally not be liable for damages in excess of $155 million. The representations and warranties in the master transaction agreement will survive the effective time for a period of 15 months.

In addition, AmerisourceBergen and Kindred will severally and not jointly indemnify us, and we will indemnify each of AmerisourceBergen and Kindred, for all damages, liabilities and expenses resulting from a breach by the applicable party of any of the representations, warranties or covenants contained in the tax matters agreement. We will also indemnify each of AmerisourceBergen and Kindred for all damages, liabilities and expenses arising out of any tax imposed with respect to the applicable spin-off if such tax is attributable to any act, any failure to act or any omission by us or any of our subsidiaries. AmerisourceBergen and Kindred will severally and not jointly indemnify us for all damages, liabilities and expenses relating to pre-closing taxes or taxes imposed on us or our subsidiaries because PharMerica LTC or KPS was part of the consolidated return of the applicable parent company, and we will indemnify each of AmerisourceBergen and Kindred for all damages, liabilities and expenses relating to post-closing taxes of us or our subsidiaries.

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The indemnification obligations described above could be significant and we cannot presently determine the amount, if any, of indemnification obligations for which we will be liable or for which we will seek payment from our former parent companies. Our ability to satisfy these indemnities will depend upon our future financial performance. Similarly, the ability of our former parent companies to satisfy any such obligations to us will depend on their respective future financial performance. We cannot assure you that we will have the ability to satisfy any substantial obligations to our former parent companies or that our former parent companies will have the ability to satisfy any substantial indemnity obligations to us.

Certain members of our board of directors are officers and/or directors of our former parent companies and after the transaction, certain members of our board of directors and our management will continue to own common stock of our former parent companies.

Three of our directors will continue to serve in their capacities as officers and directors of our former parent companies. Paul J. Diaz will continue to serve as President, Chief Executive Officer and a member of the board of directors of Kindred. Edward L. Kuntz will continue to serve as Executive Chairman of the board of directors of Kindred. R. David Yost will continue to serve as Chief Executive Officer and a member of the board of directors of AmerisourceBergen. In addition, Messrs. Diaz, Kuntz and Yost, as well as Mark A. McCullough, our chief operating officer, Janice D. Rutkowski, our chief clinical officer, and Richard Toole, our chief information officer, will continue to own common stock and options to purchase common stock of our former parent companies after the transaction. The service of Mr. Diaz, Mr. Kuntz and Mr. Yost on our board of directors and their continued service as officers and directors of our respective former parent companies as well as the ownership of common stock of our former parent companies by our management and directors, could create, or appear to create, potential conflicts of interest for these officers and directors when faced with decisions that could have implications for either of our former parent companies and us.

Risk Factors Relating to Our Business

Intense competition may erode our profit margins.

The distribution of pharmaceuticals to healthcare facilities is highly competitive. In each geographic market, there are national, regional and local institutional pharmacies and numerous local retail pharmacies, which provide services comparable to those offered by our pharmacies and which may have greater financial and other resources than we do and may be more established in the markets they serve than we are. On a nationwide basis, Omnicare, Inc. is our largest competitor, with approximately $6.5 billion in net sales for the year ended December 31, 2006 based upon its annual report on Form 10-K for the same period. We also compete against regional and local pharmacies that specialize in long-term care. Because relatively few barriers to entry exist in the local markets we serve, we may encounter substantial competition from local market entrants. Competitive pricing pressures may adversely affect our future operating revenue and profitability.

Our operating revenue and profitability may suffer upon the loss of a significant customer.

The loss of any significant customer could adversely affect future operating revenue and profitability. We derived approximately 10% of our pro forma revenues for the year ended December 31, 2006 from our pharmacy services agreement with Ceres Strategies, Inc. to provide Beverly Enterprises, Inc. and Golden Gate National Senior Care LLC with institutional pharmacy services for the skilled nursing and long-term care facilities operated by subsidiaries of those companies. This agreement has an initial term through March 31, 2009. Ceres Strategies, Inc., which we refer to as Ceres, is the affiliated healthcare procurement company for Beverly Enterprises, Inc., Golden Gate National Senior Care LLC and their subsidiaries. None of AmerisourceBergen, PharMerica LTC, Kindred or KPS is affiliated with either Beverly Enterprises, Inc. or Golden Gate National Senior Care LLC. We derived approximately 13% of our pro forma revenues for the year ended December 31, 2006 from our pharmacy services relationship with Kindred, which includes revenue generated from all payor sources for residents in these facilities.

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If we were to lose all or a substantial portion of our customer relationship with either Ceres or Kindred or if we were only able to continue these relationships on less favorable terms this would have a material adverse affect on our operating revenue and results of operations. If Kindred receives a proposal from a third party offering to provide the services currently provided by KPS to all Kindred facilities within one or more states at a more competitive price, Kindred may accept the alternative proposal and terminate its contracts at the applicable facilities if KPS chooses not to match the terms of the alternative proposal. In addition, either party may terminate the master pharmacy provider agreement for cause, a facility may terminate an individual contract upon a change in control of such facility or the occurrence of certain other events and Kindred may terminate the master pharmacy provider agreement if 20 or more individual contracts governed by the agreement are terminated by Kindred for cause.

Furthermore, many of our customer contracts, as is typical in the industry, have a relatively short duration and/or can be terminated by either party for any reason upon 30 to 60 days written notice. As a result, a significant portion of our operating revenues may decrease in a relatively short period. In addition, some of our customers may seek to insource the provision of pharmaceuticals to patients in their facilities by establishing an internal pharmacy.

Legal and regulatory changes reducing reimbursement rates for pharmaceuticals and/or medical treatments or services may reduce our profitability.

Both our own profit margins and the profit margins of our customers may be adversely affected by laws and regulations reducing reimbursement rates. The sources and amounts of our revenues are determined by a number of factors, including licensed bed capacity and occupancy rates of our customers, the number of drugs administered to patients and the rates of reimbursement among payors. Changes in the number of drugs administered to patients, as well as payor mix among private pay, Medicare and Medicaid, in our customers facilities will significantly affect our profitability.

Medicare Part D

The Medicare Prescription Drug Improvement and Modernization Act of 2003, or MMA, included a major expansion of the Medicare program with the addition of a prescription drug benefit under the new Medicare Part D program. Effective January 1, 2006, Medicare beneficiaries became eligible to enroll in prescription drug plans, or PDPs, offered and administered by private entities and became eligible for coverage of outpatient prescription drugs. At this time, we cannot assess the overall impact of Medicare Part D on our institutional pharmacy business. The impact of these regulations depends upon a variety of factors, including our ongoing relationships with the Part D Plans and the patient mix of our customers. The Medicare Part D program may reduce revenue and impose additional costs to the industry. The transition to Medicare Part D may continue to result in reimbursement delays and increased administrative costs as we attempt to properly bill and collect payments from various Part D Plans. In addition, we cannot assure you that Medicare Part D and the regulations promulgated under Medicare Part D will not have a material adverse effect on our institutional pharmacy business.

Risks Related to Manufacturer Rebates

Our pharmacies receive rebates from pharmaceutical manufacturers for undertaking certain activities that the manufacturers believe may increase the likelihood that their respective products will be dispensed. The Centers for Medicare & Medicaid Services, or CMS, of the U.S. Department of Health and Human Services, or HHS, has questioned whether long-term care pharmacies should be permitted to receive discounts, rebates and other price concessions from pharmaceutical manufacturers with respect to prescriptions covered under the Medicare Part D benefit. In recent guidance issued to Plan Sponsors effective for 2007, CMS instructed Plan Sponsors to obtain full disclosure from long-term care pharmacies of all discounts, rebates or other remuneration that such pharmacies receive from drug manufacturers and has issued guidelines regarding the information required. CMS has also issued draft reporting requirements for 2008 which would, among other things, require

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disclosure of non-rebate discounts and price concessions provided to long-term care pharmacies. It is possible that these disclosure requirements and others imposed by CMS could have an adverse effect on our business and results of operations. Our business could be adversely affected if CMS should take any action that has the effect of eliminating or significantly reducing the rebates that we receive from pharmaceutical manufacturers.

New Rules Promulgated under the Deficit Reduction Act of 2005

In addition, effective January 1, 2007, new rules promulgated under the Deficit Reduction Act of 2005, or DRA, change the federal upper payment limit for Medicaid reimbursement from 150% of the lowest published price for a drug (which is usually the average wholesale price) to 250% of the lowest average manufacturer price, or AMP. On December 22, 2006, CMS issued a proposed rule to establish a new calculation for AMP. CMS is required to issue final regulations on AMP calculation methodology by July 1, 2007. We expect the use of an AMP benchmark to result in a reduction in the Medicaid reimbursement rates for certain generic pharmaceuticals. Moreover, on February 5, 2007, President Bush issued the proposed federal fiscal year 2008 budget which would, among other things, further reduce the federal upper limit reimbursement for multiple source drugs to 150% of the AMP of the lowest priced drug in the group, and allow states to use private sector formulary management techniques to leverage greater discounts through negotiations with drug manufacturers. There can be no assurance that changes in reimbursement formula under the DRA or future legislation or regulation will not have an adverse impact on our business and results of operations.

The settlement by First DataBank, Inc. on pricing benchmark may reduce reimbursement to us.

Average wholesale price, or AWP, is a pricing benchmark published by First DataBank, Inc., which provides drug databases, content integration software and drug reference products. AWP is widely used to calculate a portion of the Medicaid and Medicare Part D drug reimbursements payable to pharmacy providers. In 2005, several pension funds brought an action against First DataBank and another healthcare provider alleging collusion to set AWPs for branded drugs. In October 2006, First DataBank agreed to a proposed settlement that would require it to stop publishing AWP two years after the settlement becomes effective unless a competitor is publishing AWP at that time. First DataBank would also be required to change the way it calculates AWP during the two-year interim period. The proposed settlement is subject to several contingencies and has not yet received final approval by the court. We continue to evaluate the potential impact that the settlement could have on our business. If the settlement is finalized, it could have an adverse impact on our business and results of operations.

If we or our customers fail to comply with Medicare and Medicaid regulations, we may be subjected to penalties or loss of eligibility to participate in these programs.

The Medicare and Medicaid programs are highly regulated. These programs are also subject to frequent and substantial changes. If we or our customers facilities fail to comply with applicable reimbursement laws and regulations, whether purposely or inadvertently, our reimbursement under these programs could be curtailed or reduced and our eligibility to continue to participate in these programs could be adversely affected. Federal or state governments may also impose other penalties on us for failure to comply with the applicable reimbursement regulations. Failure by our customers to comply with these or future laws and regulations could result in our inability to provide pharmacy services to these customers and their residents. We do not believe that we have taken any actions that could subject us to material penalties under these rules and regulations.

Among these laws is the federal anti-kickback statute. This statute prohibits anyone from knowingly and willfully soliciting, receiving, offering or paying any remuneration with the intent to refer, or to arrange for the referral or order of, services or items payable under a federal healthcare program. Courts have interpreted this statute broadly. Violations of the anti-kickback statute may be punished by a criminal fine of up to $25,000 for each violation or imprisonment, civil money penalties of up to $50,000 per violation and damages of up to three times the total amount of the remuneration and/or exclusion from participation in federal health care programs, including Medicare and Medicaid. This law impacts the relationships that we may have with potential referral sources. We have a variety of relationships with potential referral sources, including hospitals and skilled nursing facilities with which we have contracted to provide pharmacy services. Those referral sources would include hospitals and other facilities owned by Kindred. The Office of Inspector General at HHS, or OIG, among other regulatory agencies, is responsible for identifying and eliminating fraud, abuse or waste. The OIG carries out this responsibility through a nationwide program of audits, investigations and inspections. The OIG has promulgated safe harbor regulations that outline practices that are deemed protected from prosecution under the anti-kickback statute. While we endeavor to comply with the applicable safe harbors, certain of our current arrangements may not qualify for safe harbor protection. Failure to meet a safe harbor does not mean that the arrangement necessarily violates the anti-kickback statute, but may subject the arrangement to greater scrutiny. We cannot assure you that practices that are outside of a safe harbor will not be found to violate the anti-kickback statute.

The anti-kickback statute and similar state laws and regulations are expansive. We do not always have the benefit of significant regulatory or judicial interpretation of these laws and regulations. In the future, different interpretations or enforcement of these laws and regulations could subject our current or past practices to allegations of impropriety or illegality, or could require us to make changes in our facilities, equipment, personnel, services, capital expenditure programs and operating expenses. A determination that we have violated these laws, or the public announcement that we are being investigated for possible violations of these laws, could have a material adverse effect on our business, financial condition, results of operations or prospects and our business reputation could suffer significantly. If we fail to comply with the anti-kickback statute or other applicable laws and regulations, we could be subjected to liabilities, including criminal penalties, civil penalties (including the loss of our licenses to operate one or more facilities), and exclusion of one or more facilities from participation in the Medicare, Medicaid and other federal and state health care programs. In addition, we are unable to predict whether other legislation or regulations at the federal or state level will be adopted, what form such legislation or regulations may take or their impact.

Continuing government and private efforts to contain healthcare costs may reduce our future revenue.

We could be adversely affected by the continuing efforts of government and private payors to contain healthcare costs. To reduce healthcare costs, payors seek to lower reimbursement rates, limit the scope of covered services and negotiate reduced or capped pricing arrangements. For example, President Bush s proposed federal fiscal year 2008 budget includes legislative and administrative proposals that would reduce Medicare spending by approximately $5.3 billion in fiscal 2008 and $75.8 billion over five years. Among other things, the budget would provide no update to Medicare payment rates for skilled nursing facilities in 2008 and a negative 0.65% adjustment to the rates annually thereafter. The budget also would move toward site-neutral post-hospital payments to limit inappropriate incentives for five conditions commonly treated in both skilled nursing facilities and inpatient rehabilitation facilities. In addition, the budget proposal includes a series of proposals impacting Medicaid, including legislative and administrative changes that would reduce Medicaid payments by almost $26 billion over five years. While many of the proposed policy changes would require congressional approval to implement, we cannot assure you that reimbursement payments under governmental and private third party payor programs will remain at levels comparable to present levels or will be sufficient to cover the costs allocable to patients eligible for reimbursement under these programs. Any changes that lower reimbursement rates under Medicare, Medicaid or private pay programs could result in a substantial reduction in our net operating revenues. Our operating margins may continue to be under pressure because of deterioration in reimbursement, changes in payor mix and growth in operating expenses in excess of increases, if any, in payments by third party payors.

Healthcare reform could adversely affect the liquidity of our customers which would have an adverse effect on their ability to make timely payments to us for our products and services.

Healthcare reform and legislation may have an adverse effect on our business through decreasing funds available to our customers. Limitations or restrictions on Medicare and Medicaid payments to our customers could adversely impact the liquidity of our customers, resulting in their inability to pay us, or to timely pay us, for our products and services. This inability could have a material adverse effect on our financial position, results of operations and liquidity.

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The changing U.S. healthcare industry and increasing enforcement environment may negatively impact our business.

Our products and services are part of the structure of the healthcare financing and reimbursement system currently existing in the United States. In recent years, the healthcare industry has undergone significant changes in an effort to reduce costs and government spending. These changes include an increased reliance on managed care, cuts in Medicare funding affecting our healthcare provider customer base and consolidation of competitors, suppliers and customers.

In January 2005, CMS issued final regulations on Medicare Part D which became effective on January 1, 2006. Most of the nursing center residents that we serve whose drug costs were previously covered by state Medicaid programs are dual eligibles who qualify for the new Medicare drug benefit. Accordingly, since January 1, 2006, Medicaid is no longer a primary payor for the pharmacy services provided to these residents.

We expect the healthcare industry to continue to change significantly in the future. Some of these potential changes, such as a reduction in governmental support of healthcare services or adverse changes in legislation or regulations governing prescription drug pricing, healthcare services or mandated benefits, may cause healthcare providers to reduce the amount of our products and services they purchase or the price they are willing to pay for our products and services. If we are unable to adjust to changes in the healthcare environment, it could have a material adverse effect on our financial position, results of operations and liquidity.

Further, both federal and state government agencies have increased their focus on and coordination of civil and criminal enforcement efforts in the healthcare area. The OIG and the U.S. Department of Justice have, from time to time, established national enforcement initiatives, targeting all providers of a particular type, that focus on specific billing practices or other suspected areas of abuse. In addition, under the federal False Claims Act, private parties have the right to bring qui tam whistleblower lawsuits against companies that submit false claims for payments to the government. A number of states have adopted similar state whistleblower and false claims provisions. We do not believe that we have taken any actions that could subject us to material penalties under these provisions.

Further consolidation of managed care organizations and other third party payors may adversely affect our profits.

Managed care organizations and other third party payors have continued to consolidate in order to enhance their ability to influence the delivery of healthcare services. Consequently, the healthcare needs of a large percentage of the U.S. population are increasingly served by a small number of managed care organizations. These organizations generally enter into service agreements with a limited number of providers for needed services. In addition, private payors, including managed care payors, increasingly are demanding discounted fee structures. To the extent that these organizations terminate us as a preferred provider, engage our competitors as a preferred or exclusive provider or demand discounted fee structures, our business could be materially and adversely affected.

Possible changes in or our failure to satisfy our manufacturers rebate programs could adversely affect our results of operations.

We currently earn rebates from certain manufacturers of pharmaceutical products for meeting tiered market share and purchase volumes. On a pro forma basis for the year ended December 31, 2006, we earned rebates of approximately $46 million. There can be no assurance that pharmaceutical manufacturers will continue to offer these rebates or that we will continue to satisfy the tiered market share and purchase volumes. The termination of such programs or our failure to satisfy the tiered market share and volumes may have an adverse affect on our cost of goods sold and our financial position, results of operations and liquidity.

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If we or our customers fail to comply with licensure requirements, laws and regulations in respect of healthcare fraud or other applicable laws and regulations, we could suffer penalties or be required to make significant changes to our operations.

Our pharmacies must be licensed by the state board of pharmacy in the state in which they operate. Many states also regulate out-of-state pharmacies that are delivering prescription products to patients or residents in their states. The failure to obtain or renew any required regulatory approvals or licenses could adversely impact the operation of our business. In addition, the healthcare facilities we service are also subject to extensive federal, state and local regulations and are required to be licensed in the states in which they are located. The failure by these healthcare facilities to comply with these or future regulations or to obtain or renew any required licenses could result in our inability to provide pharmacy services to these facilities and their residents and could have a material adverse effect on our financial position, results of operations and liquidity.

While we believe that we are in substantial compliance with all applicable laws, many of the regulations applicable to us, including those relating to marketing incentives offered by pharmaceutical suppliers, and rebates paid by pharmaceutical manufacturers are vague or indefinite and have not been interpreted by the courts. They may be interpreted or applied by a prosecutorial, regulatory or judicial authority in a manner that could require us to make changes in our operations. These changes may be material and may require the expenditure of material funds to implement. We believe that the regulatory environment surrounding most segments of the healthcare industry remains intense. Federal and state governments continue to impose intensive enforcement policies resulting in a significant number of inspections, citations of regulatory deficiencies and other regulatory sanctions including demands for refund of overpayments, terminations from the Medicare and Medicaid programs, bars on Medicare and Medicaid payments and fines. To date, we have not experienced any demands for refund of overpayments, terminations from the Medicare and Medicaid programs, bars on Medicare and Medicaid payments or fines that are material to us. If we or our customers fail to comply with the extensive applicable laws and regulations, we could become ineligible to receive government program reimbursement, suffer civil or criminal penalties or be required to make significant changes to our operations. In addition, we could be forced to expend considerable resources responding to an investigation or other enforcement action under these laws or regulations regardless of whether we have actually been involved in any violations or wrong-doing.

Federal and state medical privacy regulations may increase the costs of operations and expose us to civil and criminal sanctions.

We must comply with extensive federal and state requirements regarding the transmission and retention of health information. The Health Insurance Portability and Accountability Act of 1996, referred to as HIPAA, was enacted to ensure that employees can retain and at times transfer their health insurance when they change jobs, to enhance the privacy and security of personal health information and to simplify healthcare administrative processes. The law requires the adoption of standards for the exchange of electronic health information. Based upon current information, we believe we will be able to fully comply with HIPAA requirements, but at this time, we cannot estimate the cost of compliance or if implementation of the HIPAA standards will result in an adverse effect on our operations or profitability or that of our customers. Failure to comply with HIPAA could result in fines and penalties that could have a material adverse effect on our business.

Acquisitions, investments and strategic alliances that we have made or may make in the future may use significant resources, may be unsuccessful and could expose us to unforeseen liabilities.

We have made, as part of our parent companies, and anticipate that we may continue to make acquisitions of, investments in and strategic alliances with complementary businesses to enable us to capitalize on our position in the geographic markets in which we operate and to expand our businesses in new geographic markets. At any particular time, we may be in various stages of assessment, discussion and negotiation with regard to one or more potential acquisitions, investments or strategic alliances, not all of which, if any, will be consummated. Our growth plans rely, in part, on the successful completion of future acquisitions. If we are unsuccessful, our business would suffer.

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We intend to make public disclosure of pending and completed acquisitions when appropriate or required by applicable securities laws and regulations. Acquisitions may involve significant cash expenditures, debt incurrence, additional operating losses, amortization of certain intangible assets of acquired companies, and expenses that could have a material adverse effect on our financial position, results of operations and liquidity. Acquisitions involve numerous risks and uncertainties, including, without limitation:

- difficulties integrating acquired operations, personnel and information systems, or in realizing projected efficiencies and cost savings,
- diversion of management s time from existing operations,
- potential loss of key employees or customers of acquired companies,
- inaccurate assessment of assets and liabilities and exposure to undisclosed or unforeseen liabilities of acquired companies, including liabilities for failure to comply with healthcare laws,
- increases in our indebtedness and a limitation on our ability to access additional capital when needed, and
- failure to operate acquired facilities profitably or to achieve improvements in their financial performance.

If we fail to comply with our Corporate Integrity Agreement, we could be subject to severe sanctions, including stipulated monetary penalties and exclusion from the federal healthcare programs.

We are subject to the terms of a Corporate Integrity Agreement, or CIA, entered into between the OIG and PharMerica LTC on March 29, 2005. In June 2004, the OIG commenced an administrative action against PharMerica LTC, including its subsidiary PharMerica Drug Systems, Inc., or PDSI. The OIG alleged that PDSI s December 1997 acquisition of Hollins Manor I, LLC, or Hollins, from HCMF Corporation, or HCMF, violated the anti-kickback provisions of the Social Security Act. The Hollins acquisition predated the acquisition of PharMerica LTC in 1999 by AmerisourceBergen s predecessor. Hollins was an institutional pharmacy that had been established to serve the nursing homes then operated by HCMF. As part of the settlement, in which PharMerica LTC and PDSI expressly denied wrongdoing, PharMerica LTC paid $5,795,000 to the HHS and entered into a five-year CIA. In turn, the OIG provided PharMerica LTC and its subsidiaries with a full release for the conduct covered by the administrative action, including an agreement not to pursue their exclusion from participation in Medicare, Medicaid or other federal healthcare programs. Under the CIA, PharMerica LTC agreed to continue its comprehensive compliance program, which includes a corporate compliance officer, a corporate compliance committee, a Code of Ethics and Business Conduct, written policies and procedures, educational and training initiatives, review and disciplinary procedures, a confidential disclosure program, an ineligible persons screening program and internal audit and review procedures, all designed to promote compliance with applicable laws, including federal healthcare program requirements, and the promotion of ethical business practices. PharMerica LTC is also subject to extensive reporting requirements under the CIA, including annual reports describing PharMerica LTC s compliance activities, notices of any government investigations or legal proceedings, overpayments received from federal healthcare programs and changes in pharmacy locations and new business units. The term of the CIA is five years and it ends on March 29, 2010. PharMerica LTC is required to comply fully and timely with all of the CIA requirements. Failure to do so may lead to the imposition of stipulated penalties, including substantial monetary penalties and exclusion from participation in federal healthcare programs, including Medicare and Medicaid. Any such penalties could have a material adverse effect on our financial position, results of operations and liquidity.

After completion of the transaction, the CIA will continue to apply to PharMerica LTC through its original term. Pursuant to an agreement reached with the OIG regarding the transaction s impact on the CIA, the CIA s requirements will not apply to KPS or any of the KPS employees or contractors. However, among other obligations, NewCo employees and contractors that are involved with PharMerica LTC s operations will be subject to the training requirements in accordance with the CIA s existing terms (with a deadline for satisfying initial training requirements of 90 days after the closing). In addition, pursuant to the agreement reached with the

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OIG, oversight of, and day-to-day responsibility for, the CIA after closing will be undertaken by the NewCo compliance officer and NewCo compliance committee (an ad hoc committee comprised of members of NewCo s senior management).

If we are unable to achieve and maintain an effective system of internal controls over financial reporting, we may not be able to accurately report our financial results.

Pursuant to Section 404 of the Sarbanes-Oxley Act, our management will be required to deliver a report in our Annual Report on Form 10-K for the fiscal year ending December 31, 2008 that assesses the effectiveness of our internal control over financial reporting. We also will be required to obtain an attestation report from our independent registered public accounting firm on the operating effectiveness of our internal control over financial reporting. We are currently in the process of evaluating and implementing our systems of internal control over financial reporting. Significant use of resources, both internal and external, and management time will be required to fully implement our systems of internal control over financial reporting and, when required, to make the requisite annual evaluation of the effectiveness of our internal control over financial reporting. We do not expect to have fully implemented the processes, procedures and controls necessary to have an effective system of internal control over financial reporting by the closing of the transaction and such efforts will continue following the closing. In addition, there can be no assurance that we will be able to complete the work necessary for our management to issue its report on our internal control over financial reporting in a timely manner or that management or our independent registered public accounting firm will conclude that our internal controls over financial reporting are effective. If we are unable to achieve and maintain effective internal controls and procedures for financial reporting, we may not be able to provide timely and reliable financial information. In addition, the market price of our common stock could be adversely affected if we were required to conclude that because of deficiencies in our internal controls over financial reporting our disclosure controls and procedures are not effective or if we or our independent registered public accounting firm were not able to conclude that our internal controls over financial reporting are effective.

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Risks generally associated with our sophisticated information systems may adversely affect our operating results.

We rely on sophisticated information systems in our business to obtain, rapidly process, analyze, and manage data to facilitate the dispensing of prescription and non-prescription pharmaceuticals in accordance with physician orders and deliver those medications to patients and long-term care residents on a timely basis; to manage the accurate billing and collections for thousands of customers; and to process payments to suppliers. Our business and results of operations may be materially adversely affected if these systems are interrupted or damaged or if they fail for any extended period of time.

We purchase a significant portion of our pharmaceutical products from one supplier.

We are required to purchase 95% of our pharmaceutical products from AmerisourceBergen, one of our former parent companies, pursuant to the prime vendor agreement. See Additional Agreements with AmerisourceBergen and Kindred Prime Vendor Agreement. If the prime vendor agreement were terminated or AmerisourceBergen failed to deliver products in accordance with the prime vendor agreement, there can be no assurance that our operations would not be disrupted or that we could obtain the products at similar cost or at all. In this event, failure to satisfy our customers requirements would result in defaults under these customer contracts subjecting us to damages and the potential termination of those contracts. Such events could have a material adverse effect on our financial position, results of operations and liquidity.

We obtain a significant portion of our information services from one provider.

We obtain a significant portion of our information technology services from Kindred, one of our former parent companies, pursuant to the information services agreement. See Additional Agreements with AmerisourceBergen and Kindred Information Services Agreement. If the information services agreement were terminated or Kindred failed to deliver services in accordance with the information services agreement, there can be no assurance that our operations would not be disrupted or that we could obtain the necessary information services and support at similar cost or at all. This could result in our failure to satisfy our customers requirements or comply with certain of our financial or regulatory reporting requirements, which could have a material adverse effect on our financial position, results of operations and liquidity.

Failure of key third parties to provide reliable products or services, such as our information services, in a timely manner could cause delays in the delivery of our services, which could damage our reputation, cause us to lose customers and negatively impact our growth.

We are dependent on third parties, such as Kindred which will provide a significant portion of our information technology services. Kindred is not in the business of providing comprehensive information technology outsourcing services to third parties and does not have any prior experience providing comprehensive outsourcing information technology services for any third party. If Kindred or other third parties upon whom we are dependent fail to devote sufficient time and resources to us or if their performance is substandard, our business may be harmed. Any delays, malfunctions, inefficiencies or interruptions in these products or services could adversely affect the reliability or operation of our business, which could cause us to experience difficulty retaining current customers and attracting new customers. In addition, our brand, reputation and growth could be negatively impacted.

We are highly dependent on our senior management team and our pharmacy professionals.

We are highly dependent upon the members of our senior management and our pharmacists and other pharmacy professionals. Our business is managed by a small number of senior management personnel. If we

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were unable to retain these persons, we might be materially adversely affected due to the limited pool of senior management personnel with significant experience in our industry. Accordingly, we believe we could experience significant difficulty in replacing key management personnel. We expect that any employment contracts we enter into with our key management personnel will be subject to termination without cause by either party. Moreover, although the majority of the members of our senior management team have significant experience in the pharmaceutical industry, they are all new employees of NewCo and will need time to fully assess and understand NewCo s business and operations. We can offer no assurance how long these members of senior management will choose to remain with NewCo.

In addition, our continued success depends on our ability to attract and retain pharmacists and other pharmacy professionals. Competition for qualified pharmacists and other pharmacy professionals is intense. The loss of pharmacy personnel or the inability to attract or retain sufficient numbers of qualified pharmacy professionals could adversely affect our business. Although we generally have been able to meet our staffing requirements for pharmacists and other pharmacy professionals, our inability to do so in the future could have a material adverse effect on our financial position, results of operations and liquidity.

Risk Factors Relating to Ownership of Our Common Stock

Because there has not been any public market for our common stock, the market price and trading volume of our common stock may be volatile and you may not be able to sell your shares at or above the initial market price of our stock following the transaction.

Prior to the transaction, there has been no trading market for our common stock. We cannot predict the extent to which investors interest will lead to a liquid trading market or whether the market price of our common stock will be volatile. The market price of our common stock could fluctuate significantly for many reasons, including, without limitation:

- as a result of the risk factors listed in this preliminary prospectus;
- if our business does not fit the investment objectives of the stockholders of our former parent companies, causing them to sell our shares after the transaction;
- actual or anticipated fluctuations in our operating results;
- for reasons unrelated to our specific performance, such as reports by industry analysts, investor perceptions, or negative announcements by our customers or competitors regarding their own performance;
- regulatory changes that could impact our business; and
- general economic and industry conditions.

In addition, when the market price of a company s common stock drops significantly, stockholders often institute securities class action lawsuits against the company. A lawsuit against us could cause us to incur substantial costs and could divert the time and attention of our management and other resources.

Certain provisions of our certificate of incorporation and bylaws and provisions of Delaware law as well as certain provisions of agreements entered into in connection with the transaction could delay or prevent a change of control that you may favor.

Our certificate of incorporation and bylaws and provisions of Delaware law

Provisions of our certificate of incorporation and bylaws may discourage, delay or prevent a merger or other change of control that stockholders may consider favorable or may impede the ability of the holders of our common stock to change our management. The provisions of our certificate of incorporation and bylaws, among other things, will:

prohibit stockholder action except at an annual or special meeting. Specifically, this means our stockholders will be unable to act by written consent;

regulate how stockholders may present proposals or nominate directors for election at annual meetings of stockholders. Advance notice of such proposals or nominations will be required;

regulate how special meetings of stockholders may be called. Our stockholders will not have the right to call special meetings;

authorize our board of directors to issue preferred stock in one or more series, without stockholder approval. Under this authority, our board of directors could adopt a rights plan which could ensure continuity of management by rendering it more difficult for a potential acquiror to obtain control of us; and

require an affirmative vote of the holders of three-quarters or more of the combined voting power of our common stock entitled to vote in the election of our directors in order for the stockholders to amend our bylaws.

See Statutory, Charter and Bylaw Provisions for a more detailed summary of these and other provisions in the certificate of incorporation and bylaws.

In addition, because we have not chosen to be exempt from Section 203 of the DGCL, this provision could also delay or prevent a change of control that you may favor. Section 203 provides that, subject to limited exceptions, persons that acquire, or are affiliated with a person that acquires, more than 15% of the outstanding voting stock of a Delaware corporation shall not engage in any business combination with that corporation, including by merger, consolidation or acquisitions of additional shares, for a three-year period following the date on which that person or its affiliate becomes the holder of more than 15% of the corporation s outstanding voting stock.

Agreements entered into in connection with the transaction

An acquisition of our stock or further issuance of our stock could cause AmerisourceBergen or Kindred to recognize a taxable gain on the spin-off of PharMerica LTC or KPS, respectively. See The Transaction Material U.S. Federal Income Tax Consequences of the Transaction. Under the tax matters agreement we would be required to indemnify our former parent companies for the resulting tax, and this indemnity obligation might discourage, delay or prevent a change of control that you may consider favorable.

Several of the agreements that we will enter into with our former parent companies at closing will require us to obtain the consent of one or both of our former parent companies prior to assigning our rights and obligations under such agreements. In addition some of the agreements that we will enter at closing, including certain transition services agreements, may be modified upon a change of control of our company. The consent and termination rights set forth in these agreements might discourage, delay or prevent a change of control that you may consider favorable. See Additional Agreements with AmerisourceBergen and Kindred for a more detailed description of these agreements.

Our ability to pay dividends is limited by our financial results and our debt instruments and we do not anticipate paying any distributions in the foreseeable future.

We anticipate that future earnings will be used principally to support operations and finance the growth of our business. Thus, we do not intend to pay dividends or other cash distributions on our common stock in the foreseeable future. See Dividend Policy. In connection with the transaction, we will enter into a senior secured credit facility providing for both term and revolving credit borrowings. The new senior secured credit facility will contain affirmative and negative covenants that, among other things, will require us to satisfy certain financial tests and maintain certain financial ratios. The new senior secured credit facility will also limit our ability to declare and pay dividends or other distributions on our shares of common stock. If our lenders permit us to declare dividends, the dividend amounts, if any, will be determined by our board of directors, which will consider a number of factors, including our financial condition, capital requirements, funds generated from operations, future business prospects, applicable contractual restrictions and any other factors our board of directors may deem relevant.

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CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

We make forward-looking statements in this preliminary prospectus. These forward-looking statements relate to our outlook or expectations for earnings, revenues, results of operations, financing plans, expenses, competitive position or other future financial or business performance, strategies or expectations or the impact of legal or regulatory matters on our business, results of operations or financial condition. Specifically, forward-looking statements may include:

- statements relating to our plans, intentions, expectations, objectives or goals, including those relating to the benefits of the transaction;
- statements relating to our future performance, business prospects, revenue, income and financial condition and competitive position following the transaction, and any underlying assumptions relating to those statements; and
- statements preceded by, followed by or that include the words anticipate, approximate, believe, could, estimate, expect, fore intend, may, plan, project, seek, should, target, will or similar expressions.

These statements reflect our judgment based upon currently available information and involve a number of risks and uncertainties that could cause actual results to differ materially from those expressed in, or implied by, the forward-looking statements. With respect to these forward-looking statements, we have made assumptions regarding, among other things, customer growth and retention, pricing, operating costs, technology and the economic and regulatory environment.

Future performance cannot be ensured. Actual results may differ materially from those expressed in, or implied by, the forward-looking statements. Some of the factors that could cause our actual results to differ include, without limitation:

- changes in or the failure to achieve the underlying assumptions and expectations related to the transaction;
- availability of financial and other resources to us after the transaction;
- our different capital structure as a stand-alone, publicly traded company, including our access to capital, credit ratings, indebtedness and ability to raise additional financings and operate under the terms of our debt obligations;
- a determination by the IRS that the transaction should be treated as a taxable transaction, in whole or in part, and any tax liabilities and indemnification obligations related thereto;
- our ability to operate under the terms of the tax matters agreement, including the covenants and restrictions which limit our discretion in the operation of our business;
- certain conflicts of interest, including, without limitation, conflicts resulting from continuing relationships with our former parent companies, overlapping directorships between us and our former parent companies, and ownership by our management of the common stock of our former parent companies;
- the effects of intense competition in the markets in which we operate;

the effects of the loss or bankruptcy of or default by a significant customer, supplier or other entity relevant to our operations;

our ability to implement our business strategy, including, without limitation, our ability to integrate the formerly separate institutional pharmacy businesses of our former parent companies, including costs associated with such integration, and resolve any dislocations or inefficiencies in connection with the spin-offs and merger;

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our ability to successfully pursue our development activities and successfully integrate new operations, including the realization of anticipated revenues, economies of scale, cost savings and productivity gains associated with such operations;

our ability to control costs, particularly labor and employee benefit costs, rising pharmaceutical costs and regulatory compliance costs;

the effects of healthcare reform and government regulations, interpretation of regulations and changes in the nature and enforcement of regulations governing the healthcare and institutional pharmacy services industries;

changes in the reimbursement rates or methods of payment from Medicare and Medicaid and other third party payors, or the implementation of other measures to reduce the reimbursement for our services or the services of our customers and the impact of Medicare Part D;

our ability, and the ability of our customers, to comply with Medicare or Medicaid reimbursement regulations or other applicable laws;

further consolidation of managed care organizations and other third party payors;

political and economic conditions nationally, regionally and in the markets in which we operate;

natural disasters, war, civil unrest, terrorism, fire, floods, earthquakes, hurricanes or other matters beyond our control;

elimination of, changes in or our failure to satisfy pharmaceutical manufacturers rebate programs;

our ability to obtain goods and services provided by our former parent companies under the transition services agreements, information services agreement and prime vendor agreement at comparable prices and on terms as favorable as those obtained under such agreements;

our ability to attract and retain key executives, pharmacists and other healthcare personnel;

our ability to comply with the terms of our CIA;

our ability to ensure and maintain an effective system of internal controls over financial reporting; and

other factors, risks and uncertainties referenced in our filings with the U.S. Securities and Exchange Commission, or the SEC, and those factors listed under Risk Factors.

YOU ARE CAUTIONED NOT TO PLACE UNDUE RELIANCE ON ANY FORWARD-LOOKING STATEMENTS, ALL OF WHICH SPEAK ONLY AS OF THE DATE OF THIS PRELIMINARY PROSPECTUS. EXCEPT AS REQUIRED BY LAW, WE UNDERTAKE NO OBLIGATION TO PUBLICLY UPDATE OR RELEASE ANY REVISIONS TO THESE FORWARD-LOOKING STATEMENTS TO REFLECT ANY EVENTS OR CIRCUMSTANCES AFTER THE DATE OF THIS PRELIMINARY

PROSPECTUS OR TO REFLECT THE OCCURRENCE OF UNANTICIPATED EVENTS. ALL SUBSEQUENT WRITTEN AND ORAL FORWARD-LOOKING STATEMENTS ATTRIBUTABLE TO US OR ANY PERSON ACTING ON OUR BEHALF ARE EXPRESSLY QUALIFIED IN THEIR ENTIRETY BY THE CAUTIONARY STATEMENTS CONTAINED OR REFERRED TO IN THIS SECTION.

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THE TRANSACTION

Reasons for the Transaction

The boards of directors of AmerisourceBergen and Kindred have determined that it is in the best interests of their respective stockholders to combine their institutional pharmacy businesses in a new stand-alone publicly traded company. In making the determination to approve the transaction, AmerisourceBergen s and Kindred s respective boards of directors considered that the transaction would:

- enable investors to invest directly in a stand-alone institutional pharmacy services company;
- allow Kindred and AmerisourceBergen to focus on their core businesses;
- allow resources to be applied directly and more efficiently in the institutional pharmacy services business;
- create a larger and more competitive institutional pharmacy services business;
- provide the institutional pharmacy services business with direct access to capital to pursue their business strategy; and
- create more effective equity incentives for the key employees of AmerisourceBergen, Kindred and NewCo.

Reasons of the AmerisourceBergen Board of Directors for the Transaction

The AmerisourceBergen board of directors, after consulting with its legal, financial and other advisors, unanimously determined that the spin-off of PharMerica LTC and the merger of PharMerica LTC with a subsidiary of NewCo are advisable and fair to and in the best interests of AmerisourceBergen, PharMerica LTC and AmerisourceBergen s stockholders and has approved these transactions. The AmerisourceBergen board of directors considered a number of factors, including the following:

- *Investor Benefits*. Following completion of the transaction, investors will be able to invest directly in a stand-alone institutional pharmacy services company.
- *Strategic Focus*. The transaction will enable AmerisourceBergen to focus on its core business and will provide PharMerica LTC with an opportunity for growth as part of a larger and more competitive organization focused on the institutional pharmacy services business.
- *Institutional Pharmacy Focus*. The transaction will allow resources and capital to be applied directly and more efficiently towards the institutional pharmacy services business without the constraints applicable to it as part of larger organization that is not focused on the institutional pharmacy business.
- *Employee Incentives*. The transaction will enable NewCo to compensate PharMerica LTC employees more appropriately by providing equity based incentive compensation tied to the performance of the institutional pharmacy business, rather than AmerisourceBergen as a whole.

Cash Distribution to AmerisourceBergen. AmerisourceBergen considered the benefits of the cash distribution that it would receive from PharMerica LTC immediately before the consummation of the spin-off. AmerisourceBergen considered that the methodology of calculating the cash distributions would establish an appropriate debt level at NewCo following consummation of the transaction.

With the advice and assistance of its legal, financial and other advisors, AmerisourceBergen conducted a review of the transaction and the other alternatives available to it, including maintaining the status quo, making significant additional investment in PharMerica LTC operations, the sale of PharMerica LTC and a spin-off of PharMerica LTC without combining PharMerica LTC with KPS. AmerisourceBergen s board of directors determined to pursue the transaction rather than any of the potential alternatives.

In approving the transaction, the AmerisourceBergen board also considered whether it would be advisable and in the best interests of the stockholders of AmerisourceBergen for its Chief Executive Officer, R. David Yost, to serve on the board of NewCo from the closing of the transaction until the first annual meeting of NewCo

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in 2008. The AmerisourceBergen board determined that this would be advisable and in the best interests of the stockholders of NewCo because Mr. Yost would bring valuable expertise and experience to the board of NewCo during this important transition period. The AmerisourceBergen board also considered the effect that this new directorship would have on the available time and resources of Mr. Yost and, in consultation with independent legal counsel, considered the impact that this new directorship would have in connection with the performance of fiduciary duties and various other concerns.

The discussion above of the factors considered by the AmerisourceBergen board of directors is not meant to be exhaustive but is believed to include all material factors that the board considered. The AmerisourceBergen board of directors did not quantify or attach any particular weight to the various factors that it considered, and views its decision as being based on the totality of the information it considered. In the judgment of AmerisourceBergen s board of directors, the benefits of the transaction outweigh the potential risks and costs described below.

Potential Risks and Costs Considered by the AmerisourceBergen Board of Directors

In deciding whether to approve the transaction, the AmerisourceBergen board of directors also considered potential risks and costs associated with the transaction, including the following:

Integration Risk. The risk that the benefits sought in the transaction might not be fully realized because of the challenges involved in integrating PharMerica LTC and KPS, including the risk that NewCo will be unable to find qualified management personnel and other employees.

Financial Risk. The risk that the transaction will negatively impact AmerisourceBergen, PharMerica LTC and NewCo s net assets and capital, AmerisourceBergen s borrowing capacity and the long-term growth prospects of AmerisourceBergen and/or NewCo.

Increased Volatility. The risk that the transaction could result in increased volatility in financial results due to reduced diversification of the respective businesses of AmerisourceBergen and PharMerica LTC.

Transaction Risks. Execution risks, including those relating to regulatory clearance, third party consents and financing, as well as the non-competition and non-solicitation restrictions arising out of the transaction.

Relationship Risk. The risk that the transaction will adversely impact future business relationships between AmerisourceBergen and PharMerica LTC.

Reasons of the Kindred Board of Directors for the Transaction

The Kindred board of directors, after consulting with its legal, financial and other advisors, unanimously determined that the spin-off of KPS and the merger of KPS with a subsidiary of NewCo are advisable and fair to and in the best interests of Kindred, KPS and Kindred s stockholders and has approved these transactions. The Kindred board of directors considered a number of factors, including the following:

Scale and Synergies. Kindred considered the benefits to KPS of combining with PharMerica LTC and determined that the two companies, on a combined basis, would be of a large enough scale that they would be more likely to succeed as a national player in a growing market than either would on a stand-alone basis. In addition, the potential for merger synergies offers an additional opportunity to create value for stockholders.

Superior Strategic Focus. Following the spin-off and merger, each of Kindred and KPS, as part of NewCo, will have the opportunity to enhance its focus on its respective core businesses and its unique opportunities for long-term growth and profitability.

Targeted Incentives for Employees. Kindred believes that the transaction will lead to a more direct relationship between efforts of each of Kindred s and NewCo s management and its equity-based compensation plans. As stock ownership of management and employees increases through the exercise of stock options and participation in our equity incentive programs, we expect these incentives to grow.

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Regulatory Benefits. As a company operating in the healthcare industry, Kindred s and each of its units business plans is greatly affected by applicable regulations. The narrower focus of each company is intended to allow for greater flexibility in making investments and engaging in business relationships without such regulatory constraints.

Investor Benefits. Operating as two separate companies will allow for greater transparency of each of Kindred and NewCo to investors, intended to provide investors with a more in-depth understanding of the performance and results of each company. The increased visibility and liquidity that the listing of NewCo on the NYSE offers may also increase the value of stock of NewCo and, indirectly, KPS.

Cash Distribution to Kindred. Kindred considered the benefits of the cash distribution that it would receive from KPS immediately before the consummation of the spin-off.

With the advice and assistance of its legal, financial and other advisors, Kindred conducted a thorough review over an extended period of the alternatives for KPS. Among the alternatives that were considered were maintaining the status quo, divesting KPS through a sale to the highest bidder, an initial public offering of KPS stock, a spin-off of KPS without a subsequent merger, and a combination of a split-off or initial public offering of KPS stock with a partial spin-off of KPS. As part of this process, Kindred considered several strategic alternatives to effect the separation of KPS from Kindred, including a substantial all-cash offer to purchase KPS by a strategic competitor of KPS. This offer, if consummated, would have resulted in less advantageous tax consequences to Kindred and its shareholders relative to the transaction and would have deprived Kindred s shareholders of the synergies expected to be realized in the transaction. In light of these factors, the net effect of which made the all-cash offer economically less advantageous to Kindred and its shareholders, as well as antitrust and other regulatory and execution risks and other factors associated with these alternatives, Kindred s board of directors determined to pursue the transaction rather than any of these alternatives.

In approving the transaction, the independent directors of Kindred also considered whether it would be advisable and in the best interests of the stockholders of Kindred for the Chief Executive Officer and Executive Chairman of Kindred, Paul J. Diaz and Edward L. Kuntz, respectively, to serve on the board of NewCo from the completion of the transaction until the first annual meeting of NewCo in 2008. The independent directors unanimously determined that this would be advisable and in the best interests of the stockholders of NewCo because Messrs. Diaz and Kuntz would bring valuable expertise and experience to the new board of NewCo during this important transition period. The independent directors also considered the effect that these new directorships would have on the available time and resources of Messrs. Diaz and Kuntz and, in consultation with independent legal counsel, considered the impact that these new directorships would have in connection with the performance of fiduciary duties and various other concerns. Moreover, in view of the intention of Messrs. Diaz and Kuntz to serve on the board of NewCo, the Kindred board met on several occasions in executive session to discuss the transaction, without the presence of management, before reaching a conclusion as to the advisability of the transaction. The independent directors were unanimous in their approval of the transaction.

The discussion above of the factors considered by the Kindred board of directors is not meant to be exhaustive but is believed to include all material factors that the board considered. The Kindred board of directors did not quantify or attach any particular weight to the various factors that it considered, and views its decision as being based on the totality of the information it considered. In the judgment of Kindred s board of directors, the benefits of the transaction outweigh the potential risks and costs described below.

Potential Risks and Costs Considered by the Kindred Board of Directors

In deciding whether to approve the transaction, the Kindred board of directors also considered potential risks and costs associated with the transaction, including the following:

Integration Risk. The risk that the benefits sought in the transaction might not be fully realized because of the challenges involved in integrating KPS and PharMerica LTC, including the risk that NewCo will be unable to find qualified management personnel and other employees.

Financial Risk. The risk that the transaction will negatively impact Kindred, KPS and NewCo s net assets and capital, Kindred s borrowing capacity and the long-term growth prospects of Kindred and/or NewCo.

Increased Volatility. The risk that the transaction could result in increased volatility in financial results due to reduced diversification of the respective businesses of Kindred and KPS.

Transaction Risks. Execution risks, including those relating to regulatory clearance, third party consents and financing, as well as the non-competition and non-solicitation restrictions arising out of the transaction.

Relationship Risk. The risk that the transaction will adversely impact future business relationships between Kindred and KPS.

Manner of Effecting the Transaction

We have entered into the master transaction agreement that governs the separation and spin-offs of the PharMerica LTC and KPS businesses from AmerisourceBergen and Kindred, respectively, the conversion of shares of PharMerica LTC and KPS common stock into shares of our common stock in the mergers and the distribution of those shares. The master transaction agreement also contains provisions that govern our organization and operations following consummation of the transaction.

Cash Distributions to Parent Companies; NewCo Financing

Immediately prior to the spin-offs, PharMerica LTC will make the AmerisourceBergen cash distribution to AmerisourceBergen and KPS will make the Kindred cash distribution to KHO. The AmerisourceBergen cash distribution and the Kindred cash distribution will each be in an amount equal to $125 million as adjusted for changes to the working capital of PharMerica LTC or KPS, as applicable, outside of an agreed upon working capital range.

To finance the cash distributions, each of PharMerica LTC and KPS will enter into a financing arrangement prior to the spin-offs in an amount sufficient to fund its cash distribution. We refer to these financings as the initial financings. At closing, we will enter into a new senior secured credit facility in an amount sufficient to refinance the initial financings immediately after closing and to provide us with sufficient cash for operations following the closing.

Spin-offs of PharMerica LTC and KPS

On the closing date, AmerisourceBergen and Kindred will each deliver a single stock certificate representing all of the outstanding shares of common stock of PharMerica LTC and KPS, respectively, to the distribution agent. The distribution agent will hold these shares in trust for the benefit of the holders of record of AmerisourceBergen common stock and Kindred common stock on the record date pending conversion of such shares into shares of our common stock in the mergers. After the spin-offs, AmerisourceBergen and Kindred will not retain any ownership interest in PharMerica LTC or KPS.

The Mergers of PharMerica LTC and KPS with Subsidiaries of NewCo

Immediately after the spin-offs, Hippo Merger Corporation, a Delaware corporation and wholly-owned subsidiary of NewCo, will merge with and into PharMerica LTC, with PharMerica LTC as the surviving corporation, and Rhino Merger Corporation, a Delaware corporation and wholly-owned subsidiary of NewCo, will merge with and into KPS, with KPS as the surviving corporation. After the mergers, we will be a stand-alone, publicly traded company owning and operating KPS and PharMerica LTC through separate wholly-owned subsidiaries.

You are not being asked to take any action in connection with the transaction. You also are not being asked for a proxy or to pay any cash or other consideration or to surrender any of your shares of AmerisourceBergen or Kindred common stock for the shares of our common stock that you will be entitled to receive upon completion of the transaction. For a more detailed description of the terms of the master transaction agreement, see Master Transaction Agreement.

Distribution Procedures

Prior to the effective time, we will deposit with the distribution agent for your benefit the shares of our common stock issuable to you in the mergers. At the effective time, AmerisourceBergen and Kindred will instruct the distribution agent to make book-entry credits for the shares of our common stock that you are entitled to receive. Since shares of our common stock will be in uncertificated book-entry form, you will receive share ownership statements in place of physical share certificates.

The Number of NewCo Shares You will Receive

As a result of the transaction, each AmerisourceBergen stockholder will be entitled to receive approximately shares of our common stock in respect of each share of AmerisourceBergen common stock held on the record date.

As a result of the transaction, each Kindred stockholder will be entitled to receive approximately shares of our common stock in respect of each share of Kindred common stock held on the record date.

Fractional Shares

You will not receive fractional shares of our common stock in the mergers. The distribution agent will aggregate and sell on the open market the fractional shares of our common stock that would otherwise be issued in the mergers, and if you would be entitled to receive a fractional share of our common stock in connection with the mergers, you will instead receive the net cash proceeds of the sale attributable to such fractional share.

Treatment of Stock Options and Restricted Shares Held by Employees of PharMerica LTC and KPS

Stock Options. For purposes of the applicable AmerisourceBergen and Kindred equity plans, the spin-offs will result in a termination of employment for PharMerica LTC and KPS employees. Options to purchase AmerisourceBergen and Kindred common stock held by these employees that are vested at the time of the spin-offs will remain exercisable for AmerisourceBergen or Kindred common stock, as applicable, for a certain period of time following the spin-offs, as provided for in the relevant equity plan or award agreement. Pursuant to the terms of the relevant equity plans and in accordance with applicable law, AmerisourceBergen or Kindred, as applicable, may, in its sole discretion, adjust the terms and conditions of these vested options (including the number of shares subject to, or the exercise price of, such options) to equitably reflect the transaction.

Options held by PharMerica LTC and KPS employees that are unvested as of the distribution time will cease to represent a right with respect to AmerisourceBergen or Kindred common stock, as applicable, and will be deemed in the spin-offs to be converted into non-qualified stock options to purchase PharMerica LTC or KPS common stock, as applicable, and will then be converted in the mergers into NewCo Options. The NewCo Options will be granted pursuant to the NewCo Omnibus Incentive Plan and will have the same terms and conditions as applied to the respective AmerisourceBergen or Kindred options immediately prior to the transaction. In determining the option price and number of shares of our common stock underlying each NewCo Option, our Compensation Committee will use the spread and ratio tests set forth in Section 424 of the Code and the regulations promulgated thereunder in order to preserve the pre-distribution intrinsic value of the corresponding unvested AmerisourceBergen and Kindred options. As a result, (i) the number of our common shares subject to each NewCo Option will be equal to the number of shares subject to the original AmerisourceBergen or Kindred option, as applicable, multiplied by a fraction, the numerator of which is the value of AmerisourceBergen or Kindred common stock, as applicable, immediately before the transaction and

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the denominator of which is the value of our common stock immediately after the transaction and (ii) the exercise price of each NewCo Option will be equal to the exercise price of the original AmerisourceBergen or Kindred option, as applicable, multiplied by a fraction, the numerator of which is the value of our common stock immediately after the transaction and the denominator of which is the value of AmerisourceBergen or Kindred common stock, as applicable, immediately before the transaction. Under no circumstance will a NewCo Option be exercisable after the original expiration date of the related AmerisourceBergen or Kindred option, as applicable.

Restricted Shares. In the spin-offs, PharMerica LTC and KPS employees, as well as AmerisourceBergen and Kindred employees, who hold restricted shares of AmerisourceBergen and Kindred common stock will receive shares of our common stock in the same ratio to their restricted shares of AmerisourceBergen and Kindred common stock as that applicable to holders of unrestricted shares of AmerisourceBergen and Kindred, as the case may be. Shares of our common stock received by holders of AmerisourceBergen restricted stock will continue to be subject to restrictions on vesting and transferability. Shares of our common stock received by holders of Kindred restricted stock will not be subject to restrictions on vesting and transferability.

In connection with the spin-offs, unvested restricted shares of AmerisourceBergen and Kindred common stock held by PharMerica LTC and KPS employees will be cancelled, and we will make substitution grants of restricted shares to these employees pursuant to the NewCo Omnibus Incentive Plan. The substitution grants will have the same terms and conditions as apply to the AmerisourceBergen or Kindred restricted shares immediately before the transaction and will have an equivalent value of the cancelled AmerisourceBergen or Kindred restricted shares, as applicable, based on the value of a share of AmerisourceBergen common stock or Kindred common stock, as applicable, immediately prior to the transaction and a share of our common stock immediately following the transaction and in each case without regard to any restrictions or periods of restriction to which such substitution grant is subject.

By way of illustration, if a PharMerica LTC or a KPS employee has unvested restricted shares of AmerisourceBergen or Kindred common stock, as the case may be, with an aggregate value of $1,000 immediately prior to the transaction, such employee will receive a substitute grant of unvested NewCo restricted shares with a value immediately after the transaction of $1,000.

Results of the Transaction

After the transaction, we will be a stand-alone, publicly traded company owning and operating what had previously been the institutional pharmacy businesses of AmerisourceBergen and Kindred (excluding AmerisourceBergen s workers compensation services business). Immediately following the transaction, we expect to have approximately 30 million shares of common stock outstanding and approximately 4,700 holders of record for shares of our common stock, based upon the number of record holders of AmerisourceBergen and Kindred common stock on the record date. AmerisourceBergen and Kindred stockholders will each initially own approximately 50% of the outstanding shares of our common stock.

The transaction will not change the number of shares of AmerisourceBergen or Kindred common stock outstanding or affect any rights of AmerisourceBergen or Kindred stockholders. However, the value of shares of AmerisourceBergen and Kindred common stock may decline as a result of the transaction because AmerisourceBergen and Kindred will no longer own their institutional pharmacy services businesses.

Listing and Trading of Our Common Stock

As of the date of this preliminary prospectus, there is no public market for our common stock. We have applied for listing of our common stock on the NYSE under the symbol PMC . After the transaction, AmerisourceBergen common stock and Kindred common stock will continue to be listed on the NYSE under the symbols ABC and KND , respectively.

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There currently is no trading market for our common stock, although we anticipate that a limited market, commonly known as a when-issued trading market, will develop on or shortly before the record date. When-issued trading in the context of the transaction refers to trading in NewCo common stock on or before the closing date, prior to issuance of our common stock in the mergers. When-issued trades will generally settle within three days after the closing date. On the first trading day following the closing date, we expect when-issued trading in respect of our common stock to end and regular way trading to begin. Regular way trading typically involves a trade that settles on the third full trading day following the date of the trade. Neither we, AmerisourceBergen nor Kindred can predict the trading prices for our common stock before or after the closing date. See Risk Factors Risks Factors Relating to Ownership of Our Common Stock.

The shares of our common stock distributed to AmerisourceBergen s and Kindred s stockholders will be freely transferable, except for shares received by individuals who are our affiliates. Individuals who may be considered our affiliates after the transaction include individuals who control, are controlled by or are under common control with us, as those terms generally are interpreted for federal securities law purposes. This may include some or all of our executive officers and directors. Individuals who are our affiliates will be permitted to sell their shares of our common stock only pursuant to an effective registration statement under the Securities Act of 1933, which we refer to as the Securities Act, or an exemption from the registration requirements of the Securities Act. Our affiliates will not be permitted to sell shares of our common stock under Rule 144 until 90 days after the date on which the registration statement of which this preliminary prospectus forms a part is declared effective.

Accounting Treatment

The transaction will be accounted for using the purchase method of accounting under accounting principles generally accepted in the United States, with KPS treated as the accounting acquiror. Under the purchase method of accounting, the deemed purchase price has been allocated to the underlying tangible and intangible assets and liabilities acquired based upon their respective fair values with any excess deemed purchase price allocated to goodwill. The adjustments to estimated fair values included herein are based upon a preliminary review of the purchased assets of PharMerica LTC. We expect to complete at a later date appraisals of PharMerica LTC assets at the level of detail necessary to finalize the required purchase price allocation. The final purchase price determination and allocation based upon these appraisals may be materially different than that reflected in the unaudited pro forma condensed financial statements presented herein.

Appraisal Rights

No AmerisourceBergen or Kindred stockholder will have any appraisal rights in connection with the transaction.

Material U.S. Federal Income Tax Consequences of the Transaction

The following discussion summarizes the material U.S. federal income tax consequences of the spin-offs, mergers and distribution of our common stock to a U.S. holder (as defined below) of AmerisourceBergen common stock or Kindred common stock that holds such stock as a capital asset for tax purposes. This discussion is based upon the Code, the Treasury regulations promulgated thereunder, which we refer to as the Treasury Regulations, administrative interpretations and court decisions as in effect as of the date of this preliminary prospectus, all of which may change, possibly with retroactive effect. For purposes of this discussion, a U.S. holder is a beneficial owner of AmerisourceBergen common stock or Kindred common stock that is for U.S. federal income tax purposes:

- a citizen or resident of the United States;
- a corporation, or other entity taxable as a corporation for U.S. federal income tax purposes, created or organized in or under the laws of the United States or of any political subdivision thereof; or
- an estate or trust the income of which is subject to U.S. federal income taxation regardless of its source.

This summary is of a general nature and does not purport to deal with all tax considerations that may be relevant to a holder in light of that holder s particular circumstances or to a holder subject to special rules, such as:

- a financial institution or insurance company;
- a tax-exempt organization;
- a dealer or broker in securities;
- a holder who holds AmerisourceBergen common stock or Kindred common stock as part of a hedge, appreciated financial position, straddle, or conversion or integrated transaction; or
- a holder who acquired AmerisourceBergen common stock or Kindred common stock pursuant to the exercise of compensatory options or otherwise as compensation.

If a partnership holds the shares of AmerisourceBergen common stock or Kindred common stock, the tax treatment of a partner will generally depend upon the status of the partner and the activities of the partnership. A partner of a partnership holding shares of AmerisourceBergen common stock or Kindred common stock should consult its tax advisor.

This discussion of material U.S. federal income tax consequences is not a complete analysis or description of all potential U.S. federal income tax consequences of the transaction. This discussion does not address tax consequences that may vary with, or are contingent on, individual circumstances. In addition, it does not address any non-income tax or any foreign, state or local tax consequences of the transaction. **Accordingly, we strongly urge each holder to consult his or her own tax advisor to determine the particular U.S. federal, state or local or foreign income or other tax consequences to him or her of the transaction.**

General

It is a condition to closing that (i) AmerisourceBergen receive a private letter ruling from the IRS that concludes, based upon the facts, representations, assumptions and undertakings in the ruling, that the spin-off of PharMerica LTC and the subsequent merger of PharMerica LTC and distribution of our common stock will qualify for tax-free treatment to AmerisourceBergen and its stockholders under Section 355, Section 351 and related provisions of the Code and (ii) Kindred receive a private letter ruling from the IRS that concludes, based upon the facts, representations, assumptions and undertakings in the ruling, that the spin-off of KPS and the subsequent merger of KPS and distribution of our common stock will qualify for tax-free treatment to Kindred and its stockholders under Section 355, Section 351 and related provisions of the Code. Although AmerisourceBergen and Kindred coordinated their discussions with the IRS, each of AmerisourceBergen and Kindred applied for a separate private letter ruling that will only address tax matters relating to its respective company and stockholders. These private letter rulings have been received by both AmerisourceBergen and Kindred.

The IRS rulings do not address all of the issues that are relevant to determining whether the spin-offs, mergers and distribution of our common stock will qualify for tax-free treatment. The issues not addressed by the ruling consist primarily of issues on which the IRS customarily declines to rule. However, it is also a condition to closing that AmerisourceBergen receive an opinion from its special tax counsel, Pepper Hamilton LLP, and Kindred receive an opinion from its special tax counsel, Caplin and Drysdale, Chartered, that the spin-offs of PharMerica LTC and KPS, respectively, and the subsequent mergers and distribution of our common stock will generally qualify for tax-free treatment to you and the applicable parent company for U.S. federal income tax purposes. The opinions are expected to address those issues that are not addressed by the IRS rulings.

As a result of such tax-free treatment:

No gain or loss will be recognized by U.S. holders of AmerisourceBergen common stock or Kindred common stock as a result of the spin-offs or the receipt of our common stock in the mergers, except for any gain or loss recognized with respect to cash received in lieu of a fractional share of our common stock.

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A U.S. holder will recognize gain or loss on any cash received in lieu of a fractional share of our common stock equal to the difference between the amount of cash received in lieu of the fractional share and the holder s tax basis in the fractional share of our common stock (determined in the manner described in the next bullet point). Such gain or loss generally will be long-term capital gain or loss if the U.S. holder s holding period for all of its AmerisourceBergen common stock and Kindred common stock is more than one year as of the closing date of the mergers.

The tax basis of AmerisourceBergen common stock or Kindred common stock held immediately before the spin-offs and mergers will be apportioned between such AmerisourceBergen common stock or Kindred common stock and the shares of PharMerica LTC common stock or KPS common stock deemed received in respect thereof in the spin-offs, based upon their relative fair values at the time of the spin-offs. The tax basis of our common stock received in the mergers, including any fractional share of our common stock deemed received, will be the same as the tax basis in the shares of PharMerica LTC common stock or KPS common stock deemed exchanged therefor.

The holding period for the PharMerica LTC common stock or KPS common stock deemed received by a U.S. holder in the spin-offs will include the period of time for which such holder held the AmerisourceBergen common stock or Kindred common stock in respect of which the PharMerica LTC common stock or KPS common stock was deemed distributed. The holding period for our common stock received by a U.S. holder in the mergers will include such holder s holding period for the PharMerica LTC common stock or KPS common stock in respect of which our common stock was distributed.

No gain or loss will be recognized by AmerisourceBergen or Kindred as a result of the distribution of shares of PharMerica LTC common stock or KPS common stock, respectively, except with respect to any intercompany items required to be taken into account under Treasury Regulations relating to consolidated tax returns.

Although a private letter ruling is generally binding on the IRS with respect to the party for which it was obtained, if the facts, representations, assumptions or undertakings set forth in the ruling request are incorrect or violated in any material respect, the ruling may be retroactively modified or revoked by the IRS. An opinion of counsel represents counsel s best legal judgment but is not binding on the IRS or any court.

If the spin-offs, mergers and distribution of our common stock were not to qualify as tax-free transactions, each of AmerisourceBergen and Kindred would have taxable gain equal to the excess of the fair market value of the PharMerica LTC common stock or KPS common stock, respectively, and the parent company s tax basis therein. In addition, if the spin-offs were not to qualify as a tax-free transaction, a U.S. holder would be treated as receiving a taxable distribution equal to the fair market value of the PharMerica LTC common stock or KPS common stock deemed received in the spin-offs, which would be taxed (i) as a dividend to the extent of the holder s pro rata share of the parent company s current and accumulated earnings and profits (including the gain to the parent company triggered by the spin-off), then (ii) as a non-taxable return of capital to the extent of the holder s tax basis in the AmerisourceBergen common stock or Kindred common stock with respect to which the distribution was made, and finally (iii) as capital gain with respect to the remaining value.

Even if the spin-offs and mergers otherwise constitute tax-free transactions to you under Section 355, Section 351 and related provisions of the Code, AmerisourceBergen and Kindred may have to recognize corporate level tax on the spin-offs if, as a result of the mergers and any other planned transaction, there is a 50% or greater change of ownership (by vote or value) in PharMerica LTC or KPS. Based on representations made by AmerisourceBergen, Kindred and us as to common ownership in the common stock of AmerisourceBergen and Kindred and as to the absence of any plan or intent to acquire PharMerica LTC, KPS or NewCo stock, the tax opinions described above will conclude that there is no 50% or greater change of ownership for purposes of Section 355(e) as a result of the mergers. We will represent that there is no plan or intention to issue or redeem equity securities in a manner that would cause the 50% threshold to be met. No corporate level tax will be recognized on the spin-offs. If any of our representations are untrue, we breach any of our covenants or we take, or omit to take, certain actions that cause the transaction to be taxable, we are obligated to indemnify Kindred and AmerisourceBergen for any resulting taxes and related expenses. See Additional Agreements with AmerisourceBergen and Kindred Tax Matters Agreement.

Reporting Requirements

Current Treasury Regulations require certain U.S. holders who are significant distributees and who receive our common stock pursuant to the spin-offs to attach to their U.S. federal income tax return for the year in which the spin-offs occur a statement setting forth certain information with respect to the transaction. A significant distributee is generally a person who holds five percent or more of AmerisourceBergen common stock or Kindred common stock at the time of the transaction. You should consult your own tax advisor to determine whether you are a significant distributee required to provide the foregoing statement.

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DIVIDEND POLICY

Currently, we do not intend to pay dividends on our common stock in the foreseeable future. Instead, we intend to retain all available funds and any future earnings for use in the operation of our business. In connection with the transaction, we will enter into a senior secured credit facility providing for both term and revolving credit borrowings. The new senior secured credit facility will contain affirmative and negative covenants that, among other things, will require us to satisfy certain financial tests and maintain certain financial ratios. The new senior secured credit facility will also limit our ability to declare and pay dividends or other distributions on our shares of common stock. The declaration and payment of any future dividends by us will also be subject to the discretion of our board of directors. Our board of directors may take into account such matters as general business conditions, our financial condition and results of operations, our capital requirements, our prospects, debt covenants and other contractual restrictions and such other factors as they may deem relevant.

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CAPITALIZATION

The following table sets forth our capitalization as of March 31, 2007, on a pro forma basis adjusted to give effect to (1) the spin-offs of KPS and PharMerica LTC from their respective parent companies, Kindred and AmerisourceBergen, (2) the Kindred and AmerisourceBergen cash distributions and the related financing arrangements to fund the cash distributions, (3) the merger of each of KPS and PharMerica LTC into separate subsidiaries of NewCo and refinancing of the temporary bank financing arrangements with the senior secured credit facility, and (4) the distribution of NewCo common stock to the stockholders of Kindred and AmerisourceBergen.

This table should be read in conjunction with Management s Discussion and Analysis of Financial Condition and Results of Operations and Unaudited Pro Forma Condensed Financial Information included elsewhere in this preliminary prospectus.

(dollars in thousands)	**Pro forma as of March 31, 2007 (unaudited)**
Cash and cash equivalents	$ 7,110
Debt:	
Senior secured credit facility	$ 275,000
Capital lease obligations	338
Total debt	275,338
Stockholders equity	398,788
Total capitalization	$ 674,126

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UNAUDITED PRO FORMA CONDENSED FINANCIAL INFORMATION

The unaudited pro forma condensed financial statements present the combination of the historical financial statements of KPS and PharMerica LTC adjusted to give effect to (1) the spin-offs of KPS and PharMerica LTC from their respective parent companies, Kindred and AmerisourceBergen, (2) the Kindred and AmerisourceBergen cash distributions and the related financing arrangements to fund the cash distributions, (3) the merger of each of KPS and PharMerica LTC into a separate subsidiary of NewCo and the refinancing of the temporary bank financing arrangements with the senior secured credit facility, and (4) the distribution of NewCo common stock to the stockholders of Kindred and AmerisourceBergen.

The unaudited pro forma condensed statements of operations were prepared using (1) the unaudited condensed consolidated statement of operations of KPS and the unaudited statement of operations of PharMerica LTC for the three months ended March 31, 2007, (2) the audited consolidated statement of operations of KPS for the year ended December 31, 2006 and (3) the audited statement of operations of PharMerica LTC for the year ended September 30, 2006, each of which is included elsewhere in this preliminary prospectus. The unaudited pro forma condensed balance sheet was prepared using the unaudited condensed consolidated balance sheet of KPS and the unaudited balance sheet of PharMerica LTC as of March 31, 2007 included elsewhere in this preliminary prospectus.

KPS and PharMerica LTC have determined that the transaction will be accounted for as an acquisition by KPS of PharMerica LTC. Both KPS and PharMerica LTC management have concluded that KPS is the accounting acquiror based upon the application of criteria specified in Statement of Financial Accounting Standards (SFAS) No. 141, Business Combinations. Specifically, consideration was given to the greater concentration of KPS related parties in the composition of our board of directors, senior management and large minority voting interests. The unaudited pro forma condensed financial statements have been prepared using the purchase method of accounting, and are presented as if the transaction had occurred as of January 1, 2006 for purposes of the unaudited pro forma condensed statements of operations, and on March 31, 2007 for purposes of the unaudited pro forma condensed balance sheet.

Under the purchase method of accounting, the deemed purchase price has been allocated to the underlying tangible and intangible assets and liabilities acquired based upon their respective fair values with any excess purchase price allocated to goodwill. The estimated fair values included herein are preliminary. We expect to complete at a later date appraisals of PharMerica LTC assets at the level of detail necessary to finalize the required purchase price allocation. The final purchase price determination and allocation based upon these appraisals may be materially different than that reflected in the unaudited pro forma condensed financial statements presented herein.

Overall, we estimate that we will incur transition, integration and capitalized acquisition fees and expenses totaling approximately $18 million to complete the transaction, all of which has been reflected in the unaudited pro forma condensed balance sheet. The unaudited pro forma condensed statement of operations does not include the impact of these non-recurring transaction related costs. Upon closing the transaction, we expect to implement a plan to integrate the operations of KPS and PharMerica LTC which will generate certain additional non-recurring charges. Management cannot currently identify the timing, nature and amount of such charges. However, any such charges, which may be substantial, could affect the results of NewCo in the period in which such charges are incurred. See Management s Discussion and Analysis of Financial Condition and Results of Operations.

The unaudited pro forma condensed financial statements do not include the realization of any cost savings from operating efficiencies, synergies or other restructuring activities that might result from the transaction, nor do they reflect the potential for increased or duplicative costs we may incur in becoming a stand-alone, publicly traded company. Our actual overhead costs may also differ from the parent allocations shown in the historical financial statements of KPS and PharMerica LTC. See also Risk Factors Risk Factors Relating to the

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Transaction The historical and pro forma financial information contained in this preliminary prospectus may not be indicative of our future results as a stand-alone, publicly traded company. The unaudited pro forma condensed financial statements should be read in conjunction with the historical financial statements and accompanying notes to the consolidated financial statements of KPS and the financial statements of PharMerica LTC that are included herein. See Management s Discussion and Analysis of Financial Condition and Results of Operations.

The unaudited pro forma condensed financial statements are not intended to represent or be indicative of the consolidated results of operations or financial condition of NewCo that would have been reported had the transaction been completed as of the date or period presented, and should not be taken as representative of the future consolidated results of operations or financial condition of NewCo.

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UNAUDITED PRO FORMA CONDENSED STATEMENT OF OPERATIONS (In thousands, except per share amounts)

	Three months ended March 31, 2007		Pro forma adjustments		
	KPS	PharMerica LTC	Financing and dividend	Other adjustments	Pro forma
Revenues	$ 174,704	$ 312,402	$	$	$ 487,106
Cost of goods sold	152,801	266,962		(327)(c)	419,436
Gross profit	21,903	45,440		327	67,670
Selling, general and administrative expenses	21,011	39,824		(369)(c)	59,275
				1,018 (d)	
				993 (e)	
				(3,202)(f)	
Operating income	892	5,616		1,887	8,395
Interest expense (income)	(4)	(2)	4,719 (a)		4,713
Income from continuing operations before income taxes	896	5,618	(4,719)	1,887	3,682
Provision for income taxes	354	2,283	(1,897)(b)	759 (b)	1,499
Income from continuing operations	$ 542	$ 3,335	$ (2,822)	$ 1,128	$ 2,183
Pro forma earnings per common share:					
Basic					$ 0.07
Diluted					$ 0.07
Pro forma shares used in computing earnings per common share:					
Basic					30,000(g)
Diluted					30,020(g)

See accompanying notes.

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NEWCO

UNAUDITED PRO FORMA CONDENSED STATEMENT OF OPERATIONS

(In thousands, except per share amounts)

	KPS Fiscal year ended December 31, 2006	PharMerica LTC Fiscal year ended September 30, 2006	Pro forma adjustments Financing and dividend	Pro forma adjustments Other adjustments	Pro forma
Revenues	$ 652,608	$ 1,199,969	$	$	$ 1,852,577
Cost of goods sold	557,944	1,021,706		(619)(c)	1,579,031
Gross profit	94,664	178,263		619	273,546
Selling, general and administrative expenses	73,612	149,951		(699)(c)	228,004
				4,107(d)	
				3,948(e)	
				(2,915)(f)	
Operating income	21,052	28,312		(3,822)	45,542
Interest expense (income)	(104)	6	19,138(a)		19,040
Income from continuing operations before income taxes	21,156	28,306	(19,138)	(3,822)	26,502
Provision for income taxes	8,357	11,549	(7,598)(b)	(1,517)(b)	10,791
Income from continuing operations	$ 12,799	$ 16,757	$ (11,540)	$ (2,305)	$ 15,711
Pro forma earnings per common share:					
Basic					$ 0.52
Diluted					$ 0.52
Pro forma shares used in computing earnings per common share:					
Basic					30,000(g)
Diluted					30,020(g)

See accompanying notes.

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UNAUDITED PRO FORMA CONDENSED BALANCE SHEET

(Dollars in thousands)

	As of March 31, 2007		Pro forma adjustments		
ASSETS	**KPS**	**PharMerica LTC**	**Financing and dividend (h)**	**Other adjustments**	**Pro forma**
Current assets:					
Cash and cash equivalents	$ 2,639	$ 7,114	$ 7,110	$ (9,753)(i)	$ 7,110
Accounts receivable-other	71,701	166,428			238,129
Accounts receivable-parent				20,000(j)	20,000
Inventories	27,225	51,805			79,030
Deferred tax assets	7,193	23,736			30,929
Other	2,315	9,670			11,985
	111,073	258,753	7,110	10,247	387,183
Property and equipment, net	24,615	38,291		(567)(k)	62,339
Goodwill	45,819	9,265		180,530(l)	226,349
				(9,265)(m)	
Intangible assets less accumulated amortization	36,945	8,250		53,690(n)	90,635
				(8,250)(m)	
Deferred tax assets		931		(931)(o)	
Other	19,994	202	1,500	(7,717)(p)	10,332
				(3,647)(q)	
Total assets	$ 238,446	$ 315,692	$ 8,610	$ 214,090	$ 776,838
LIABILITIES AND STOCKHOLDERS EQUITY					
Current liabilities:					
Accounts payable-other	$ 11,907	$ 11,390	$	$ 3,853(q)	$ 27,150
Accounts payable-parent	10,715	4,526	(10,715)		4,526
Other accrued liabilities	19,988	29,036			49,024
Current portion of capital lease obligations		305			305
	42,610	45,257	(10,715)	3,853	81,005
Long-term debt			250,000		275,000
			1,500		
			16,390		
			7,110		
Capital lease obligations, net of current portion		33			33
Deferred tax liabilities	1,303			16,570(o)	17,873
Deferred credits and other liabilities	4,139				4,139
Stockholders equity:					
Common stock, $0.01 par value	1			300(r)	300
				(1)(r)	
Capital in excess of par value				(300)(r)	333,329
				1(r)	
				325,000(l)	
				8,628(s)	

Net contributions from parent	125,234	270,402	(250,000)	(9,753)(i)	
			(2,500)	20,000(j)	
			(3,175)	(7,717)(p)	
				(8,628)(s)	
				(133,863)(s)	
Retained earnings	65,159				65,159
Stockholders equity	190,394	270,402	(255,675)	193,667	398,788
Total liabilities and stockholders equity	$ 238,446	$ 315,692	$ 8,610	$ 214,090	$ 776,838

See accompanying notes.

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NOTES TO UNAUDITED PRO FORMA CONDENSED FINANCIAL STATEMENTS

NOTE 1 PRO FORMA ADJUSTMENTS

(a) To record interest expense related to debt borrowings required to (1) fund the AmerisourceBergen cash distribution and the Kindred cash distribution, (2) pay the debt issue costs, (3) reimburse both parent companies at closing for certain integration and transition costs related to the transaction, including the purchase of certain information systems equipment and software and (4) establish general working capital funds. The accompanying unaudited pro forma condensed financial statements have been prepared assuming debt borrowings and related cash distributions of $125 million by each of KPS and PharMerica LTC, which represents the current best estimate of the amount of these distributions. For pro forma purposes, interest expense is computed based upon an estimated interest rate based upon LIBOR plus 1.50%, which is based upon management s estimate of interest rates, and currently approximates 6.85%. Interest expense also includes the amortization of the debt issue costs over five years, the expected term of the senior secured credit facility. A summary of the interest expense calculation follows (dollars in thousands):

Debt borrowings:	
Aggregate dividend payment to parent companies	$ 250,000
Debt issue costs	1,500
Reimburse parent companies at closing for certain integration costs and information systems equipment and software purchases	16,390
Additional borrowings for general working capital purposes	7,110
	275,000
Interest rate	6.85%
	18,838
Amortization of debt issue costs ($1.5 million over five years)	300
Pro forma annual interest expense for the year ended December 31, 2006	$ 19,138
Pro forma interest expense for the three months ended March 31, 2007	$ 4,719

A change in interest rate of 1/8th percent would increase or decrease interest expense by approximately $85,000 for the three months ended March 31, 2007 and $345,000 for the year ended December 31, 2006.

(b) To adjust the provision for income taxes to reflect the impact of the pro forma adjustments using a statutory income tax rate of approximately 40.2% for the three months ended March 31, 2007 and 39.7% for the year ended December 31, 2006. The statutory income tax rate of KPS and PharMerica LTC represents the weighted average for each period presented.

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NOTES TO UNAUDITED PRO FORMA CONDENSED FINANCIAL STATEMENTS (CONTINUED)

(c) To adjust depreciation expense based upon the fair values and estimated useful lives assigned to PharMerica LTC fixed assets based upon a preliminary independent third party appraisal. The adjustment to depreciation assumes an allocation of 47% to cost of goods sold and 53% to selling, general and administrative expenses based upon historical utilization of PharMerica LTC fixed assets. A summary of the calculation by fixed asset class follows (dollars in thousands):

			Depreciation expense	
Fixed assets	Fair value	Weighted average useful life (years)	Three months ended March 31, 2007	Fiscal year ended December 31, 2006
Software and computer equipment	$ 12,527	2.4	$ 1,287	$ 5,147
Pharmacy equipment	11,305	3.3	865	3,459
Leasehold improvements	6,657	4.0	412	1,650
Other equipment	5,470	3.7	368	1,471
Capital lease equipment	1,765	3.8	118	471
	$ 37,724	3.1	3,050	12,198
Historical depreciation expense recorded by PharMerica LTC			(3,746)	(13,516)
Depreciation expense adjustment			$ (696)	$ (1,318)
Allocation of reduced depreciation expense:				
Cost of goods sold			$ (327)	$ (619)
Selling, general and administrative expenses			(369)	(699)
			$ (696)	$ (1,318)

(d) To record compensation expense for the named executive officers of NewCo based upon employment agreements entered into to date. The compensation expense components of the agreements are as follows (dollars in thousands):

	Three months ended March 31, 2007	Fiscal year ended December 31, 2006
Base salary	$ 438	$ 1,750
Estimated annual expense of restricted stock awards	635	2,539
Estimated annual expense of the fair value of stock option awards	270	1,079
	1,343	5,368

Eliminate from historical operating results the aggregate direct expense or allocations of parent company compensation expense related to these positions	(325)	(1,261)
	$ 1,018	$ 4,107

Additional cash compensation may be earned annually by these officers for achieving annual performance goals. Additional compensation expense for certain other new senior management employees has not been included since such amounts cannot be quantified until employment agreements are executed. See Management Compensation Discussion and Analysis.

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NOTES TO UNAUDITED PRO FORMA CONDENSED FINANCIAL STATEMENTS (CONTINUED)

(e) To record the amortization expense of the fair value assigned to acquired PharMerica LTC finite-lived intangible assets as determined by management s evaluation of a preliminary independent third party appraisal as follows (dollars in thousands):

			Amortization expense	
Finite-lived intangible assets	**Fair value**	**Weighted average useful life (years)**	**Three months ended March 31, 2007**	**Fiscal year ended December 31, 2006**
Trade names	$ 27,100	20.0	$ 339	$ 1,355
Customer relationships	25,910	10.4	625	2,502
Non-compete agreements	680	5.0	34	136
	$ 53,690	13.4	998	3,993
Historical amortization expense recorded by PharMerica LTC			(5)	(45)
Amortization expense adjustment			$993	$3,948

(f) To eliminate from historical KPS operating results certain one-time expenses related to the transaction. These expenses primarily relate to professional and advisory fees related to the integration of the KPS and PharMerica LTC businesses, executive search expenses, employee benefit consulting and provisions for one-time employee signing and retention payments.

(g) To record the issuance of 30 million common shares to the stockholders of Kindred and AmerisourceBergen to affect the transaction. Diluted shares outstanding include the estimated dilutive impact of unvested employee stock options and unvested restricted stock that are outstanding prior to the transaction and will be converted to NewCo unvested stock options and NewCo unvested restricted stock, respectively, upon completion of the transaction.

(h) To record the initial debt borrowing by each of KPS and PharMerica LTC to fund a cash distribution to each respective parent company under a temporary bank financing arrangement prior to the spin-offs. At closing, NewCo will enter into a senior secured credit facility in an amount sufficient to refinance the initial borrowings by both companies. The accompanying unaudited pro forma condensed financial statements have been prepared assuming debt borrowings and related cash distributions of $125 million by each of KPS and PharMerica LTC as adjusted for changes to the working capital of PharMerica LTC or KPS, as applicable, outside of an agreed working capital range.

Estimated total debt issue costs of $1.5 million are to be paid in connection with the initial bank financings for KPS and PharMerica LTC and the subsequent refinancing by NewCo. These costs are reflected as deferred financing costs in other long-term assets and will be amortized over five years, which is the expected term of the senior secured credit facility. These costs will be financed by borrowings under the senior secured credit facility.

Additional aggregate estimated payments of approximately $16.4 million are required to be paid by NewCo in accordance with the master transaction agreement to reimburse each parent company, Kindred and AmerisourceBergen, at the closing of the transaction, for pre-funding certain integration and transition costs related to the transaction and the purchase of certain information systems equipment and software.

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NOTES TO UNAUDITED PRO FORMA CONDENSED FINANCIAL STATEMENTS (CONTINUED)

These payments will be financed by borrowings under the senior secured credit facility. The components of these payments are as follows (dollars in thousands):

Payments made by parent companies through March 31, 2007:	
Integration and transition costs (recorded as accounts payable by KPS)	$ 4,844
Information systems equipment and software purchases (recorded as accounts payable by KPS)	5,871
	10,715
Integration and transition costs (recorded as net contributions from parent by PharMerica LTC)	3,175
	13,890
Estimated integration and transition costs to be paid after March 31, 2007 (approximately one-half paid by each parent company)	2,500
	$ 16,390

The specific nature of the integration and transition costs that have been or will be paid by Kindred and AmerisourceBergen on NewCo s behalf are primarily related to professional and advisory fees directly related to the integration of operating and administrative activities of KPS and PharMerica LTC and the start-up activities of NewCo as a public company. These costs are not expected to be recurring operating costs of NewCo. Because these costs are not recurring in nature, they have not been included in the pro forma statement of operations. The purchase of information systems equipment and software by Kindred and AmerisourceBergen on behalf of NewCo relates primarily to the initial capital investment necessary to replicate current parent company shared system platforms as stand-alone platforms for NewCo.

Additional borrowings of approximately $7.1 million will be used for general working capital funds after pre-closing cash and cash equivalents balances are returned to each respective parent company.

(i) To record the return of cash and cash equivalents to each respective parent company prior to any debt borrowings under the senior secured credit facility for general working capital purposes in accordance with the master transaction agreement.

(j) To record accounts receivable due from Kindred for pharmaceutical services provided by KPS under the payment terms provided for under such agreements. Historically, Kindred has paid amounts due under these agreements in advance of the required due date. In order to establish working capital related to these services on the closing date, these adjustments represent estimated amounts which will be due from Kindred after it ceases to pay such amounts in advance beginning approximately 30 days for Kindred hospitals and 60 days for Kindred nursing centers prior to the estimated closing date in accordance with the master transaction agreement.

(k) To adjust PharMerica LTC s fixed assets based upon management s estimate of the fair values of the assets acquired.

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NEWCO

NOTES TO UNAUDITED PRO FORMA CONDENSED FINANCIAL STATEMENTS (CONTINUED)

(l) To record the purchase accounting related adjustments to the fair value of PharMerica LTC assets and liabilities, including goodwill. The purchase price allocations are recorded at their estimated fair values. There can be no assurance that the final values will not be materially different from those included herein. A calculation of the purchase price and related allocation of the fair value of assets and liabilities acquired and goodwill follows (dollars in thousands):

Calculated consideration for the PharMerica LTC business:	
NewCo estimated equity value	$ 650,000
PharMerica LTC stockholder ownership percentage in NewCo upon merger	50%
PharMerica LTC share of equity value	325,000
Fair value of liabilities assumed:	
Current liabilities	44,952
Capital lease obligations	338
Deferred tax liabilities	16,570
PharMerica LTC debt borrowing to fund cash distribution to parent in connection with the transaction	125,000
PharMerica LTC debt borrowing to reimburse AmerisourceBergen for certain costs in connection with the transaction	4,425
Total fair value of liabilities assumed	191,285
Estimated legal, advisory and other acquisition costs incurred by KPS (See note (q))	7,500
Total purchase price	$ 523,785
The allocation of the purchase price is as follows:	
Current assets	$ 251,639
Fixed assets	37,724
Intangible assets	53,690
Other assets	202
Goodwill	180,530
	$ 523,785

(m) To record the elimination of PharMerica LTC s historical goodwill and intangible asset balances.

(n) To record the purchase of PharMerica LTC s finite-lived intangible assets based upon management s estimate of the fair values of the assets acquired. The value assigned and the weighted average useful life of each finite-lived intangible asset is provided below (dollars in thousands):

	Fair value	Weighted average useful life (years)
Finite-lived intangible assets:		
Trade names	$ 27,100	20.0

Customer relationships	25,910	10.4
Non-compete agreements	680	5.0
	$ 53,690	13.4

The allocation of the excess of the purchase price over net assets acquired to trade names, customer relationships and non-compete agreements was based upon management s estimate of the value of

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NOTES TO UNAUDITED PRO FORMA CONDENSED FINANCIAL STATEMENTS (CONTINUED)

identified intangible assets acquired in the transaction using discrete discounted cash flow analysis and revenue forecasts (customer relationships), expected relief from royalty forecasts (trade names) and earnings loss techniques (non-compete agreements).

(o) To record deferred tax liability adjustments resulting from the recognition of fair value adjustments to fixed assets and purchased finite-lived intangible assets. Existing deferred income tax assets are reclassified as reductions to net deferred tax liabilities.

(p) To record the transfer to Kindred of a vendor cash deposit retained by Kindred in accordance with the master transaction agreement.

(q) To reclassify KPS acquisition costs previously paid and capitalized ($3.6 million) to goodwill and accrue additional estimated amounts ($3.9 million) expected to be incurred to complete the transaction. The aggregate amount of $7.5 million is presented in note (1) above in the determination of the total consideration for the PharMerica LTC business.

(r) To record the distribution of common shares to stockholders of AmerisourceBergen and Kindred at the effective time of the transaction. NewCo common stock will have a par value of $0.01 per share. Kindred and AmerisourceBergen stockholders will each initially own approximately 50% of the outstanding shares of NewCo common stock. KPS historical common stock at par value is cancelled and reclassified as capital in excess of par value.

(s) To reclassify KPS s and PharMerica LTC s historical net contributions from parent equity balances to NewCo capital in excess of par value, as detailed below (dollars in thousands):

	KPS	PharMerica LTC
Net contributions from parent, historical balances	$ 125,234	$ 270,402
Dividend payment to parent note (h)	(125,000)	(125,000)
Reimburse AmerisourceBergen for integration and transition costs paid through March 31, 2007 note (h)		(3,175)
Estimated integration and transition costs to be paid after March 31, 2007 note (h)	(1,250)	(1,250)
Return of cash and cash equivalents to parent note (i)	(2,639)	(7,114)
Accounts receivable from parent note (j)	20,000	
Deposit transfer to parent note (p)	(7,717)	
	$ 8,628	$ 133,863

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SELECTED HISTORICAL FINANCIAL DATA

Sources of information

PharMerica LTC s fiscal year ends on September 30 and KPS s fiscal year ends on December 31.

Selected Historical Financial Data of PharMerica LTC

The following table sets forth selected historical financial and statistical data of PharMerica LTC. The following selected historical financial data should be read in conjunction with Management s Discussion and Analysis of Financial Condition and Results of Operations, the financial statements and notes thereto of PharMerica LTC, as well as other financial information related to PharMerica LTC, each of which is included elsewhere in this preliminary prospectus. The following table sets forth selected financial data of PharMerica LTC as of and for the fiscal years ended September 30, 2006, 2005, 2004, 2003 and 2002 and as of and for the six months ended March 31, 2007 and 2006. The financial data as of September 30, 2006 and 2005 and for the fiscal years ended September 30, 2006, 2005 and 2004 have been derived from financial statements of PharMerica LTC, which have been audited by Ernst & Young LLP, an independent registered public accounting firm. The financial data as of September 30, 2004, 2003 and 2002 and for the fiscal years ended September 30, 2003 and 2002 and as of March 31, 2007 and for the six months ended March 31, 2007 and 2006 have been derived from unaudited financial statements of PharMerica LTC. In the opinion of management of PharMerica LTC, the unaudited financial statements include all adjustments (consisting of only normal recurring adjustments) necessary for a fair presentation of the unaudited financial data have been reflected therein.

	Six months ended March 31,		Year ended September 30,				
(dollars in thousands)	**2007**	**2006**	**2006**	**2005**	**2004**	**2003**	**2002**
Statement of operations data:							
Revenues	$ 626,741	$ 590,569	$ 1,199,969	$ 1,118,266	$ 1,103,725	$ 1,084,367	$ 1,024,770
Gross profit	94,688	88,809	178,263	163,302	160,753	200,132	203,800
Selling, general and administrative expenses	80,802	74,888	149,951	139,418	126,925	159,301	169,238
Operating income(a)	13,886	13,921	28,312	23,884	33,828	40,831	34,562
Net income	$ 8,269	$ 8,295	$ 16,757	$ 13,792	$ 20,061	$ 19,815	$ 16,235
Balance sheet data:							
Cash and cash equivalents	$ 7,114	N/A	$ 3,769	$ 7,374	$ 5,487	$ 12,774	$ 7,064
Total assets	315,692	N/A	314,300	266,620	250,358	263,738	257,325
Capital lease obligations	338	N/A	929	2,049	3,113	4,191	3,892
Parent s investment	270,402	N/A	256,816	209,842	165,746	178,865	79,405
Working capital	$ 213,496	N/A	$ 197,363	$ 162,930	$ 124,871	$ 135,241	$ 123,933
Statistical data:							
Number of customer licensed beds at end of period	237,405	236,169	235,979	238,190	246,895	251,140	267,484

(a) Includes depreciation and amortization expense of $7.5 million and $6.4 million for the six months ended March 31, 2007 and 2006, respectively, and $13.6 million, $12.7 million, $12.5 million, $15.0 million and $13.5 million for the years ended September 30, 2006, 2005, 2004, 2003 and 2002, respectively.

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Selected Historical Financial Data of KPS

The following table sets forth selected historical financial and statistical data of KPS. The following selected historical financial data should be read in conjunction with Management s Discussion and Analysis of Financial Condition and Results of Operations, the financial statements and notes thereto of KPS as well as other financial information related to KPS, each of which is included elsewhere in this preliminary prospectus. The following table sets forth selected financial data for KPS as of and for the years ended December 31, 2006, 2005, 2004, 2003 and 2002, as of March 31, 2007 and for the three months ended March 31, 2007 and 2006. The financial data as of December 31, 2006, 2005 and 2004 and for the years ended December 31, 2006, 2005, 2004 and 2003, have been derived from financial statements of KPS which have been audited by PricewaterhouseCoopers LLP, an independent registered public accounting firm. The financial data as of March 31, 2007, December 31, 2003 and 2002 and for the three months ended March 31, 2007 and 2006 and for the year ended December 31, 2002 were derived from unaudited financial statements of KPS and include all adjustments which management considers necessary for a fair presentation of financial position and results of operations for the respective periods.

(dollars in thousands)	**Three months ended March 31, 2007**	**2006**	**Year ended December 31, 2006**	**2005**	**2004**	**2003**	**2002**
Statement of operations data:							
Revenues	$ 174,704	$ 156,208	$ 652,608	$ 522,225	$ 360,035	$ 272,433	$ 241,739
Gross profit	21,903	26,107	94,664	83,131	57,655	42,686	38,527
Selling, general and administrative expenses	21,011	16,478	73,612	48,867	38,193	30,837	29,592
Operating income (a)	892	9,629	21,052	34,264	19,462	11,849	8,935
Net income	$ 542	$ 5,843	$ 12,799	$ 21,007	$ 12,062	$ 7,066	$ 5,514
Balance sheet data:							
Cash and cash equivalents	$ 2,639	N/A	$ 3,730	$ 1,378	$ 2,033	$ 939	$ 1,821
Total assets	238,446	N/A	236,784	194,623	63,650	45,666	46,534
Long-term debt, including capital lease obligations		N/A					
Stockholder s equity	190,394	N/A	198,301	170,389	44,490	31,710	29,949
Working capital	$ 68,463	N/A	$ 79,148	$ 72,301	$ 28,953	$ 20,601	$ 17,317
Statistical data:							
Number of customer licensed beds at end of period:							
Affiliated	28,341	30,449	30,232	28,657	28,634	28,280	29,966
Non-affiliated	74,985	63,683	72,339	64,625	37,561	33,127	28,873
	103,326	94,132	102,571	93,282	66,195	61,407	58,839

(a) Includes depreciation and amortization expense of $2.8 million, $1.8 million, $8.8 million, $5.8 million, $2.4 million, $2.2 million and $1.7 million for the three months ended March 31, 2007 and 2006 and for the years ended December 31, 2006, 2005, 2004, 2003 and 2002, respectively.

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MANAGEMENT S DISCUSSION AND ANALYSIS

OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following information should be read in conjunction with the financial statements and related notes thereto of PharMerica LTC and KPS included elsewhere in this preliminary prospectus. See Index to Financial Statements. The following discussion may contain forward-looking statements that reflect our plans, estimates and beliefs. Our actual results could differ materially from those discussed in these forward-looking statements. Factors that could cause or contribute to these differences include, but are not limited to, those discussed below and elsewhere in this preliminary prospectus, particularly in Risk Factors and Cautionary Statement Regarding Forward-Looking Statements.

The following discussion reflects the historical results of PharMerica LTC and KPS and may not be indicative of our future performance or reflect what our financial condition and results of operations would have been had we operated as a separate, stand-alone entity during the periods presented. For information about the significant accounting policies of PharMerica LTC and KPS, see Note 2 and Note 1, respectively, to their respective financial statements included elsewhere in this preliminary prospectus.

On August 1, 2006, KPS acquired the assets of PharmaSTAT, LLC. The financial statements of PharmaSTAT, LLC as of July 31, 2006 and December 31, 2005, and for the seven months ended July 31, 2006 and the year ended December 31, 2005, are included elsewhere in this preliminary prospectus.

On October 23, 2006, Safari Holding Corporation was formed in anticipation of the transaction. The only business activity of Safari Holding Corporation to date relates to its formation. The unaudited balance sheet as of March 31, 2007 and the audited balance sheet as of December 31, 2006 of Safari Holding Corporation are included elsewhere in this preliminary prospectus.

Overview

NewCo was formed as a Delaware corporation on October 23, 2006 in anticipation of the transaction. Prior to the closing, our business will be operated as separate businesses of two different public companies, AmerisourceBergen and Kindred. To consummate the transaction, AmerisourceBergen and Kindred will spin off their respective institutional pharmacy businesses and immediately merge those businesses with subsidiaries of NewCo. NewCo will initially be owned equally by AmerisourceBergen and Kindred stockholders.

Immediately prior to the spin-offs, PharMerica LTC will make the AmerisourceBergen cash distribution, and KPS will make the Kindred cash distribution. The AmerisourceBergen cash distribution and the Kindred cash distribution will each be in an amount equal to $125 million as adjusted for changes to the working capital of PharMerica LTC or KPS, as applicable, outside of an agreed upon working capital range.

To finance the cash distributions, each of PharMerica LTC and KPS will enter into a financing arrangement prior to the spin-offs in an amount sufficient to fund its cash distribution, which we refer to as the initial financings.

In connection with the transaction, NewCo plans to enter into a senior secured credit facility to refinance the initial financings entered into by PharMerica LTC and KPS and provide us with sufficient cash for operations. We expect that the senior secured credit facility will provide for term and revolving credit borrowings. As a result, there will be a substantial increase in interest expense for NewCo as compared to historical levels at PharMerica LTC and KPS. See Master Transaction Agreement Transaction Steps and Description of Our Indebtedness.

The transaction will be accounted for using the purchase method of accounting under accounting principles generally accepted in the United States, with KPS treated as the accounting acquiror. Under the purchase method of accounting, the deemed purchase price has been allocated to the underlying tangible and intangible assets and liabilities acquired based upon their respective fair values with any excess deemed purchase price allocated to goodwill. The adjustments to estimated fair values included herein are based upon a preliminary review of the purchased assets of PharMerica LTC. We expect to complete at a later date appraisals of PharMerica LTC assets at the level of detail necessary to finalize the required purchase price allocation. The final purchase price determination and allocation based upon these appraisals may be materially different than that reflected in the unaudited pro forma condensed financial statements presented herein.

Our Business and Industry Trends

NewCo is an institutional pharmacy services company servicing healthcare facilities. We are the second largest institutional pharmacy services company in the United States based upon pro forma revenues for our combined businesses for the year ended December 31, 2006. As of March 31, 2007 on a pro forma basis, the combined businesses operated more than 120 institutional pharmacies in 40 states. Our customers are typically institutional healthcare providers, such as nursing centers, assisted living facilities, hospitals and other long-term alternative care settings. We are generally the primary source of supply of pharmaceuticals for our customers. We also provide pharmacy management services to 81 hospitals operated by Kindred.

All of our operations are based in the United States.

The institutional pharmacy services business is highly competitive. Competition is a significant factor that can impact our financial results. In each geographic market, there are national, regional and local institutional pharmacies and numerous local retail pharmacies, which provide services comparable to those offered by our pharmacies and which may have greater financial and other resources than we do and may be more established in the markets they serve than we are. We also compete against regional and local pharmacies that specialize in the highly-fragmented long-term care markets. In addition, in the future, some of our customers may seek to in-source the provision of pharmaceuticals to patients in their facilities by establishing an internal pharmacy.

A variety of factors are affecting the institutional pharmacy industry. With an aging population and the extension of drug coverage to a greater number of individuals through Medicare Part D, the consumption of pharmaceuticals by residents of long-term care facilities is likely to increase in the future. In addition, individuals are expected to enter assisted living facilities, independent living facilities and continuing care retirement communities at greater rates. The implementation of Medicare Part D, however, significantly affects the delivery of pharmaceutical care to the elderly. Under Medicare Part D, eligible individuals may choose to enroll in various Medicare Part D Plans to receive drug coverage. Each Medicare Part D Plan determines the formulary for the long-term care residents enrolled in its plan. Accordingly, institutional pharmacies must follow each Part D Plan s formulary, reimbursement and administrative processes for the long-term care residents they serve. Institutional pharmacies have expanded their formularies to accommodate various formularies of key Part D Plans. Institutional pharmacies may experience increased administrative burdens and costs owing to the greater complexity of the requirements for drug reimbursement. Medicare Part D also requires increased choice for patients with respect to complex drug categories and therapeutic interchange opportunities. Institutional pharmacies may realize increased revenue by providing long-term care residents with specialized services in these areas. Continued industry consolidation may also impact the dynamics of the institutional pharmacy market.

Revenues

We receive payment for our services from third party payors, including government reimbursement programs such as Medicare and Medicaid, and non-government sources such as commercial insurance companies, health maintenance organizations, preferred provider organizations and contracted providers. The sources and amounts of our revenues will be determined by a number of factors, including the mix of our customers patients, the rates of reimbursement among payors, competitive pressures and the pharmaceutical inflation rate. Changes in our customers census, the case mix of the patients as well as payor mix among private pay, Medicare and Medicaid will affect our profitability.

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Impact of Medicare and Medicaid Reimbursement and Changing Prices

NewCo depends on reimbursement from third party payors, including the Medicare and Medicaid programs, for substantially all of its revenues. For the year ended December 31, 2006, KPS derived approximately 66% of its total revenues from the Medicare and Medicaid programs and approximately 34% from private third party payors, such as commercial insurance companies, health maintenance organizations, preferred provider organizations and contracted providers. For the year ended September 30, 2006, PharMerica LTC derived approximately 76% of its total revenues from the Medicare and Medicaid programs and approximately 24% from private third party payors.

The Medicare and Medicaid programs are highly regulated and subject to frequent and substantial changes. See Our Business Government Regulation for an overview of the reimbursement systems impacting our businesses and Risk Factors.

Congress and certain state legislatures have enacted or may enact additional significant cost containment measures limiting the ability of NewCo to recover cost increases through increased pricing of its healthcare services.

In January 2005, CMS issued final regulations on Medicare Part D which became effective on January 1, 2006. Medicare beneficiaries who also are entitled to benefits under a state Medicaid program (so-called dual eligibles) have their outpatient prescription drug costs covered by the new Medicare drug benefit, subject to certain limitations. Most of the nursing center residents that we serve whose drug costs were previously covered by state Medicaid programs are dual eligibles who qualify for the new Medicare drug benefit. Accordingly, since January 1, 2006, Medicaid is no longer a primary payor for the pharmacy services provided to these residents.

As a result of the implementation of Medicare Part D, a significant payor mix change occurred which transferred reimbursement for pharmaceutical services from the state Medicaid programs to reimbursement from Medicare through PDPs. While on a consolidated basis, revenue per prescription was not significantly impacted, the operating efficiency of the pharmacies was negatively impacted by the administrative demands associated with multiple formularies and procedural differences associated with the individual PDPs.

NewCo s operating margins may be under pressure as the growth in operating expenses, particularly drug and medical supply, labor and employee benefit costs, exceed payment increases from third party payors. In addition, as a result of competitive pressures, our ability to maintain operating margins through price increases to private pay patients will be limited.

Supplier and Manufacturer Rebates

We currently receive rebates from certain manufacturers of pharmaceutical products for achieving targets of market share and/or purchase volumes. Rebates are designed to prefer, protect, or maintain a manufacturer s products that are dispensed by the pharmacy under its formulary. Rebates for brand name products are generally based upon achieving a defined market share tier within a therapeutic class. Rebates for generic products are more likely to be based upon achieving volume requirements. For fiscal 2006, rebates for KPS and PharMerica LTC represented a reduction in cost of goods sold of approximately 2.1% and 2.7%, respectively, of revenues.

The introduction of Medicare Part D has increased the volume of a pharmacy s transactions being influenced by the PDPs formularies, resulting in the manufacturers paying rebates to the pharmacy for PDP formulary driven market share and/or volume. Some manufacturers have expressed the desire to pay rebates only to the parties influencing the formulary and therefore some manufacturers may elect to stop paying rebates to the pharmacy.

There can be no assurance that pharmaceutical manufacturers will continue to offer these rebates or that we will continue to satisfy the tiered market share and purchase volumes. The termination of such programs or our failure to satisfy the tiered market share or purchase volumes may have an adverse effect on our cost of goods sold and our financial position, results of operations and liquidity.

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Expected Cost Savings and Transaction Related Expenses

Expected cost savings resulting from operating efficiencies, synergies or other restructuring activities that might result from the transaction have not been reflected as adjustments to the historical data. Over time, we expect to achieve $30 million of annual savings as a result of the transaction but actual results may be materially different than our expected savings.

Notwithstanding these anticipated savings, we will experience some increased costs associated with the transition to, and status as, a stand-alone, publicly traded company.

Agreements with AmerisourceBergen and Kindred

Following the transaction, we will be entering into a number of agreements with each of AmerisourceBergen and Kindred in connection with the transaction. Pursuant to the tax matters agreement, each of AmerisourceBergen and Kindred is required to indemnify us for any taxes for which it is responsible under the tax matters agreement, any taxes that are imposed upon us because PharMerica LTC or KPS, as the case may be, was part of the consolidated tax return of AmerisourceBergen or Kindred, respectively, or any taxes resulting from a breach of certain representations or covenants made by AmerisourceBergen or Kindred, respectively.

In addition, we will enter into a prime vendor agreement with AmerisourceBergen Drug Corporation, a wholly-owned subsidiary of AmerisourceBergen, pursuant to which we have agreed to purchase at least 95% of our prescription pharmaceutical drugs from AmerisourceBergen Drug Corporation and to participate in its generic formulary purchase program for a period of five years following the closing date. AmerisourceBergen Drug Corporation will also support the distribution of pharmaceuticals that we purchase directly from manufacturers and provide inventory management support and packaging services. AmerisourceBergen Drug Corporation will provide such pharmaceutical products and services on commercially reasonable terms.

Prior to the transaction, KPS entered into a master pharmacy provider agreement with certain wholly-owned subsidiaries of Kindred, which sets forth the terms and conditions applicable to the individual pharmaceutical and consulting services contracts, including the prices to be charged by KPS pursuant to such contracts. For the year ended December 31, 2006, Kindred-operated facilities had paid KPS $97 million pursuant to individual pharmacy and consulting contracts governed by the master pharmacy provider agreement, and KPS expects to continue receiving payments from Kindred pursuant to the terms of the agreement. Also prior to the transaction, Kindred Hospital Pharmacy Services, Inc., a wholly-owned subsidiary of KPS, entered into pharmacy management agreements with certain wholly-owned subsidiaries of Kindred pursuant to which Kindred Hospital Pharmacy Services, Inc. will provide pharmacy management, staffing, patient care and certain other services to pharmacies in Kindred-operated facilities until June 30, 2009. In return for such services, Kindred Hospital Pharmacy Services, Inc. is reimbursed certain specified costs and paid a monthly management fee. For the year ended December 31, 2006, Kindred paid Kindred Hospital Pharmacy Services, Inc. $51 million in management fees, and KPS expects to continue receiving such fees pursuant to the terms of the agreements.

In connection with the transaction, we will enter into an information services agreement with Kindred. Pursuant to this agreement, Kindred will be our exclusive provider of information services and support for a period of five years following the closing date. The services provided by Kindred will include business services necessary to operate, manage and support our business and the clinical applications we use, including enabling and/or supporting technology infrastructure and technology procurement services to support our business functions and our proprietary information technology infrastructure. Such services will include, among other matters, functions for order entry, pharmacy dispensing, clinical consulting, billing and collections, electronic medication management, sales and marketing, medical records management, financial management and systems, human resources, internal and external customer call center support and general business systems.

In addition, Kindred will provide information technology services to support the business services, including, among other matters, desktop applications, security, regulatory compliance, disaster recovery/business continuity, connectivity services, voice communications management, systems and business process

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documentation and training, business process improvement services and third party adjudicator management. For further discussion of agreements with AmerisourceBergen and Kindred, see Additional Agreements with AmerisourceBergen and Kindred.

PharMerica LTC Results of Operations

Three and Six Months ended March 31, 2007 compared with Three and Six Months ended March 31, 2006

A summary of our operating data follows (in thousands, except statistics):

	Three months ended March 31,	
	2007	**2006**
Revenues	$ 312,402	$ 297,395
Gross profit	$ 45,440	$ 44,500
Operating income	$ 5,616	$ 8,242
Net income	$ 3,335	$ 4,943
Percentage of revenues:		
Gross profit	14.5%	15.0%
Selling, general and administrative expenses	12.7%	12.2%
Operating income	1.8%	2.8%

	Six months ended March 31,	
	2007	**2006**
Revenues	$ 626,741	$ 590,569
Gross profit	$ 94,688	$ 88,809
Operating income	$ 13,886	$ 13,921
Net income	$ 8,269	$ 8,295
Percentage of revenues:		
Gross profit	15.1%	15.0%
Selling, general and administrative expenses	12.9%	12.7%
Operating income	2.2%	2.4%

Revenues of $312.4 million for the quarter ended March 31, 2007 increased 5.0% from $297.4 million in the prior-year quarter. Revenues of $626.7 million for the six months ended March 31, 2007 increased 6.1% from $590.6 million in the prior-year period. These increases were primarily driven by the number of drugs administered to patients, drug price inflation, and an increase in the number of beds served.

Gross profit of $45.4 million for the quarter ended March 31, 2007 increased 2.1% from $44.5 million in the prior year quarter. Gross profit of $94.7 million for the six months ended March 31, 2007 increased 6.6% from $88.8 million in the prior-year period. These increases were primarily driven by an increase in revenues. Future gross profit will likely be impacted by industry competitive pressures and continued downward pressure on rates of reimbursement for services provided by PharMerica LTC and the amounts of rebates available to PharMerica LTC from pharmaceutical manufacturers and the portion of any such rebates that may be retained by PharMerica LTC.

Selling, general and administrative expenses, or SG&A, of $39.8 million for the quarter ended March 31, 2007 increased 9.8% from $36.3 million in the prior-year quarter. SG&A of $80.8 million for the six months ended March 31, 2007 increased 7.9% from $74.9 million in the prior-year period. These increases were primarily due to operating revenue growth and an increase in bad debt expense of $0.9 million and $1.3 million in the quarter and six months ended March 31, 2007, respectively.

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Operating income of $5.6 million for the quarter ended March 31, 2007 decreased 31.9% from $8.2 million in the prior-year quarter primarily due to the increase in SG&A in excess of the increase in gross profit. Operating income was $13.9 million for both the six months ended March 31, 2007 and 2006. PharMerica LTC believes that the operating margins will continue to be impacted by industry competitive pressures and changes in the regulatory environment.

Income tax expense of $2.3 million for the quarter ended March 31, 2007 reflects an effective income tax rate of 40.6% compared to 40.0% in the prior-year quarter. Income tax expense of $5.6 million for the six months ended March 31, 2007 reflects an effective income tax rate of 40.5% compared to 40.3% in the prior-year period.

Net income decreased by 32.5% to $3.3 million for the quarter ended March 31, 2007 from $4.9 million in the prior-year quarter due to the decline in operating income. Net income was $8.3 million for both the six months ended March 31, 2007 and 2006.

Year ended September 30, 2006 compared with Year ended September 30, 2005

A summary of our operating data follows (in thousands, except statistics):

	Year ended September 30, 2006	Year ended September 30, 2005
Revenues	$ 1,199,969	$ 1,118,266
Gross profit	$ 178,263	$ 163,302
Operating income	$ 28,312	$ 23,884
Net income	$ 16,757	$ 13,792
Percentage of revenues:		
Gross profit	14.9%	14.6%
Selling, general and administrative expenses	12.5%	12.5%
Operating income	2.4%	2.1%

Revenues increased 7.3% to $1,200.0 million for the fiscal year ended September 30, 2006 from $1,118.3 million in the prior fiscal year. This increase was primarily due to an increase in the number of beds served, higher patient acuity, and drug price inflation.

Gross profit increased 9.2% to $178.3 million in the fiscal year ended September 30, 2006 from $163.3 million in the prior fiscal year. The increase in gross profit was primarily driven by the increase in revenues. As a percentage of revenues, gross profit in the fiscal year ended September 30, 2006 was 14.9%, consistent with the prior year percentage of 14.6%. Future gross profit will likely be impacted by industry competitive pressures and continued downward pressure on rates of reimbursement for services provided by PharMerica LTC and the amounts of rebates available to PharMerica LTC from pharmaceutical manufacturers and the portion of any such rebates that may be retained by PharMerica LTC.

SG&A increased 7.6% to $150.0 million in the fiscal year ended September 30, 2006 from $139.4 million in the prior fiscal year. This increase was largely due to operating revenue growth, an increase in bad debt expense of $5.7 million, additional costs related to the implementation of Medicare Part D under the MMA, which became effective on January 1, 2006, and share-based compensation of $1.1 million. Bad debt expense increased over the prior year primarily due to billing and collection issues relating to the MMA transition and the negative impact that Texas Medicaid changes had on certain of PharMerica LTC s nursing center customers. As a percentage of revenues, SG&A in the fiscal year ended September 30, 2006 and 2005 was consistent at 12.5%.

Operating income increased by 18.5% to $28.3 million for the fiscal year ended September 30, 2006 from $23.9 million in the prior fiscal year and was due to the increase in gross profit which was partially offset by the increase in SG&A. PharMerica LTC s operating income as a percentage of revenues was 2.4% and 2.1% in the fiscal years ended September 30, 2006 and 2005, respectively.

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Income tax expense of $11.5 million in the fiscal year ended September 30, 2006 reflects an effective income tax rate of 40.8%, compared to 42.0% in the prior fiscal year. The reduction in the effective tax rate was achieved due to the utilization of state net operating losses.

Net income increased by 21.5% to $16.8 million for the fiscal year ended September 30, 2006 from $13.8 million in the prior fiscal year. The increase in net income was due to the increase in operating income and a reduction in the fiscal 2006 effective tax rate.

Year ended September 30, 2005 compared with Year ended September 30, 2004

A summary of our operating data follows (in thousands, except statistics):

	Year ended September 30,	
	2005	**2004**
Revenues	$ 1,118,266	$ 1,103,725
Gross profit	$ 163,302	$ 160,753
Operating income	$ 23,884	$ 33,828
Net income	$ 13,792	$ 20,061
Percentages of revenues:		
Gross profit	14.6%	14.6%
Selling, general and administrative expenses	12.5%	11.5%
Operating income	2.1%	3.1%

Revenues for the fiscal year ended September 30, 2005 increased 1.3% to $1,118.3 million from $1,103.7 million in the prior fiscal year. PharMerica LTC s revenues were impacted by competitive pressures that affected its business and increasing reductions in Medicaid reimbursement rates.

Gross profit of $163.3 million in the fiscal year ended September 30, 2005 increased slightly from $160.8 million in the prior fiscal year. As a percentage of revenues, gross profit in the fiscal year ended September 30, 2005 and 2004 was consistent at 14.6%.

SG&A increased 9.8% to $139.4 million in the fiscal year ended September 30, 2005 from $126.9 million in the prior fiscal year. As a percentage of revenues, SG&A in the fiscal year ended September 30, 2005 was 12.5%, compared to 11.5% in the prior fiscal year. The increase in SG&A was partially due to an increase in bad debt expense of $6.8 million. During the fiscal year ended September 30, 2004, bad debt expense was favorably impacted by the reversal of previously established allowances for doubtful accounts totaling approximately $9.1 million associated with a customer that emerged from bankruptcy. The increase in SG&A was also driven by an increase in legal costs of $3.6 million, principally related to an increase in a liability due to the settlement of an administrative action against PharMerica LTC by the OIG (refer to Note 9 of PharMerica LTC s financial statements included elsewhere in this preliminary prospectus). The above increases were partially offset by cost reduction efforts, including the consolidation of local pharmacy administrative functions to regional centers.

Operating income decreased 29.4% to $23.9 million for the fiscal year ended September 30, 2005 compared to $33.8 million in the prior fiscal year. PharMerica LTC s operating income as a percentage of revenues was 2.1% in the fiscal year ended September 30, 2005 compared to 3.1% in the prior fiscal year. The decline in operating income was due to the increase in SG&A discussed above.

Income tax expense of $10.0 million in the fiscal year ended September 30, 2005 reflects an effective income tax rate of 42.0% as compared to an effective tax rate of 40.5% in the prior fiscal year. The increase in the effective tax rate was due to an increase in the valuation allowance resulting from an increase in certain state net operating losses.

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Net income decreased 31.2% to $13.8 million for the fiscal year ended September 30, 2005 from $20.1 million in the prior fiscal year. This decline was due to the decrease in operating income and an increase in the effective tax rate.

Liquidity and Capital Resources

PharMerica LTC participates in AmerisourceBergen s central cash management program, under which all of PharMerica LTC s cash receipts are remitted to AmerisourceBergen and all cash disbursements are funded by AmerisourceBergen. PharMerica LTC will continue to participate in the AmerisourceBergen cash management program until the spin-off.

Immediately prior to the spin-off, PharMerica LTC will make a cash distribution to AmerisourceBergen in an amount up to $125 million or such other amount as is mutually agreed upon by AmerisourceBergen and Kindred prior to closing. The amount of this cash distribution may be adjusted to reflect changes in working capital of PharMerica LTC outside of an agreed upon range. To finance the cash distribution, PharMerica LTC will enter into a financing arrangement prior to the spin-off in an amount equal to the cash distribution.

Following is a summary of PharMerica LTC s contractual obligations for future principal and interest payments on its capital leases and minimum rental payments on its noncancelable operating leases at March 31, 2007 (in thousands):

	Payments Due by Period				
	Total	**Within 1 year**	**1-3 years**	**4-5 years**	**After 5 years**
Capital leases, including interest payments	$ 353	$ 320	$ 33	$	$
Operating leases	28,861	12,056	13,138	3,390	277
Total	$ 29,214	$ 12,376	$ 13,171	$ 3,390	$ 277

During the six months ended March 31, 2007, PharMerica LTC s operating activities provided $10.2 million of cash as compared to cash used of $4.7 million in the prior-year period. Cash provided by operating activities during the six months ended March 31, 2007 was principally the result of net income of $8.3 million, a decrease in inventories of $2.4 million and non-cash items of $20.5 million, offset in part, by an increase in accounts receivable of $6.3 million, an increase in prepaid expenses and other assets of $3.1 million, a decrease in accounts payable of $2.8 million, and a decrease in accrued expenses of $8.9 million. Non-cash items include a deferred tax provision of $4.2 million primarily related to the amortization of tax basis goodwill. The increase in accounts receivable was primarily driven by longer collection cycles as a result of slower reimbursement under Medicare Part D in comparison to prior year s reimbursement under Medicaid. The decrease in accrued expenses was primarily due to a decline in accrued compensation.

During the six months ended March 31, 2006, PharMerica LTC s operating activities used $4.7 million of cash and was principally the result of an increase in accounts receivable of $39.0 million, which was substantially offset by net income of $8.3 million, non-cash items of $18.2 million, a decrease in prepaid expenses and other assets of $4.0 million and an increase in accounts payable of $4.3 million. Non-cash items include a deferred tax provision of $4.3 million primarily related to the amortization of tax basis goodwill. The increase in accounts receivable was primarily driven by longer collection cycles as a result of slower reimbursement under Medicare Part D in comparison to the prior year s reimbursement under Medicaid.

PharMerica LTC s capital expenditures were $4.5 million and $7.0 million during the six months ended March 31, 2007 and 2006, respectively. PharMerica LTC s capital expenditures were primarily related to the improvement of its information technology infrastructure.

During the six months ended March 31, 2007 and 2006, net (repayments to) borrowings from AmerisourceBergen were $(0.8) million and $10.3 million, respectively. Changes in amounts due to Parent are primarily the result of PharMerica LTC s participation in AmerisourceBergen s central cash management

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program, under which all of PharMerica LTC s cash receipts are remitted to AmerisourceBergen and all cash disbursements are funded by AmerisourceBergen. There are no terms of settlement or interest charges associated with the amount due to Parent.

During the fiscal year ended September 30, 2006, PharMerica LTC s operating activities provided $3.6 million of cash as compared to cash provided of $3.3 million in the prior year. Cash provided by operating activities during the fiscal year ended September 30, 2006 was principally the result of net income of $16.8 million, non-cash items of $37.1 million, an increase in accrued expenses of $2.6 million and a decrease in inventories of $2.1 million largely offset by an increase in accounts receivable of $55.6 million. Non-cash items include a deferred tax provision of $8.6 million primarily related to the amortization of tax basis goodwill. The increase in accounts receivable was primarily driven by longer collection cycles as a result of slower reimbursement under Medicare Part D in comparison to prior year s reimbursement under Medicaid.

During the fiscal year ended September 30, 2005, PharMerica LTC s operating activities provided $3.3 million of cash as compared to cash provided by operating activities of $49.8 million in the prior year. Cash provided by operating activities during the fiscal year ended September 30, 2005 was principally the result of net income of $13.8 million, non-cash items of $39.6 million and a decrease in inventories of $11.6 million largely offset by an increase in accounts receivable of $33.4 million, a decrease in accounts payable of $11.3 million and a decrease in accrued expenses of $14.3 million. Non-cash items include a deferred tax provision of $17.0 million primarily related to the amortization of tax basis goodwill. The increase in accounts receivable was primarily driven by an increase in average days sales outstanding resulting from a loss of a significant customer that remitted its payments to PharMerica LTC on an accelerated basis and due to an extension of payment terms with new and certain existing customers. The extension of payment terms was made in response to competitive pressures. The decrease in accounts payable was primarily due to timing differences resulting from inventory purchases made from and cash payments made to AmerisourceBergen. The decrease in accrued expenses related primarily to the reduction of reserves in connection with certain legal matters. These legal matters were settled and paid by PharMerica LTC in fiscal 2005.

During the fiscal year ended September 30, 2004, PharMerica LTC s operating activities provided $49.8 million of cash and was primarily a result of net income of $20.1 million and non-cash items of $33.4 million. Non-cash items include a deferred tax provision of $18.0 million primarily related to the amortization of tax basis goodwill.

During the fiscal year ended September 30, 2006, PharMerica LTC acquired certain assets of a technology solution company for $12.6 million. PharMerica LTC s capital expenditures were $12.3 million, $18.3 million and $10.8 million during the fiscal years ended September 30, 2006, 2005 and 2004, respectively. PharMerica LTC s capital expenditures were primarily related to the improvement of its information technology infrastructure.

KPS Results of Operations

Basis of Presentation

On March 1, 2005, Kindred completed an internal restructuring of its institutional pharmacy businesses to establish these operations as subsidiaries of KPS. The accompanying financial data and related discussion and analysis have been presented in a consistent manner for all periods presented.

On July 1, 2004, KPS began providing pharmacy management services to Kindred hospitals. Internal pharmacy personnel employed by Kindred hospitals were transferred to KPS in conjunction with the realignment of these services (Hospital Services Reorganization).

For the three months ended March 31, 2007 and 2006

A summary of our operating data follows (dollars in thousands, except statistics):

	Three months ended March 31, 2007	Three months ended March 31, 2006
Revenues:		
Institutional pharmacies	$ 161,183	$ 143,585
Hospital pharmacy management	13,521	12,623
	$ 174,704	$ 156,208
Net income:		
Segment operating income:		
Institutional pharmacies	$ 6,669	$ 13,154
Hospital pharmacy management	2,110	2,189
Segment operating income	8,779	15,343
Allocated Kindred corporate services	(3,429)	(2,637)
Rent	(1,642)	(1,280)
Depreciation and amortization	(2,816)	(1,797)
Interest, net	4	28
Income before income taxes	896	9,657
Provision for income taxes	354	3,814
	$ 542	$ 5,843
Operating data:		
Number of hospitals serviced	83	73
Number of customer licensed beds at end of period:		
Affiliated	28,341	30,449
Non-affiliated	74,985	63,683
	103,326	94,132

Consolidated Operations

Revenues increased 12% to $175 million for the three months ended March 31, 2007 compared to $156 million for the three months ended March 31, 2006. The increase in revenues resulted primarily from acquisitions, higher drug utilization ($3 million) and same-store growth in non-affiliated customers ($6 million).

Gross profit decreased 16% to $22 million for the three months ended March 31, 2007 compared to $26 million for the three months ended March 31, 2006. Gross profit margins were 12.5% for the three months ended March 31, 2007 compared to 16.7% for the three months ended March 31, 2006. Gross profit margins declined primarily due to weaker results from pharmacies acquired in 2005 and competitive pricing pressures.

SG&A expenses increased 28% to $21 million for the three months ended March 31, 2007 compared to $16 million for the three months ended March 31, 2006. Increases in SG&A expenses resulted primarily from increased expenses related to same-store growth in non-affiliated customers and $3 million of costs associated with the proposed transaction with PharMerica LTC. SG&A expenses for the three months ended March 31, 2006 included a $1 million credit related to a gain from an institutional pharmacy joint venture transaction.

Net income declined to $1 million for the three months ended March 31, 2007 compared to $6 million for the three months ended March 31, 2006.

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Segment Discussion

Institutional pharmacies

Revenues increased 12% to $161 million for the three months ended March 31, 2007 compared to $143 million for the three months ended March 31, 2006. The increase in revenues resulted primarily from acquisitions, higher drug utilization and same-store growth in non-affiliated customers. At March 31, 2007, KPS provided pharmacy services primarily to nursing centers containing 103,300 licensed beds, including 28,300 licensed beds that Kindred operates. The aggregate number of customer licensed beds that KPS serviced at March 31, 2006 totaled 94,100.

Segment operating income declined 49% to $7 million for the three months ended March 31, 2007 compared to $13 million for the three months ended March 31, 2006. The decline in operating income was primarily attributable to costs associated with the transaction, weaker results from pharmacies acquired in 2005 and competitive pricing pressures. Segment operating income for the three months ended March 31, 2007 included costs of approximately $3 million incurred in connection with the proposed transaction with PharMerica LTC.

Hospital pharmacy management

Revenues increased 7% to $14 million for the three months ended March 31, 2007 compared to $13 million for the three months ended March 31, 2006 primarily due to price increases and growth in the number of hospitals managed. At March 31, 2007, KPS provided pharmacy management services to 83 hospitals compared to 73 hospitals at March 31, 2006.

Segment operating income was $2 million for the three months ended March 31, 2007 and the three months ended March 31, 2006.

Allocated corporate services

Allocated corporate services from Kindred totaled $3 million for the three months ended March 31, 2007 and the three months ended March 31, 2006. Corporate expenses are allocated based upon either the identification of specific costs or as a percentage of KPS revenues. Allocated costs may not be indicative of the costs that would have been incurred by KPS on a stand-alone basis.

Capital Costs

Rent expense increased 28% to $2 million for the three months ended March 31, 2007 compared to $1 million for the three months ended March 31, 2006 primarily as a result of acquisitions, growth in the number of leased pharmacies, as well as relocations.

Depreciation and amortization expense increased to $3 million for the three months ended March 31, 2007 compared to $2 million for the three months ended March 31, 2006. The increase was primarily as a result of acquisitions and KPS s ongoing capital expenditure program.

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For the years ended December 31, 2006, 2005 and 2004

A summary of our operating data follows (in thousands, except statistics):

	Year ended December 31,		
	2006	2005	2004
Revenues:			
Institutional pharmacies	$ 602,176	$ 475,822	$ 340,774
Hospital pharmacy management	50,432	46,403	19,261
	$ 652,608	$ 522,225	$ 360,035
Income from continuing operations:			
Segment operating income:			
Institutional pharmacies	$ 38,971	$ 46,756	$ 32,071
Hospital pharmacy management	8,342	9,124	4,285
Segment operating income	47,313	55,880	36,356
Allocated Kindred corporate services	(11,872)	(10,930)	(11,416)
Rent	(5,554)	(4,935)	(3,044)
Depreciation and amortization	(8,835)	(5,751)	(2,434)
Interest, net	104	80	
Income before income taxes	21,156	34,344	19,462
Provision for income taxes	8,357	13,343	7,555
	$ 12,799	$ 21,001	$ 11,907
Operating data:			
Number of hospitals serviced	81	73	68
Number of customer licensed beds at end of period:			
Affiliated	30,232	28,657	28,634
Non-affiliated	72,339	64,625	37,561
	102,571	93,282	66,195

Consolidated Operations

Revenues increased 25% in 2006 to $653 million and 45% in 2005 to $522 million. The increase in revenues in 2006 resulted primarily from acquisitions ($67 million), price increases and higher drug utilization ($31 million) and same-store growth in non-affiliated customers ($20 million). The increase in revenues in 2005 resulted primarily from acquisitions ($86 million), price increases and higher drug utilization ($29 million), same-store growth in non-affiliated customers ($4 million) and the full-year impact of the Hospital Services Reorganization ($27 million).

Gross profit increased 14% to $95 million in 2006 and 44% to $83 million in 2005. Gross profit margins were 14.5% in 2006, 15.9%% in 2005 and 16.0% in 2004. Gross profit margins declined in 2006 primarily due to transition issues associated with the conversion to Medicare Part D and weak results from acquired pharmacies. Gross profit associated with pharmacy acquisitions totaled $17 million in 2006 and $12 million in 2005.

SG&A expenses increased 51% to $74 million in 2006 and 28% to $49 million in 2005. Increases in SG&A expenses resulted primarily from acquisitions and same-store growth in non-affiliated customers in both 2006 and 2005, and in 2006, costs associated with the proposed transaction with PharMerica LTC. SG&A expenses associated with pharmacy acquisitions approximated $26 million in 2006 and $10 million in 2005. SG&A expenses for 2006 included a $1 million credit related to a gain from an institutional pharmacy joint venture transaction. SG&A

expenses for 2005 included a $3 million credit related to a favorable adjustment to the

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allowance for loss on accounts receivable and a $1 million charge related to a special recognition payment to non-executive caregivers and employees.

Net income from continuing operations declined 39% to $13 million in 2006 and increased 76% to $21 million in 2005.

Segment Discussion

Institutional pharmacies

Revenues increased 27% to $602 million in 2006 and 40% to $476 million in 2005. The increase in revenues in both periods resulted primarily from acquisitions, price increases, higher drug utilization, same-store growth in non-affiliated customers. At December 31, 2006, KPS provided pharmacy services primarily to nursing centers containing 102,600 licensed beds, including 30,200 licensed beds that Kindred operates. The aggregate number of customer licensed beds that KPS serviced at December 31, 2005 totaled 93,300 compared to 66,200 at December 31, 2004.

Segment operating income declined 17% to $39 million in 2006 and increased 46% to $47 million in 2005. The decline in operating income in 2006 was attributable to transition issues associated with the conversion to Medicare Part D, costs associated with the proposed transaction with PharMerica LTC and weak results from acquired pharmacies. Segment operating income for 2006 included costs of approximately $3 million incurred in connection with the transaction. Segment operating income associated with acquisitions totaled $5 million in 2006 compared to $9 million in 2005. Segment operating income increased in 2005 primarily due to acquisitions and volume growth.

Hospital pharmacy management

Revenues increased to $51 million in 2006 from $46 million in 2005 and $19 million in 2004 primarily due to price increases, growth in the number of hospitals managed and in 2005, the Hospital Services Reorganization, which was completed on July 1, 2004. At December 31, 2006, KPS provided pharmacy management services to 81 hospitals compared to 73 hospitals at December 31, 2005 and 68 hospitals at December 31, 2004.

Segment operating income declined to $8 million in 2006 from $9 million in 2005, primarily as a result of increased segment overhead. Segment operating income increased in 2005 to $9 million from $4 million in 2004, primarily as a result of the Hospital Services Reorganization.

Allocated corporate services

Allocated corporate services from Kindred totaled $12 million in 2006 and $11 million in both 2005 and 2004. Corporate expenses are allocated based upon either the identification of specific costs or as a percentage of KPS revenues. Allocated costs may not be indicative of the costs that would have been incurred by KPS on a stand-alone basis.

Capital costs

Rent expense increased 13% to $6 million in 2006 and 62% to $5 million in 2005 primarily as a result of acquisitions, growth in the number of leased pharmacies, contractual inflation increases as well as relocations.

Depreciation and amortization expense increased to $9 million in 2006 from $6 million in 2005 and $2 million in 2004. The increase was primarily as a result of acquisitions.

Liquidity and Capital Resources

Cash flows provided by operations aggregated $9 million for the three months ended March 31, 2007 compared to cash flows used in operations of $4 million for the three months ended March 31, 2006. Operating cash flows for the first quarter of 2006 were negatively impacted by the growth in accounts receivable. For the

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three months ended March 31, 2006, contributions from Kindred were necessary for KPS to finance its capital expenditure activities.

For the years ended December 31, 2006, 2005 and 2004, cash flows provided by operations (including discontinued operations) aggregated $10 million, $5 million and $8 million, respectively. During the past two years, contributions from Kindred were necessary for KPS to maintain sufficient liquidity to finance its acquisition activities.

There are various intercompany cash transactions between KPS and Kindred. KPS s cash receipts are swept daily by Kindred and funds are used to pay KPS s operating expenses and capital expenditures (including acquisitions). KPS provided net funding to Kindred of $9 million for the three months ended March 31, 2007 compared to net funding from Kindred of $6 million for the three months ended March 31, 2006. KPS required net funding from Kindred of $13 million for the year ended December 31, 2006 and $104 million for the year ended December 31, 2005, primarily to finance its capital expenditure and acquisition spending in both periods. During the year ended December 31, 2004, KPS maintained sufficient liquidity to fund its ongoing capital expenditure program and finance its acquisition activities. The net contribution activity from Kindred is classified as a component of stockholder s equity in the balance sheet of KPS.

Cash and cash equivalents totaled $3 million at March 31, 2007, $4 million at December 31, 2006 and $1 million at December 31, 2005. Based upon existing cash levels, expected operating cash flows, contributions from Kindred and capital spending, KPS management believes that it has the necessary financial resources to satisfy expected liquidity needs.

The following is a summary of KPS s contractual obligations for future minimum payments under non-cancelable operating leases at March 31, 2007 (in thousands):

		Payments due by period			
	Total	Within 1 year	1-3 years	4-5 years	After 5 years
Operating leases	$ 15,439	$ 5,247	$ 7,432	$ 2,722	$ 38

Immediately prior to the spin-off, KPS will make a cash distribution to Kindred in an amount of up to $125 million or such other amount as is mutually agreed upon by AmerisourceBergen and Kindred prior to closing. The amount of this cash distribution may be adjusted to reflect changes in working capital of KPS outside of an agreed upon range. To finance the cash distribution, KPS will enter into a financing arrangement prior to the spin-off in an amount equal to the cash distribution.

Capital expenditures totaled $2 million for the three months ended March 31, 2007 and the three months ended March 31, 2006. Excluding acquisitions, capital expenditures totaled $10 million for the year ended December 31, 2006, $7 million for the year ended December 31, 2005 and $5 million for the year ended December 31, 2004. KPS management believes its capital expenditure program is adequate to improve and equip existing pharmacies. Capital expenditures for the three months ended March 31, 2007 and in each of the last three years were financed through internally generated funds.

KPS expended $11 million, $103 million and $2 million during the years ended December 31, 2006, 2005 and 2004, respectively, for pharmacy acquisitions. KPS financed these acquisitions primarily through funding contributions from Kindred.

Critical Accounting Policies

The discussion and analysis of financial condition and results of operations of KPS and PharMerica LTC are based upon the financial statements of KPS and PharMerica LTC, respectively, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these financial statements requires the use of estimates and judgments that affect the reported amounts and related disclosures of commitments and contingencies. KPS and PharMerica LTC rely on historical experience and on various other

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assumptions that they believe to be reasonable under the circumstances to make judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ materially from these estimates.

The following critical accounting policies affect the more significant judgments and estimates used in the preparation of the financial statements of each of KPS and PharMerica LTC.

Revenue recognition

KPS recognizes revenues at the time services are provided or products are delivered. A significant portion of these revenues are billed to PDPs under Medicare Part D, the state Medicaid programs and third party insurance plans. The vast majority of these claims are electronically adjudicated through online processing at the point the prescription is dispensed such that the KPS operating system is automatically updated with the amount actually reimbursed. As a result, revenues and the associated receivables are based upon the actual reimbursement received by KPS. For claims that are adjudicated on-line and are rejected or otherwise denied upon submission, KPS provides contractual allowances based upon historical trends, contractual reimbursement terms and other factors which may impact ultimate reimbursement. Amounts are adjusted to actual upon cash receipts. The aggregate adjustments are not material to the operations of KPS for the periods presented. KPS s hospital pharmacy management revenues represent contractually defined management fees and reimbursement of costs associated with the direct operations of hospital pharmacies, and are primarily comprised of personnel costs.

PharMerica LTC recognizes revenues when persuasive evidence of an arrangement exists, product has been delivered or services have been rendered, the price is fixed or determinable and collectibility is reasonably assured. Revenue as reflected in the accompanying statements of operations is net of sales returns and allowances.

A significant portion of PharMerica LTC s revenues are reimbursed by Medicare, state Medicaid and insurance programs. For the fiscal years ended September 30, 2006, 2005 and 2004, approximately 76%, 73% and 73%, respectively, of PharMerica LTC s billings were directly reimbursed by government-sponsored programs. Since the billing functions of PharMerica LTC are computerized, enabling online adjudication (i.e., submitting charges to Medicare and Medicaid or other third party payors electronically, with simultaneous feedback of the amount to be paid) at the time of sale to record net revenues, exposure to estimating allowance adjustments is limited primarily to initially rejected or denied Medicare, Medicaid or other third party payors (which are often approved once additional information is provided to the payor). PharMerica LTC evaluates several criteria in developing the estimated allowances for initially rejected or denied claims on a monthly basis, including historical trends based on actual claims paid, current contract and reimbursement terms, and changes in customer base and payor/product mix. Allowance estimates included in accounts receivable are adjusted to actual amounts as cash is received and claims are settled, and the aggregate impact of these resulting adjustments were not significant to PharMerica LTC s operations for any of the periods presented. Allowance estimates totaled $3.9 million and $3.2 million at September 30, 2006 and 2005, respectively.

Co-payments for services can be applicable under Medicare Part D, the state Medicaid programs, and certain third party payors, and are typically not collected at the time products are delivered or services are provided. Co-payments under the Medicaid programs and third party plans are generally billed to the responsible party as part of normal billing procedures and are subject to normal collection procedures.

Under Medicare Part D, co-payments related to dual eligibles are due from the responsible party for up to the first thirty days of a beneficiary s stay in a skilled nursing facility subsequent to which the PDPs are responsible for reimbursement.

Under certain circumstances, including state-mandated return policies under various Medicaid programs, KPS and PharMerica LTC accept returns of medications and issues a credit memorandum to the applicable payor. Product returns are processed in the period received and are not considered to be material to KPS s or PharMerica LTC s results of operations.

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A summary of revenues by payor type follows (in thousands):

	Six months ended March 31,		Year ended September 30,		
PharMerica LTC	**2007**	**2006**	**2006**	**2005**	**2004**
Medicare	$ 415,705	$ 234,718	$ 650,940	$ 209,014	$ 204,014
Medicaid	64,812	190,415	261,735	606,477	601,124
Private and other	146,224	165,436	287,294	302,775	298,587
	$ 626,741	$ 590,569	$ 1,199,969	$ 1,118,266	$ 1,103,725

	Three months ended March 31,		Year ended December 31,		
KPS	**2007**	**2006**	**2006**	**2005**	**2004**
Medicare	$ 103,700	$ 84,463	$ 374,145	$ 84,307	$ 77,110
Medicaid	13,601	14,839	57,297	237,072	179,215
Private and other	57,403	56,906	221,166	200,846	103,710
	$ 174,704	$ 156,208	$ 652,608	$ 522,225	$ 360,035

Collectibility of accounts receivable

Accounts receivable consist primarily of amounts due from the Medicare and Medicaid programs, institutional customers, managed care health plans, commercial insurance companies and individual patients. Estimated provisions for doubtful accounts are recorded to the extent it is probable that a portion or all of a particular account will not be collected.

In evaluating the collectibility of accounts receivable, a number of factors are considered, including the age of the accounts, changes in collection patterns, the composition of patient accounts by payor type, the status of ongoing disputes with third party payors and general industry conditions. Actual collections of accounts receivable in subsequent periods may require changes in the estimated provision for loss. Changes in these estimates are charged or credited to the results of operations in the period of the change. Accounts are written off when they are deemed uncollectible.

KPS s provision for doubtful accounts totaled $1 million for the three months ended March 31, 2007, $2 million for the three months ended March 31, 2006, $7 million for the year ended December 31, 2006 and $3 million for the year ended December 31, 2004. In the fourth quarter of 2005, KPS recorded a $3 million credit related to a favorable adjustment to the allowance for loss on accounts receivable resulting in net recoveries of $1 million for the year ended December 31, 2005. Changes in the collection patterns of accounts receivable can significantly impact the allowance for loss on accounts receivable. A small variance, either favorable or unfavorable, between our estimated allowance and actual experience could materially impact the adequacy of the allowance. For example, a 1% variance in the allowance at March 31, 2007 would impact KPS s income before income taxes by approximately $150,000.

PharMerica LTC writes off balances against reserves when collectibility is deemed remote. PharMerica LTC performs, at least on a quarterly basis, formal documented reviews of the allowance for doubtful accounts. There were no significant changes to this process during the six months ended March 31, 2007 and during the fiscal years ended September 30, 2006, 2005 and 2004 and bad debt expense was computed in a consistent manner during these periods. The bad debt expense for any period is equal to the change in the period end allowance for doubtful accounts, net of write-offs and recoveries. PharMerica LTC s bad debt expense was $8.8 million and $7.5 million during the six months ended March 31, 2007 and 2006, respectively. PharMerica LTC s bad debt expense was $14.8 million, $9.1 million and $2.4 million for the fiscal years ended September 30, 2006, 2005 and 2004, respectively. The increase in PharMerica LTC s bad debt expense for the fiscal year ended September 30, 2006 was driven by the billing and collection issues it experienced relating to the transition to Medicare Part D and the negative impact that Texas Medicaid changes had on certain of its nursing home

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customers. During the fiscal year ended September 30, 2004, PharMerica LTC s bad debt expense was favorably impacted by a reversal of previously established allowances for doubtful accounts totaling approximately $9.1 million associated with a customer that emerged from bankruptcy and due to improvements made in its credit and collection practices. An increase or decrease of 1% in the allowance for doubtful accounts as of March 31, 2007 as a percentage of accounts receivable would result in an increase or decrease in bad debt expense of $1.7 million.

Inventories

Inventories consist primarily of pharmaceutical and medical supplies held for sale to customers and are stated at the lower of cost (first-in, first-out) or market.

PharMerica LTC currently performs physical inventories at all pharmacy locations on a monthly basis with cost of goods sold being recorded based upon the actual results of the physical inventory counts. Prior to establishing monthly inventories, PharMerica LTC performed physical inventories at least quarterly and estimated the cost of goods sold in the intervening months when no physical inventory was performed. Inventories consist principally of purchased pharmaceuticals from AmerisourceBergen.

Physical inventories at KPS are performed on a quarterly basis at all pharmacy locations and cost of goods sold is adjusted based upon the actual results of the physical inventory counts. Due to the nature of KPS s inventory, the impact of returns and obsolescence is not significant.

Supplier rebates

KPS and PharMerica LTC each receives rebates and other incentives from their suppliers relating to programs offered by them. Such incentives are typically governed by contractual arrangements with KPS and PharMerica LTC s suppliers which specify the conditions necessary to earn the incentives offered. KPS and PharMerica LTC generally account for these rebates and other incentives received from suppliers, relating to the purchase or distribution of inventory, as a reduction to cost of goods sold. KPS and PharMerica LTC consider these rebates and other incentives to represent product discounts, and as a result, the amounts are capitalized as a reduction of product cost and relieved through cost of goods sold upon the sale of the related inventory. Benefits for these programs are reflected in the financial statements based on management s consideration of the status of specific incentive programs, historical experience with the suppliers, the status of current outstanding claims and any other pertinent information available to KPS and PharMerica LTC. KPS and PharMerica LTC each evaluates the amounts due from its suppliers on a continual basis and adjusts rebate receivables when appropriate based on changes in factual circumstances. The ultimate outcome of any outstanding claim may be different from the estimates of KPS and PharMerica LTC. KPS and PharMerica LTC, collectively, earned rebates totaling $13.2 million for the three months ended March 31, 2007, $11.5 million for the three months ended March 31, 2006, and $45.9 million, $42.6 million and $33.1 million for the years ended December 31, 2006, 2005 and 2004, respectively.

Accounting for income taxes

KPS is included in the consolidated federal and state income tax returns filed by Kindred. Kindred allocates the consolidated federal and state income tax liabilities among the members of the consolidated return group as if KPS was a separate taxpayer, and the result of the corresponding tax liability is settled with Kindred through an adjustment to stockholder s equity.

PharMerica LTC accounts for income taxes using the asset and liability method in accordance with provisions of SFAS No. 109 Accounting for Income Taxes. The asset and liability method requires recognition of deferred tax assets and liabilities for expected future tax consequences of temporary differences that currently exist between tax bases and financial reporting bases of PharMerica LTC s assets and liabilities.

PharMerica LTC is included in AmerisourceBergen s consolidated federal income tax return and certain state consolidated and combined income tax returns filed by AmerisourceBergen. PharMerica LTC also files stand-alone state income tax returns in most states in which it operates. Pursuant to the terms of an arrangement between PharMerica LTC and AmerisourceBergen, current and deferred income tax expenses and benefits are allocated to the members of the tax sharing group as if they were filing separately for federal income tax purposes and at AmerisourceBergen s consolidated state tax rate for state income tax purposes. PharMerica LTC s share of income taxes is paid by AmerisourceBergen and, as a result, any obligation related to current income taxes is not reflected in the accompanying balance sheets. Additionally, federal and certain state operating loss benefits generated by PharMerica LTC are utilized by other members of the consolidated group and are not reimbursed by AmerisourceBergen.

The provision for income taxes is based upon management s estimate of taxable income or loss for each respective accounting period. An asset or liability is recognized for the deferred tax consequences of temporary differences between the tax basis of assets and liabilities and their reported amounts in the financial statements. These temporary differences will result in taxable or deductible amounts in future years when the reported amounts of the assets are recovered or liabilities are settled and represent amounts contributed to or contributed from Kindred or AmerisourceBergen as the case may be in lieu of income taxes. A valuation allowance is provided for these deferred tax assets if it is more likely than not that some portion or all of the net deferred tax assets will not be realized.

Kindred and AmerisourceBergen are each subject to various income tax audits at the federal and state levels in the ordinary course of business. Such audits could result in increased tax payments, interest and penalties. While Kindred and AmerisourceBergen each believe its tax positions are appropriate, neither Kindred nor AmerisourceBergen can assure that the various authorities engaged in the examination of income tax returns will not challenge Kindred s or AmerisourceBergen s tax positions.

Valuation of long-lived assets and goodwill

KPS and PharMerica LTC regularly review the carrying value of certain long-lived assets and the related identifiable intangible assets with respect to any events or circumstances that indicate an impairment or an adjustment to the amortization period is necessary. If circumstances suggest the recorded amounts cannot be recovered based upon estimated future undiscounted cash flows, the carrying values of such assets are reduced to fair value.

In assessing the carrying values of long-lived assets, each of KPS and PharMerica LTC estimates future cash flows at the lowest level for which there are independent, identifiable cash flows. For this purpose, these cash flows are aggregated based upon the contractual agreements underlying the operation of the facility or group of facilities. Generally, an individual facility is considered the lowest level for which there are independent, identifiable cash flows.

In accordance with SFAS No. 142 (SFAS 142), Goodwill and Other Intangible Assets, KPS and PharMerica LTC are required to perform an impairment test for goodwill at least annually or more frequently if adverse events or changes in circumstances indicate that the asset may be impaired. KPS and PharMerica LTC perform their annual impairment tests at the end of each year. No impairment charge was recorded in each of the applicable years in which an annual impairment test was required.

Other intangible assets with finite lives are amortized under SFAS 142 over their estimated useful lives, ranging from five to 13 years.

Recently Issued Accounting Pronouncements

On September 15, 2006, the Financial Accounting Standards Board, or FASB, issued SFAS No. 157 (SFAS 157), Fair Value Measurements, which addresses how companies should measure fair value when they are required to use a fair value measure for recognition or disclosure purposes under generally accepted accounting principles. SFAS 157 is effective for fiscal years beginning after November 15, 2007. The adoption of SFAS 157 is not expected to have a material impact on NewCo s financial position, results of operations or liquidity.

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On July 13, 2006, the FASB issued FASB Interpretation No. 48 (FIN 48), Accounting for Uncertainty in Income Taxes. The interpretation clarifies the accounting for uncertain income tax issues recognized in an entity s financial statements in accordance with FASB Statement No. 109, Accounting for Income Taxes. FIN 48 prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. FIN 48 is effective for fiscal years beginning after December 15, 2006. FIN 48 will be effective for NewCo upon completion of the transaction. NewCo has not yet determined the effect FIN 48 will have on its financial position, results of operations or liquidity.

In December 2004, the FASB issued SFAS No. 123 (revised 2004) (SFAS 123R), Share-Based Payment, which requires companies to expense the fair value of employee stock options and other forms of stock-based compensation for interim periods that begin after June 15, 2005. This requirement represents a significant change because the fair value of stock option awards had not been recognized as compensation expense in either KPS s or PharMerica LTC s historical consolidated financial statements prior to 2006 under Accounting Principles Board Opinion No. 25, Accounting for Stock Issued to Employees. SFAS 123R requires the cost of an award, based upon fair value on the date of grant, to be recognized over the period during which an employee is required to provide service in exchange for the award (usually the vesting period). The fair value of the award on the date of grant will be estimated using option pricing models.

Certain of PharMerica LTC s employees participate in AmerisourceBergen equity compensation plans, which authorize grants of AmerisourceBergen stock options and restricted stock. AmerisourceBergen options generally vest over a four-year period and AmerisourceBergen restricted stock vests in full after three years. AmerisourceBergen adopted SFAS 123R in the first quarter of fiscal 2006 using the modified-prospective transition method. AmerisourceBergen allocated a portion of its share-based compensation costs to PharMerica LTC based on the fair value of the grants awarded to PharMerica LTC employees. In fiscal 2006, PharMerica LTC recorded $1.1 million related to share-based compensation.

KPS adopted SFAS 123R on January 1, 2006 and began to recognize compensation expense prospectively in its consolidated financial statements for non-vested stock options outstanding at December 31, 2005 and for all stock-based compensation awards granted after January 1, 2006. The adoption of SFAS 123R in 2006 reduced net income of KPS by approximately $0.3 million for the year ended December 31, 2006.

Quantitative and Qualitative Disclosure About Market Risk

Our most significant market risk will be the effect of fluctuations in interest rates associated with our borrowings from time to time. We will manage interest rate risk by using a combination of fixed-rate and variable-rate debt. As circumstances warrant, we will periodically evaluate various financial instruments that could mitigate a portion of our exposure to variable interest rates. However, there are no assurances that such instruments will be available on terms acceptable to us. There are currently no such financial instruments in effect.

Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

Safari Holding Corporation, KPS and PharMerica LTC have had no changes in or disagreements with accountants on accounting or financial disclosure.

OUR BUSINESS

Overview

We are an institutional pharmacy services company servicing long-term healthcare facilities. We are the second largest institutional pharmacy company in the United States based upon pro forma revenues of our combined businesses for the year ended December 31, 2006. As of March 31, 2007, we operated more than 120 institutional pharmacies in 40 states that serve approximately 310,000 licensed beds for patients and residents of long-term healthcare facilities. We provide pharmacy services to approximately 4,300 facilities, including 225 skilled nursing facilities owned by Kindred, as well as non-affiliated nursing centers. We also provide pharmacy management services to 81 hospitals operated by Kindred. We generate a substantial amount of our revenue through reimbursement from government-sponsored programs, such as Medicare and Medicaid. For the year ended December 31, 2006, we derived approximately 55% of our pro forma revenues from Medicare, 17% from Medicaid and 28% from private payors, such as commercial insurance companies, health maintenance organizations, preferred provider organizations and contract providers.

We were formed in anticipation of merging with the spun-off institutional pharmacy businesses of AmerisourceBergen and Kindred. As a result, our assets and business will consist almost exclusively of those that AmerisourceBergen and Kindred attribute to their institutional pharmacy businesses and that were reported as the long-term care business of AmerisourceBergen s PharMerica segment and Kindred s Pharmacy Division segment, respectively, in their financial statements, excluding the workers compensation services and retail pharmacy business of AmerisourceBergen.

The unaudited pro forma financial and operating information for NewCo for the three months ended March 31, 2007 contained elsewhere in this preliminary prospectus is based upon information for both KPS and PharMerica LTC for the three months ended March 31, 2007. The unaudited pro forma financial and operating information for NewCo for the year ended December 31, 2006 contained elsewhere in this preliminary prospectus is based upon information for KPS for the year ended December 31, 2006 and for PharMerica LTC for the year ended September 30, 2006. The unaudited pro forma financial and statistical information for NewCo as of March 31, 2007 is based upon information for KPS and PharMerica LTC as of March 31, 2007.

Institutional Pharmacy Business

Our core business provides pharmacy products and services to residents and patients in skilled nursing facilities, assisted living facilities and independent living facilities. We purchase, repackage and dispense prescription and non-prescription pharmaceuticals in accordance with physician orders and deliver such medication to healthcare facilities for administration to individual residents and patients. Depending on the specific location, we service healthcare facilities within a radius of 120 miles or less of our pharmacy locations at least once each day. Each pharmacy provides 24-hour, seven-day per week on-call pharmacist services for emergency dispensing, delivery and/or consultation with the facility s staff or the resident s attending physician. We also provide various supplemental healthcare services that complement our institutional pharmacy services.

We offer prescription and non-prescription pharmaceuticals to our customers through a unit dose or modified unit dose packaging, dispensing and delivery systems, typically in 30-day supplies. Unit dosed medications are packaged for dispensing in individual doses as compared to bulk packaging used by most retail pharmacies. We believe that the unit dose delivery system is preferred over the bulk delivery system employed by retail pharmacies because it improves control over the storage and ordering of drugs and reduces errors in drug administration in healthcare facilities. Nursing staff in our customers facilities administer the pharmaceuticals to individual residents and patients.

We also provide intravenous, or infusion, therapy products and services for healthcare facilities. Infusion therapy consists of the product (nutrient, antibiotic, chemotherapy or other drugs and solutions) and the

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intravenous administration of the product. The most common infusion therapies we provide are total parenteral nutrition, which provides nutrients intravenously to patients with chronic digestive or gastro-intestinal problems, antibiotic therapy, chemotherapy, pain management and hydration.

Our computerized dispensing and delivery systems are designed to improve efficiency and control over distribution and medication to patients and residents. We provide computerized physician orders and medication administration records for each patient or resident on a monthly basis as requested. Data from these records are formulated into monthly management reports on patient or resident care and quality assurance. This system improves efficiencies and nursing time, reduces drug waste and lowers adverse drug reactions.

We also provide our customers with supplemental healthcare consulting services that complement our core institutional pharmacy services. Federal and state laws and regulations require long-term care facilities to maintain and improve the quality of resident care by retaining consultant pharmacist services to monitor and report on prescription drug therapy. Our consulting services include:

- monthly reviews of each resident s drug regimen to assess the appropriateness and efficacy of drug therapies, including the review of medical records, monitoring drug interactions with other drugs or food, monitoring laboratory test results and recommending alternative therapies;
- participation on quality assurance and other committees of our customers as required or requested by such customers;
- monitoring and reporting on facility-wide drug utilization;
- development and maintenance of pharmaceutical policy and procedure manuals; and
- assistance with federal and state regulatory compliance pertaining to resident care.

Pharmacy Management Business

We also provide pharmacy management services to hospitals operated by Kindred. These services generally entail the overall management of the hospital pharmacy operations, including the ordering, receipt, storage and dispensing of pharmaceuticals to the hospital s patients pursuant to the clinical guidelines established by the hospital. We offer the hospitals a wide range of regulatory and financial management services, including inventory control, budgetary analysis, staffing optimization, and assistance with obtaining and maintaining applicable regulatory licenses, certifications and accreditations. We work with the hospitals to develop and implement pharmacy policies and procedures, including drug formulary development and utilization management. We also offer clinical pharmacy programs that encompass a wide range of drug therapy/disease management protocols, including protocols for anemia treatment, infectious diseases, wound care, nutritional support, renal dosing, and therapeutic substitution.

Our Strategy

Our goal is to become the premier provider of institutional pharmacy services in the United States. Our strategies for achieving this goal include:

Maintaining Focus on Customer Satisfaction. We will focus on consistently providing quality pharmaceutical services to our customers at competitive prices and delivery of prescriptions in a timely and effective manner. Our business will seek to implement innovative and cost-effective solutions to improve the provision of medication to our customers and the residents and patients that they serve.

Improving Operating Efficiency. We will continually seek to improve operating efficiencies and control costs. We maintain management information systems that are expected to allow us to improve service standards, achieve or exceed regulatory compliance and navigate the rapidly changing billing complexities of federal, state and private payor programs. We will strive to lower pharmaceutical costs by negotiating favorable purchasing arrangements through group purchasing organizations or directly with certain pharmaceutical manufacturers. We

will continue to focus on the opportunities presented by the appropriate use of generic pharmaceuticals. Our combined businesses should enable us to pursue synergy opportunities by consolidating pharmacy locations and reducing costs related to processing pharmaceuticals for distribution. We will also seek to improve operating efficiency by enhancing the features of our computerized dispensing and billing systems to meet our customer s needs.

Growing the Business. We will continue to grow through expansion in our existing markets and by servicing new customers. We intend to grow organically by leveraging the competitive advantages we expect to realize as a result of this transaction. We believe our industry has underlying market growth potential attributable to both an increase in drug utilization as well as the general aging population of the United States. We believe this transaction improves our market competitiveness by giving us more operating scale and increased organizational breadth and depth. We will seek to increase our market share, in part, by capturing business currently realized by our competitors by capitalizing on our improved market position.

We also intend to expand our market share through selected geographic expansion in markets not currently served by us and through strategic acquisitions in existing and underserved markets. NewCo will operate initially in 40 states. We believe there are significant growth opportunities in several other markets. There are numerous competitors in our market, mostly small or regional companies that lack the scale that we believe will be necessary to compete in a market that is increasingly national payor in scope. We intend to actively seek opportunities to acquire these competitors on a profitable basis.

Expand Our Pharmacy Management Services. We provide pharmacy management services to substantially all of Kindred s hospitals. We intend to use our pharmacy expertise to seek opportunities to expand our pharmacy management services with additional customers.

Promoting Our Shared Values. We will continue to benefit from the shared values of PharMerica LTC and KPS of focusing on the needs of our customers, patients and employees. We will seek to lead, shape and define the business of providing pharmacy services and products to the institutional marketplace.

Sales and Marketing

We sell our products and services through a national sales force of approximately 40 persons as of December 31, 2006. Our sales force is organized along geographic lines divided into approximately five regions to maximize coverage, manage costs, and to assure that the needs of our customers are effectively and efficiently met. Our sales representatives specialize in the products and services we offer and the markets in which we operate. Their knowledge permits us to meet the unique needs of our customers while maintaining profitable relationships.

Customers

Our customers are typically institutional healthcare providers, such as, skilled nursing facilities, nursing centers, assisted living facilities, hospitals and other long-term alternative care settings. We are generally the primary source of supply of pharmaceuticals for our customers.

Our customers depend on institutional pharmacies like us to provide the necessary pharmacy products and services and to play an integral role in monitoring patient medication regimens and safety. We dispense pharmaceuticals in patient specific packaging in accordance with physician instructions.

At March 31, 2007, the combined companies had contracts to provide pharmacy services to approximately 310,000 licensed beds for patients in healthcare facilities in 40 states. Many of these contracts, as is typical in the industry, have a relatively short duration and/or can be terminated by either party for any reason upon 30 to 60 days written notice. We also have significant customer concentrations with facilities operated by Ceres and Kindred. For the year ended December 31, 2006, sales to facilities owned or leased by Ceres constituted approximately 10% of our pro forma revenues and sales to facilities owned or leased by Kindred constituted approximately 13% of our pro forma revenues, which includes revenues generated from all payor sources for residents in these facilities.

Suppliers/Inventory

We purchase primarily bulk quantities of prescription and non-prescription pharmaceuticals, principally from a subsidiary of AmerisourceBergen under the terms of the prime vendor agreement. See Additional Agreements with AmerisourceBergen and Kindred Prime Vendor Agreement, for a description of the prime vendor agreement.

We also obtain pharmaceutical and other products from contracts negotiated directly with pharmaceutical manufacturers. We also are a member of industry buying groups, which contract with pharmaceutical manufacturers for discounted prices. While the loss of a supplier could adversely affect our business if alternate sources of supply are generally unavailable, numerous sources of supply are available to us and we have not experienced any difficulty in obtaining pharmaceuticals or other products and supplies used in the conduct of our business. We believe that our relationships with our suppliers are generally good.

We seek to maintain on-site inventories of pharmaceuticals and supplies to ensure prompt delivery to our customers. AmerisourceBergen, our primary wholesale distributor, maintains local warehousing facilities in most major geographic markets in which we operate.

Information Technology

Computerized medical records and documentation are critical to our distribution system. We utilize a proprietary information technology infrastructure that automates order entry of medications, dispensing of medications, invoicing and payment processing. These systems provide medical records, consulting drug review, electronic medication management and regulatory compliance information to help ensure patient safety. These systems provide eligibility authorization and reimbursement payments to participating pharmacies. They also provide order taking, shipment and collection of service fees for medications and specialty services as well as billing and reimbursement for other services rendered.

Based upon our electronic records, we are able to provide reports to our customers and management on patient care and quality assurance. These reports help to improve efficiency in patient care, reduce drug waste and lower adverse drug reactions. We expect to continue to invest in technologies that help improve data integrity, critical information access and system availability.

Under the terms of the information services agreement, Kindred will be our exclusive provider of information services and support related to information technology infrastructure and financial systems for a period of five years following the closing date. The services provided by Kindred will include business services necessary to operate, manage and support certain financial applications we use, including enabling and/or supporting technology infrastructure and technology procurement services to support our business functions and our proprietary information technology infrastructure. Such services will include, among other matters, functions for financial management and systems and payroll. We will support internally all other operating systems, including functions for order entry, pharmacy dispensing, clinical consulting, billing and collections, electronic medication management, sales and marketing, medical records management, human resources, internal and external customer call center support and general business systems.

Over time, we may support new information services requirements by engaging Kindred, a third party unrelated to Kindred or by performing the services on our own behalf.

Selected Operating Data

The following table sets forth certain pro forma operating and financial data of NewCo:

	Pro forma	
	As of and for the three months ended March 31, 2007	Fiscal year ended December 31, 2006
	(unaudited)	
(dollars in thousands)		
Revenues	$ 487,106	$ 1,852,577
Operating income	$ 8,501	$ 45,969
Assets at end of period	$ 776,838	
Institutional pharmacies in operation at end of period	121	
Number of customer licensed beds at end of period	310,552	

Sources of Pharmacy Revenues

We receive payment for our services from third party payors, including government reimbursement programs such as Medicare and Medicaid, and non-government sources such as commercial insurance companies, health maintenance organizations, preferred provider organizations and contracted providers. The sources and amounts of our revenues will be determined by a number of factors, including the mix of our customers patients and the rates of reimbursement among payors. Changes in our customers census and the case mix of the patients as well as the payor mix among private pay, Medicare and Medicaid, will affect our profitability.

In December 2003, Congress enacted Medicare Part D which includes a major expansion of the Medicare program through the introduction of a prescription drug benefit. Under Medicare Part D, dual eligibles now have their outpatient prescription drug costs covered by Medicare Part D, subject to certain limitations. Since January 1, 2006, most of the nursing center residents we serve whose drug costs were previously covered by state Medicaid programs are dual eligibles who qualify for Medicare Part D. Accordingly, Medicaid is no longer a primary payor for the pharmacy services provided to these residents. See Government Regulation Overview of Reimbursement.

The following table sets forth the approximate percentages of PharMerica LTC s and KPS s revenues derived from the payor sources indicated:

PharMerica LTC Period	Medicare	Medicaid	Private and other
Six months ended March 31, 2007	67%	10%	23%
Year ended September 30, 2006	54	22	24
Year ended September 30, 2005	19	54	27
Year ended September 30, 2004	19	54	27

KPS Period	Medicare	Medicaid	Private and other
Three months ended March 31, 2007	59%	8%	33%
Year ended December 31, 2006	57	9	34
Year ended December 31, 2005	16	45	39
Year ended December 31, 2004	21	50	29

The healthcare industry is experiencing the effects of cost containment efforts by federal and state governments and other third party payors to control utilization of pharmaceuticals and negotiate reduced payment schedules with providers. These cost containment measures, combined with increased pricing pressure from managed care payors and other customers, generally have resulted in reduced rates of reimbursement for the products and services we provide.

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Supplier and Manufacturer Rebates

We currently receive rebates from certain manufacturers of pharmaceutical products for achieving targets of market share and/or purchase volumes. Rebates are designed to prefer, protect, or maintain a manufacturer s products that are dispensed by the pharmacy under its formulary. Rebates for brand name products are generally based upon achieving a defined market share tier within a therapeutic class. Rebates for generic products are more likely to be based on achieving volume requirements.

For more information regarding the reimbursement for our pharmacy services, see Government Regulation Overview of Reimbursement.

Competition

We face a highly competitive environment in the institutional pharmacy market. In each geographic market, there are national, regional and local institutional pharmacies and numerous local retail pharmacies, which provide services comparable to those offered by our pharmacies and which may have greater financial and other resources than we do and may be more established in the markets they serve than we are. On a nationwide basis, Omnicare, Inc. is our largest competitor. Omnicare, Inc. is significantly larger than we are, with approximately $6.5 billion in net sales for the year ended December 31, 2006 based upon its annual report on Form 10-K for the same period. Based upon unaudited pro forma fiscal 2006 revenues of our combined businesses, we had approximately $1.8 billion in annual institutional pharmacy revenues. We also compete against regional and local pharmacies that specialize in long-term care, and these markets are highly fragmented.

We believe that the competitive factors most important to our business are pricing, quality and the range of services offered, clinical expertise, ease of doing business with the provider and the ability to develop and maintain relationships with customers. Because relatively few barriers to entry exist in the local markets we serve, we may encounter substantial competition from local market entrants.

Patents, Trademarks and Licenses

We use a number of trademarks and service marks. All of the principal trademarks and service marks used in the course of our business have been registered in the United States or are the subject of pending applications for registration.

We have acquired from our former parent companies various proprietary products, processes, software and other intellectual property that are used either to facilitate the conduct of our business or that are made available as products or services to customers. We generally seek to protect such intellectual property through a combination of trade secret, patent and copyright laws and through confidentiality and other contractually imposed protections.

We have patent applications pending that relate to certain of our products, particularly our automated pharmacy dispensing equipment and our medication and supply dispensing equipment. We will seek patent protection for our proprietary intellectual property from time to time as appropriate.

Although we believe that our patents or other proprietary products and processes do not infringe upon the intellectual property rights of any third parties, third parties may assert infringement claims against us from time to time.

Corporate Integrity Agreement

On March 29, 2005, PharMerica LTC and the OIG entered into the CIA to promote compliance with the requirements of the federal healthcare programs. Under the CIA, PharMerica LTC agreed to continue its comprehensive compliance program, which includes a corporate compliance officer, a corporate compliance committee, a Code of Ethics and Business Conduct, written policies and procedures, educational and training

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initiatives, review and disciplinary procedures, a confidential disclosure program, an ineligible persons screening program and internal audit and review procedures, all designed to promote compliance with applicable laws, including federal healthcare program requirements, and the promotion of ethical business practices. PharMerica LTC is also subject to extensive reporting requirements under the CIA, including annual reports describing PharMerica LTC s compliance activities, notices of any government investigations or legal proceedings, overpayments received from federal healthcare programs and changes in pharmacy locations and new business units. The term of the CIA is five years and it ends on March 29, 2010. PharMerica LTC is required to comply fully and timely with all of the CIA requirements. Failure to do so may lead to the imposition of stipulated penalties, including substantial monetary penalties and exclusion from participation in federal healthcare programs, including Medicare and Medicaid. Any such penalties could have a material adverse effect on our financial position, results of operations and liquidity.

After completion of the transaction, the CIA will continue to apply to PharMerica LTC through its original term. Pursuant to an agreement reached with the OIG regarding the transaction s impact on the CIA, the CIA s requirements will not apply to KPS or any of the KPS employees or contractors. However, among other obligations, NewCo employees and contractors that are involved with PharMerica LTC s operations will be subject to training requirements in accordance with the CIA s existing terms (with a deadline for satisfying initial training requirements of 90 days after the closing). In addition, pursuant to the agreement reached with the OIG, oversight of, and day-to-day responsibility for, the CIA after closing will be undertaken by the NewCo compliance officer and NewCo compliance committee (an ad hoc committee comprised of members of NewCo s senior management).

Employees

Following the transaction, we will have approximately 5,500 employees (including approximately part-time employees). None of our employees are covered by collective bargaining agreements. We believe that our relationship with our employees is good.

Properties

The combined companies operated more than 120 institutional pharmacies in 40 states. Our pharmacies serve approximately 310,000 patients and residents of long-term care facilities with about half of those patients and residents located in California, Florida, Massachusetts, Pennsylvania and Texas. We lease all of our pharmacy locations. Our leased space ranges in size from approximately 165 square feet to 71,054 square feet and constitute approximately 1,256,305 square feet in the aggregate. The leases generally expire between April 2007 and July 2012. Our combined businesses should enable us to pursue synergy opportunities by consolidating pharmacy locations. We lease 53,000 square feet of office space in Louisville, Kentucky for our corporate headquarters.

Government Regulation

General

Extensive federal, state and local regulations govern institutional pharmacies and the healthcare facilities that they serve. These regulations cover licenses, staffing qualifications, conduct of operations, reimbursement, recordkeeping and documentation requirements and the confidentiality and security of health-related information. Our institutional pharmacies are also subject to federal and state laws that regulate financial arrangements between healthcare providers, including the federal anti-kickback statutes and the federal physician self-referral statutes.

Licensure, Certification and Regulation

States generally require that the state board of pharmacy license a pharmacy operating within the state. Many states also regulate out-of-state pharmacies that deliver prescription products to patients or residents in their states. We have the necessary pharmacy state licenses, or pending applications, for each pharmacy we

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operate. Our pharmacies are also registered with the appropriate federal and state authorities pursuant to statutes governing the regulation of controlled substances. In addition, pharmacists, nurses and other healthcare professionals who provide services on our behalf are in most cases required to obtain and maintain professional licenses and are subject to state regulation regarding professional standards of conduct.

The DEA, the U.S. Food and Drug Administration, or the FDA, and various state regulatory authorities regulate the distribution of pharmaceutical products and controlled substances. These laws impose a host of requirements on the pharmaceutical supply channel, including on providers of institutional pharmacy services. Under the Comprehensive Drug Abuse Prevention and Control Act of 1970, as a dispenser of controlled substances, we must register with the DEA, file reports of inventories and transactions and provide adequate security measures. In addition, we are required to comply with all the relevant requirements of the Prescription Drug Marketing Act for the transfer and shipment of pharmaceuticals. The FDA, DEA and state regulatory authorities have broad enforcement powers, including the ability to seize or recall products and impose significant criminal, civil and administrative sanctions for violations of these laws and regulations. We have received all necessary regulatory approvals and believe that our repackaging operations are in substantial compliance with applicable federal and state good manufacturing practice requirements.

Laws Affecting Referrals and Business Practices

We are subject to federal and state laws that govern financial and other arrangements between healthcare providers. These laws prohibit certain direct and indirect payments or fee-splitting arrangements between healthcare providers that are designed to induce or encourage the referral of patients to, or the recommendation of, a particular provider for medical products and services. These laws include:

- the federal anti-kickback statute, which prohibits, among other things, knowingly or willfully soliciting, receiving, offering or paying remuneration including any kickback, bribe or rebate directly or indirectly in return for or to induce the referral of an individual to a person for the furnishing or arranging for the furnishing of any item or service for which payment may be made in whole or in part under Medicare, Medicaid or other federal healthcare programs; and

- the federal Stark laws which prohibit, with limited exceptions, the referral of patients by physicians for certain designated health services, to an entity with which the physician has a financial relationship.

These laws impact the relationships that we may have with potential referral sources. We have a variety of relationships with potential referral sources, including hospitals and skilled nursing facilities with which we have contracted to provide pharmacy services. Those referral sources include hospitals and other facilities operated by Kindred. With respect to the anti-kickback statute, the OIG has enacted safe harbor regulations that outline practices that are deemed protected from prosecution. While we endeavor to comply with the applicable safe harbors, certain of our current arrangements, none of which is material to us, may not qualify for safe harbor protection. Failure to meet a safe harbor does not mean that the arrangement necessarily violates the anti-kickback statute, but may subject the arrangement to greater scrutiny. We cannot assure you that our practices that are outside of a safe harbor will not be found to violate the anti-kickback statute.

As one means of providing guidance to healthcare providers, the OIG issues Special Fraud Alerts. These alerts do not have the force of law, but identify features of arrangements or transactions that may indicate that the arrangements or transactions violate the anti-kickback statute or other federal health care laws. The OIG has identified several arrangements, which, if accompanied by inappropriate intent, constitute suspect practices, including: (a) the use of free or significantly discounted office space or equipment in facilities, (b) provision of free or significantly discounted billing, nursing or other staff services, (c) free training in areas such as management techniques and laboratory techniques, (d) purchasing goods or services from potential referral sources at prices in excess of their fair market value and (e) rental of space from potential referral sources at other than fair market value terms. The OIG has encouraged persons having information about entities that offer the above types of incentives to report such information to the OIG.

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The OIG also issues Special Advisory Bulletins as a means of providing guidance to healthcare providers. These bulletins, along with the Special Fraud Alerts, have focused on certain arrangements that could be subject to heightened scrutiny by government enforcement authorities, including contractual joint venture arrangements and other joint venture arrangements between those in a position to refer business and those providing items or services for which Medicare or Medicaid pays.

In addition to issuing Special Fraud Alerts and Special Advisory Bulletins, the OIG from time to time issues compliance program guidance for certain types of healthcare providers. These guidance documents contain voluntary actions for providers to consider to promote compliance with Medicare, Medicaid and other federal healthcare programs. Although the OIG has not issued compliance guidance for long-term care pharmacies, the OIG has issued compliance guidance for hospitals, nursing facilities and suppliers of durable medical equipment, which may be instructive. These guidance documents advise entities to adopt policies and procedures to address the risks arising from, among other things: (a) arrangements with vendors that result in the facility receiving non-covered items at below market prices or at no charge, provided the facility orders Medicare-reimbursed products, (b) soliciting or receiving items of value in exchange for providing the supplier access to patients medical records and other information needed to bill Medicare, (c) joint ventures with entities supplying goods or services and (d) discounts and other financial incentives given to potential referral sources.

Many states have enacted similar statutes which are not necessarily limited to items or services for which payment is made by federal healthcare programs. Violations of these laws may result in fines, imprisonment, denial of payment for services and exclusion from the Medicare and Medicaid programs and other state-funded programs.

Other provisions in the Social Security Act and in other federal and state laws authorize the imposition of penalties, including criminal and civil fines and exclusions from participation in Medicare, Medicaid and other federal healthcare programs for false claims, improper billing and other offenses. These laws include the federal False Claims Act, under which private parties have the right to bring qui tam whistleblower lawsuits against companies that submit false claims for payments to the government. Some states have adopted similar state whistleblower and false claims provisions.

In addition, a number of states have undertaken enforcement actions against pharmaceutical manufacturers involving pharmaceutical marketing programs, including programs containing incentives to pharmacists to dispense one particular product rather than another. These enforcement actions arose under state consumer protection laws which generally prohibit false advertising, deceptive trade practices and the like.

In the ordinary course of business, we are subject regularly to inquiries, investigations and audits by federal and state agencies that oversee applicable healthcare program participation and payment regulations. We believe that the regulatory environment surrounding most segments of the healthcare industry remains intense. Federal and state governments continue to impose intensive enforcement policies resulting in a significant number of inspections, citations for regulatory deficiencies and other regulatory sanctions including demands for refund of overpayments, terminations from the Medicare and Medicaid programs, bars on Medicare and Medicaid payments and fines. To date, we have not experienced any demands for refund of overpayments, terminations from the Medicare and Medicaid programs, bars on Medicare and Medicaid payments or fines that are material to us. However, such sanctions could have a material adverse effect on our financial position, results of operation and liquidity. We vigorously contest such sanctions where appropriate; however, these cases can involve significant legal expense and consume our resources.

We believe our contract arrangements with other healthcare providers, our pharmaceutical suppliers and our pharmacy practices are in substantial compliance with applicable federal and state laws. These laws may, however, be interpreted in the future in a manner inconsistent with our interpretation and application.

State Laws Affecting Access to Services

Some states have enacted freedom of choice or any willing provider requirements as part of their state Medicaid programs or in separate legislation. These laws may preclude a nursing center from requiring their patients and residents to purchase pharmacy or other ancillary medical services or supplies from particular providers that deal with the nursing center. Limitations such as these may increase the competition which we face in providing services to nursing center residents.

HIPAA

The federal Health Insurance Portability and Accountability Act of 1996, commonly known as HIPAA, mandates the adoption of regulations aimed at standardizing transaction formats and billing codes for documenting medical services, dealing with claims submissions and protecting the privacy and security of individually identifiable health information. HIPAA regulations that standardize transactions and code sets require standard formatting for healthcare providers, like us, that submit claims electronically.

The HIPAA privacy regulations apply to protected health information, which is defined generally as individually identifiable health information transmitted or maintained in any form or medium, excluding certain education records and student medical records. The privacy regulations seek to limit the use and disclosure of most paper and oral communications, as well as those in electronic form, regarding an individual s past, present or future physical or mental health or condition, or relating to the provision of healthcare to the individual or payment for that healthcare, if the individual can or may be identified by such information. HIPAA provides for the imposition of civil or criminal penalties if protected health information is improperly disclosed.

HIPAA s security regulations require us to ensure the confidentiality, integrity and availability of all electronic protected health information that we create, receive, maintain or transmit. We must protect against reasonably anticipated threats or hazards to the security of such information and the unauthorized use or disclosure of such information.

The HIPAA unique health identifier standards require us to obtain a national provider identifier (NPI), the standard unique health identifier for the healthcare providers to use in filing and processing healthcare claims and other transactions, and to begin using this identifier by May 23, 2007, although certain entities with Medicare supplier numbers, including NewCo, are currently required to obtain and use the NPI on enrollment and reenrollment applications. We have established processes to address issues associated with the NPI and to bring us into compliance as required. Many systems will require vendor intervention to accomplish these changes. We cannot be certain that certain vendors will meet the imposed deadline. Failure to meet the deadline could result in delayed reimbursement.

In addition to HIPAA, we are subject to state privacy laws and other state privacy or health information requirements not preempted by HIPAA, including those which may furnish greater privacy protection for individuals than HIPAA.

The scope of our operations involving health information is broad and the nature of those operations is complex. Although we believe that our contract arrangements with healthcare payors and providers and our business practices are in material compliance with applicable federal and state electronic transmissions, privacy and security of health information laws, the requirements of these laws, including HIPAA, are complicated and are subject to interpretation. In addition, state regulation of matters also covered by HIPAA, especially the privacy standards, is increasing, and determining which state laws are preempted by HIPAA is a matter of interpretation. Failure to comply with HIPAA or similar state laws could subject us to loss of customers, denial of the right to conduct business, civil damages, fines, criminal penalties and other enforcement actions.

Overview of Reimbursement

Medicare is a federal program that provides certain hospital and medical insurance benefits to persons age 65 and over and to certain disabled persons. Medicaid is a medical assistance program administered by each state that provides healthcare benefits to certain indigent patients. Within the Medicare and Medicaid statutory framework, there are substantial areas subject to administrative rulings, interpretations and discretion that may affect payments made under Medicare and Medicaid.

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We receive payment for our services from third party payors, including government reimbursement programs such as Medicare and Medicaid, and non-government sources such as commercial insurance companies, health maintenance organizations, preferred provider organizations and contracted providers. Historically, our former parent companies have derived a substantial portion of their annual revenues from state Medicaid programs and from skilled nursing facilities for residents covered by Medicare Part A. The balance consisted of private pay, insurance and other payors (including managed care).

The Medicare program historically consisted of three parts: (1) Medicare Part A, which covers, among other things, in-patient hospital, skilled nursing facilities, home healthcare and certain other types of healthcare services; (2) Medicare Part B, which covers physicians services, outpatient services and certain items and services provided by medical suppliers; and (3) a managed care option for beneficiaries who are entitled to Medicare Part A and enrolled in Medicare Part B, known as Medicare Part C. Under Medicare Part B, we are entitled to payment for products that replace a bodily function, home medical equipment and supplies and a limited number of specifically designated prescription drugs.

In December 2003, Congress enacted a major expansion of the Medicare program with the addition of a prescription drug benefit under the new Medicare Part D. Medicare Part D provides coverage for prescription drugs that are not otherwise covered under Medicare Part A or Part B for those beneficiaries that enroll.

Medicare Part A provides reimbursement for extended care services to patients in skilled nursing facilities. The Balanced Budget Act of 1997 established a prospective payment system, or PPS, for Medicare patients in skilled nursing facilities. Under PPS, Medicare pays a federal daily rate for virtually all covered skilled nursing facility services and certain covered pharmaceuticals. Under PPS, our skilled nursing facility customers are not able to pass through to Medicare their costs for certain products and services provided by us. Instead, Medicare provides such customers a federal daily rate to cover the costs of all covered goods and services provided to Medicare patients, which may include certain pharmaceutical and other goods and services provided by us. Because Medicare reimbursement is limited by PPS, nursing center customers have an increased incentive to negotiate with us to minimize the costs of providing goods and services to patients covered under Medicare Part A. We bill skilled nursing facilities based upon a negotiated fee schedule.

Recent federal legislation continues to focus on reducing Medicare and Medicaid program expenditures. The Deficit Reduction Act of 2005, or DRA, is intended to reduce net Medicare and Medicaid spending by approximately $11 billion over the next four to five years. Among other things, the DRA will reduce certain bad debt payments to Medicare skilled nursing facilities and strengthen asset transfer restrictions for people seeking to qualify for Medicaid long-term care coverage. Further, the Tax Relief and Health Care Act of 2006 modified several Medicaid policies, including, among other things, reducing the limit on Medicaid provider taxes from the current six percent to five-and-a-half percent from January 1, 2008 through September 30, 2010. In addition, on February 5, 2007, President Bush issued the federal fiscal year 2008 proposed budget which would, if enacted, provide no update to Medicare payment rates for skilled nursing facilities in 2008 and a negative 0.65 percent adjustment to the rates annually thereafter. The budget also would move toward site-neutral post-hospital payments to limit inappropriate incentives for five conditions commonly treated in both skilled nursing facilities and inpatient rehabilitation facilities. The budget proposal also would eliminate all bad debt reimbursements for unpaid beneficiary cost-sharing over four years. In addition, the budget proposal includes a series of proposals impacting Medicaid, including legislative and administrative changes, that would reduce Medicaid payments by almost $26 billion over five years. While many of the proposed policy changes would require congressional approval to implement, the loss of revenues to skilled nursing facilities could, in the future, have an adverse effect on the financial condition of our skilled nursing facility customers which could, in turn, adversely affect the timing or level of their payments to us.

On January 1, 2006, the Medicare Part D prescription drug benefit went into effect. Under Medicare Part D, Medicare covers most outpatient drug expenses for dual eligibles. Most of the nursing center residents our pharmacies serve are dual eligibles whose drug costs were previously covered by state Medicaid programs and

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who now qualify for the new Medicare drug benefit. Accordingly, since January 1, 2006, Medicaid is no longer a primary payor for the pharmacy services provided to these residents. Medicare beneficiaries who choose to participate in Medicare Part D select from a range of Part D Plans. Medicare beneficiaries generally have to pay a premium to enroll in a Part D Plan, with the premium amount varying from plan to plan. CMS provides various federal subsidies to Part D Plans to reduce the cost to qualifying beneficiaries.

Part D Plans are required to make available certain drugs on their formularies. Dually-eligible residents in nursing centers generally are entitled to have their prescription drug costs covered by a Part D Plan, provided that the prescription drugs which they are taking are either on the Part D Plan s formulary or an exception to the Plan s formulary is granted. CMS reviews the formularies of Part D Plans and requires these formularies to include the types of drugs most commonly used by Medicare beneficiaries. CMS also reviews the formulary exceptions criteria of the Part D Plans that provide for coverage of drugs determined by the Part D Plan to be medically appropriate for the enrollee.

We obtain reimbursement for drugs we provide to enrollees of the given Part D Plan in accordance with the terms of agreements negotiated between us and the Part D Plan. Accordingly, Medicare Part D could negatively impact the pricing of our services. Moreover, Medicare Part D may continue to result in reimbursement delays and increased administrative costs as we attempt to properly bill and collect patients payments from various Part D Plans.

We receive rebates from pharmaceutical manufacturers for undertaking certain activities that the manufacturers believe may increase the likelihood that we will dispense their products. CMS continues to question whether institutional pharmacies should be permitted to receive these access/performance rebates from manufacturers with respect to prescriptions covered under Medicare Part D, but has not prohibited the receipt of such rebates. CMS defines these as rebates a manufacturer provides to long-term care pharmacies that are designed to prefer, protect or maintain that manufacturer s product selection by the long-term care pharmacy or to increase the volume of that manufacturer s products that are dispensed by the pharmacy under its formulary. CMS has indicated that for 2007 it is requiring Plan Sponsors to have policies and systems in place as part of their drug utilization management programs to protect beneficiaries and reduce costs when long-term care pharmacies receive incentives to move market share through access/performance rebates. In recent guidance issued to Plan Sponsors, effective for 2007, CMS instructs Plan Sponsors to obtain full disclosure from long-term care pharmacies of all discounts, rebates or other remuneration that such pharmacies receive from manufacturers and has issued guidelines on the information required. CMS has also issued draft reporting requirements for 2008 which would, among other things, require disclosure of non-rebate discounts and price concessions provided to long-term care pharmacies. CMS is accepting comments on this draft until April 16, 2007. The impact of these reporting requirements, and/or the elimination or reduction of manufacturer rebates, if not offset by other reimbursement, could have an adverse effect on our business.

Medicare Part D does not alter federal reimbursement for residents of nursing centers whose stay at the nursing center is covered under Medicare Part A. Accordingly, Medicare s fixed per diem payments to nursing centers under PPS will continue to include a portion attributable to the expected cost of drugs provided to such residents. We will therefore continue to receive reimbursement for drugs provided to such residents from the nursing center in accordance with the terms of our agreements with each nursing center.

The reimbursement rate for pharmacy services under Medicaid are determined on a state-by-state basis subject to review by CMS and applicable federal law. Although Medicaid programs vary from state to state, they generally provide for the payment of certain pharmacy services, up to established limits, at rates determined in accordance with each state s regulations. The federal Medicaid statute specifies a variety of requirements that a state plan must meet, including the requirements related to eligibility, coverage for services, payment and admissions. For residents that are eligible for Medicaid only, and are not dual eligibles covered under Medicare Part D, we bill the individual state Medicaid program or in certain circumstances the state s designated managed care or other similar organization. Federal regulations and the regulations of certain states establish upper

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limits for reimbursement of certain prescription drugs under Medicaid. In most states, pharmacy services are priced at the lower of usual and customary charges or cost, which generally is defined as a function of average wholesale price and may include a profit percentage plus a dispensing fee. Most states establish a fixed dispensing fee per prescription that is adjusted to reflect associated cost. Over the last several years, state Medicaid programs have lowered reimbursement through a variety of mechanisms, principally reductions in the discount to average wholesale price levels, expansion of the number of medications subject to federal upper limit pricing and general reductions in contract payment methodology to pharmacies.

Further, effective January 1, 2007, the DRA changed the federal upper limit from 150 percent of the lowest published price for a drug (which is usually the average wholesale price) to 250 percent of the lowest average manufacturer price, or AMP. In addition, on December 22, 2006, CMS issued a proposed rule to establish a new calculation for AMP. The DRA requires a final Medicaid drug payment rule by July 1, 2007. Moreover, the proposed fiscal year 2008 budget would further reduce the federal upper limit reimbursement for multiple source drugs to 150 percent of the AMP of the lowest priced drug in the group, and allow states to use private sector formulary management techniques to leverage greater discounts through negotiations with drug manufacturers. There can be no assurance that these changes under the DRA or future legislation will not have an adverse impact on our business.

Average wholesale price, or AWP, is a pricing benchmark published by First DataBank, Inc., which provides drug databases, content integration software and drug reference products. AWP is widely used to calculate a portion of the Medicaid and Medicare Part D drug reimbursements payable to pharmacy providers. In 2005, several pension funds brought an action against First DataBank and another healthcare provider alleging collusion to set AWPs for branded drugs. In October 2006, First DataBank agreed to a proposed settlement that would require it to stop publishing AWP two years after the settlement becomes effective unless a competitor is publishing AWP at that time. First DataBank would also be required to change the way it calculates AWP during the two-year interim period. The proposed settlement is subject to several contingencies and has not yet received final approval by the court. We continue to evaluate the potential impact that the settlement could have on our business. If the settlement is finalized, it could have an adverse impact on our business and results of operations.

The healthcare industry is experiencing the effects of cost containment efforts by federal and state governments and other third party payors to control utilization of pharmaceuticals and negotiate reduced payment schedules with providers. These cost containment measures, combined with increased pricing pressure from managed care payors and other customers, generally have resulted in reduced rates of reimbursement for the products and services we provide. The sources and amounts of our revenues are determined by a number of factors, including our customers census, the case mix of our customers residents and the rates of reimbursement among payors. Changes in the number of the residents as well as the payor mix among private pay, Medicare and Medicaid may affect our profitability.

As a result of political, economic and regulatory influences, the healthcare delivery industry in the United States is under intense scrutiny and subject to fundamental changes. We cannot predict which reform proposals will be adopted, when they may be adopted, or what impact they may have on us.

The costs associated with complying with federal and state regulations could be significant and the failure to comply with any such legal requirements could have a material adverse effect on our financial condition, results of operations and liquidity.

Legal Proceedings

From time to time, we are involved in legal and regulatory proceedings. While it is not possible to determine the ultimate disposition of these various proceedings and whether they will be resolved in our favor, we do not believe that the outcome of these proceedings, individually or in the aggregate, will have a material adverse effect on our financial condition, results of operations or liquidity.

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Available Information

Our Internet website address is www.pharmerica.com. Please note that the information contained on our website is not incorporated by reference into this preliminary prospectus or the registration statement of which this preliminary prospectus is a part. We will make available free of charge our future SEC filings through our Internet website as soon as reasonably practicable after we electronically file them with the SEC. You will be able to access our future SEC filings on our website.

We will also make available on our website the charters of our Audit Committee, our Compensation Committee, and our Nominating and Corporate Governance Committee as well as the corporate governance principles adopted by our board of directors and our Code of Business Conduct for employees and directors. We will also provide these documents, without charge, at the written request of any stockholder of record. Requests for copies should be mailed to the name and address listed under the heading Where You Can Find More Information.

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MANAGEMENT

Executive Officers and Directors

The following table sets forth information as of March 1, 2007 regarding individuals who are expected to serve as our directors and executive officers following the transaction, including their anticipated positions with our company following the transaction.

Name	Age	Position
Gregory S. Weishar	52	Director and Chief Executive Officer
Paul J. Diaz	45	Director
Edward L. Kuntz	60	Director
R. David Yost	59	Director
Michael J. Culotta	52	Chief Financial Officer
Mark A. McCullough	45	Executive Vice President and Chief Operating Officer
Janice D. Rutkowski	58	Senior Vice President and Chief Clinical Officer
Richard Toole	46	Senior Vice President and Chief Information Officer
Anthony Hernandez	41	Senior Vice President of Human Resources

Biographies

Gregory S. Weishar has served as a director and our Chief Executive Officer since February 5, 2007. Mr. Weishar has over 20 years experience in the pharmacy services industry. From 1994 until January 2007, he was Chief Executive Officer and President of PharmaCare Management Services, the industry leading pharmacy benefit management and specialty pharmacy subsidiary of CVS Corporation. Mr. Weishar founded PharmaCare in 1994 and developed it into an industry leading company with over $7 billion in sales. PharmaCare is not, and has never been, an affiliate of Kindred, KPS, AmerisourceBergen, PharMerica LTC or NewCo. Prior to PharmaCare, Mr. Weishar was Executive Vice President Sales and Marketing with Diagnostek Inc. from 1992 until 1994. He held various senior management positions at PCS Inc. from 1988 until 1992. Prior to PCS Inc. Mr. Weishar was a founder and Vice-President of Argus Health Systems Inc., from 1984 until 1988. Mr. Weishar graduated from Northwest Missouri State University with a degree in Economics & Biology and a Master s degree in Economics from the University of Missouri Kansas City.

Paul J. Diaz has served as one of Kindred s directors since May 2002, as its Chief Executive Officer since January 1, 2004 and as its President since January 2002. Mr. Diaz served as Kindred s Chief Operating Officer from January 2002 to December 31, 2003. Prior to joining Kindred, he served as the managing member of Falcon Capital Partners, LLC, a private investment and consulting firm specializing in healthcare restructurings, and as Chairman and Chief Executive Officer of Capella Senior Living, LLC, a start-up venture to provide long-term healthcare services.

Edward L. Kuntz has been Kindred s Executive Chairman of the Board since January 2004. Mr. Kuntz served as Kindred s Chairman of the Board and Chief Executive Officer from January 1999 to December 31, 2003. He was also Kindred s President from November 1998 to January 2002 and Chief Operating Officer and a director from November 1998 to January 1999. Mr. Kuntz is a director of Rotech Healthcare, Inc., a provider of home medical equipment and related products and services.

R. David Yost has served as a director and Chief Executive Officer of AmerisourceBergen since August 2001. From August 2001 to October 2002, Mr. Yost served as President of AmerisourceBergen. Mr. Yost was Chairman and Chief Executive Officer of AmeriSource Health Corporation from December 2000 to August 2001 and its President and Chief Executive Officer from May 1997 to December 2000. Mr. Yost also held a variety of other positions with AmeriSourceHealth Corporation and its predecessors since 1974, including Executive Vice President Operations of AmeriSourceHealth Corporation from 1995 to 1997. Mr. Yost is also a director of Electronic Data Systems Corporation.

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Michael J. Culotta will serve as our Chief Financial Officer effective as of the closing of the transaction. Prior to joining our company, Mr. Culotta served as Chief Financial Officer of LifePoint Hospitals, Inc. from November 2001 until April 2007. Prior to joining LifePoint, Mr. Culotta served as a partner and healthcare area industry leader for the southeast area at Ernst & Young LLP. Mr. Culotta was affiliated with Ernst & Young LLP for over 24 years. Mr. Culotta is a director of Evolved Digital Systems, Inc., a provider of information technology services to clients in the healthcare industry, and serves as lead director and as the chair of its audit committee.

Mark A. McCullough will serve as our Executive Vice President and Chief Operating Officer effective as of the closing of the transaction. Prior to joining our company, Mr. McCullough, a certified public accountant, served as the President of the Pharmacy Division of Kindred since February 2003. Prior to that, Mr. McCullough served as Vice President of Pharmacy from March 2001 to February 2003 and as Vice President of Finance from April 2000 to March 2001, for Kindred s pharmacy operations.

Janice D. Rutkowski will serve as our Senior Vice President and Chief Clinical Officer effective as of the closing of the transaction. Prior to joining our company, Ms. Rutkowski served as the Senior Vice President of Clinical Services and Program Development for PharMerica LTC since 2002. Prior to that, Ms. Rutkowski served as the Senior Vice President of PharMerica LTC s PMSI and Clinical Services divisions and as PharMerica LTC s Senior Vice President of Procurement and Facilities Management from 1998 to 2002.

Richard Toole will serve as our Senior Vice President and Chief Information Officer effective as of the closing of the transaction. Prior to joining our company, Mr. Toole served as the Senior Vice President and Chief Information Officer for PharMerica LTC since July 2004. From January 2002 to July 2004, Mr. Toole was Vice President at Gartner Inc. In March 2001, Mr. Toole co-founded an Operations Management Hedge Fund Company and prior to that served as a Vice President for AOL Inc.

Anthony Hernandez will serve as our Senior Vice President of Human Resources effective as of the closing of the transaction. Prior to joining our 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. Prior to Citigroup, Mr. Hernandez served as procurement officer for Allied Signal Aerospace, a prime contractor for the Department of Energy.

Board Structure

Pursuant to the terms of the master transaction agreement, our board of directors will initially consist of nine directors, four of whom will be designated by AmerisourceBergen, four of whom will be designated by Kindred and one of whom will be our chief executive officer, Mr. Weishar. AmerisourceBergen intends to designate , , and R. David Yost, AmerisourceBergen s Chief Executive Officer, as its four nominees to our board of directors while Kindred intends to designate , , Edward L. Kuntz, Executive Chairman of the board of directors of Kindred, and Paul J. Diaz, Kindred s President and Chief Executive Officer, as its four nominees to our board of directors. Messrs. Yost, Kuntz and Diaz have agreed that they will serve as directors no longer than through the 2008 annual meeting of our stockholders. In addition, Messrs. Kuntz and Diaz have agreed that they would resign from our board of directors if requested by Kindred s Nominating and Corporate Governance Committee. Our board of directors will consist of one class, with all of our directors being elected each year at our annual meeting of stockholders. A director nominee who is running uncontested in an election must receive a majority of the votes cast in order to be elected; in a contested election (as defined in our bylaws), a director nominee will be elected with a plurality of the votes cast. Our directors may be removed with or without cause by a majority vote of stockholders. It is anticipated that our board of directors will meet at least quarterly.

Committees

Our board of directors has three standing committees: an Audit Committee, a Compensation Committee and a Nominating and Corporate Governance Committee. The following is a brief description of our committees.

Audit Committee

Our Audit Committee assists the board in fulfilling the oversight responsibilities the board has with respect to (i) the integrity of our financial statements, (ii) our compliance with legal and regulatory requirements; (iii) the

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qualifications and independence of our independent registered public accounting firm; and (iv) the performance of our independent registered public accounting firm and our internal audit function. The Audit Committee has direct responsibility and the sole authority for the appointment, compensation, retention, termination, replacement and oversight of our independent registered public accounting firm and our independent registered public accounting firm reports directly to the Audit Committee. The Audit Committee is also responsible for preparing an audit committee report as required by the SEC to be included in our company s annual proxy statement, and will review and approve on an on-going basis any related party transactions. The Audit Committee will adopt a policy for the review and pre-approval of all audit and non-audit services to be provided to us by our independent registered public accounting firm. The Audit Committee will establish procedures for the receipt, retention and treatment of complaints received by the Company regarding accounting and auditing matters.

Messrs. , , and are members of our Audit Committee. Mr. qualifies as an audit committee financial expert under the rules of the SEC implementing Section 407 of the Sarbanes-Oxley Act of 2002. Each of the members of our Audit Committee has been determined by our board to meet the independence, experience and financial literacy requirements of the NYSE and the federal securities laws. Our Audit Committee will not be formed until the closing of the transaction and, as result, it will not hold meetings until such time.

Compensation Committee

The purposes of our Compensation Committee are to (i) assist the board in discharging its responsibilities relating to the compensation of our Chief Executive Officer and other executive officers; (ii) administer our equity compensation plans; and (iii) produce an annual report on executive compensation for inclusion in our proxy statement in accordance with applicable rules and regulations.

Our Compensation Committee reviews, recommends and approves policies relating to compensation and benefits for our directors and employees and is responsible for approving the compensation of our chief executive officer and other executive officers. It has authority to retain any compensation consultant to be used to assist in the evaluation of the compensation for directors, the chief executive officer and other senior executives.

Our Compensation Committee also administers the compensation plans of our company. Our Compensation Committee is also responsible for reviewing and recommending for inclusion in our proxy statement the compensation discussion and analysis section required to be included in our annual proxy statement under federal securities laws. For additional information regarding the Compensation Committee s processes and procedures for the consideration and determination of executive compensation, including the anticipated role of executive officers of the Company in making recommendations to the Compensation Committee regarding executive compensation and the role of compensation consultants in assisting the Compensation Committee in its functions, please see Compensation Discussion and Analysis below.

Messrs. , and are members of our Compensation Committee. Each of them has been determined by our board to meet the independence requirements of the NYSE and the federal securities laws and qualifies as a non-employee director under SEC Rule 16b-3 and as an outside director under Section 162(m) of the Code. Our Compensation Committee will not be formed until the closing of the transaction and, as a result, it will not hold any meetings until such time.

Nominating and Corporate Governance Committee

The purpose of our Nominating and Corporate Governance Committee is to (i) identify individuals qualified to become members of the board (consistent with criteria approved by the board); (ii) select, or to 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 us; (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 our directors, officers and employees, including corporate governance issues and practices.

The Nominating and Corporate Governance Committee is also responsible for reviewing at least annually our corporate governance principles and recommending proposed changes to the board. The Nominating and Corporate Governance Committee also reports periodically to the board on succession planning.

Messrs. and are members of our Nominating and Corporate Governance Committee and each of them has been determined by our board to meet the independence requirements of the NYSE and the federal securities laws. Our Nominating and Corporate Governance Committee will not be formed until the closing of the transaction and, as result, it will not hold meetings until such time.

Compensation of Directors

We anticipate that directors will receive an annual retainer of $35,000. We also anticipate that each board member will receive $2,000 for each board meeting attended. An additional $1,500 will be paid to board committee members for attendance at board committee meetings. The audit committee chair will receive an additional $10,000 while the other committee chairs will receive $5,000. Directors who are also our employees will receive no additional compensation for serving on the board of directors. In addition, Mr. Diaz and Mr. Yost will not be compensated for their service on the board.

We anticipate that each director will also receive an annual grant of restricted shares with a value of $80,000. The restricted shares will vest upon completion of one year of service after the grant date. We expect that upon joining the board each of our directors will receive a stock option grant that will vest in three equal annual installments and that will have an initial value of $120,000. Each of the foregoing elements of director compensation is subject to the review and approval of our Compensation Committee following completion of the transaction.

As with our executive officers, any stock ownership guidelines for our directors will be established following consummation of the spin-off.

Compensation and Governance Committee Interlocks and Insider Participation

None of our executive officers serves as a member of the board of directors or compensation committee of any entity that has one or more executive officers who serve on our board of directors or Compensation Committee.

Independence of Directors

Our corporate governance principles 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 our company (either directly or as a partner, stockholder or officer of an organization that has a relationship with our company) other than as a director. The board has determined that the following directors are independent as required by the NYSE listing standards and our company s Corporate Governance Principles: .

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 our company s corporate governance principles.

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Compensation of our Named Executive Officers

We have not disclosed historical compensation information with respect to certain of our executive officers (including our principal executive officer and our principal financial officer) since these officers were hired in connection with the transaction and were not previously employed by either Kindred or AmerisourceBergen for fiscal year 2006. With respect to each of our remaining executive officers who might be considered a named executive officer and who were formerly employed by Kindred or AmerisourceBergen, we have not disclosed historical compensation information for fiscal year 2006 since we are of the view that, as a new publicly traded company formed from the combination of the KPS and PharMerica LTC divisions of Kindred and AmerisourceBergen, respectively, the disclosure of historical compensation for our executive officers would not accurately reflect the compensation programs and philosophies that we intend to implement. We have adopted and will continue to develop our own compensation programs and anticipate that each of our executive officers who we anticipate will be a named executive officer for fiscal year 2007, including our chief executive officer, chief financial officer and the next three highest compensated officers (whom we collectively refer to for purposes of this discussion as our named executive officers), will be covered by these programs following the consummation of the transaction. We expect, based on the current structure of our executive compensation programs and estimates of total compensation for fiscal year 2007, that, in addition to our chief executive officer and our chief financial officer, our chief operating officer, Mr. McCullough is expected to be one of the next three highest compensated executive officers. In addition, we expect, based on current compensation estimates, that the remaining two next highest compensated executive officers will be the individuals serving as our Senior Vice President and General Counsel and Senior Vice President, Marketing. We are currently in the process of interviewing candidates for these positions and expect to have them filled by the consummation of the transaction. The disclosure relating to our executive compensation program is generally focused on the expected fiscal year 2007 compensation of our named executive officers. These expectations are subject to change as our executive compensation program is finalized and total compensation for each of our executive officers for fiscal year 2007 is determined at 2007 fiscal year end. A more detailed description of our compensation programs can be found below under the heading Compensation Discussion and Analysis. In addition, for a description of our employment agreements with our named executive officers, see Management Description of Employment Contracts.

Compensation Discussion and Analysis

Introduction

The following is a discussion of the executive compensation program that we expect to put in place following the consummation of the transaction and is based on the preliminary determinations of the transition planning committee in conjunction with our chief executive officer. The transition planning committee was formed by AmerisourceBergen and Kindred and consists of three AmerisourceBergen representatives and three Kindred representatives. AmerisourceBergen and Kindred have agreed that the transition planning committee will be responsible for all aspects of our transition planning until consummation of the transaction, including with respect to the initial stages of the development of our executive compensation program. Though certain aspects of the program are set to be implemented upon consummation of the transaction, the program as a whole will not be finalized until we complete the recruitment of our executive management team. The executive compensation program, as described below, is subject to the review and subsequent approval of the Compensation Committee.

Executive Compensation Program Objectives

Our executive compensation program is designed to balance our overall compensation philosophy of promoting programs that are simple and flexible, but that are nonetheless sufficiently robust that they permit us to attract and retain a stable executive management team, particularly as we commence operations as a separate, new publicly traded company. Though our company is the result of the combination of the KPS and PharMerica LTC divisions of Kindred and AmerisourceBergen, respectively, we believe that our executive compensation program, and underlying philosophy will differ in many respects from those adopted by those companies, which also operate in other segments of the healthcare industry. Our executive compensation program is structured in a manner that we believe not only provides transparency to both our employees and stockholders, but that is competitive within the institutional pharmacy industry and designed to focus our executives on profitability, meeting financial expectations, achieving cost savings and providing quality services. We believe that each of these performance measures will be critical to our success.

The goals of our executive compensation program are to:

- Provide competitive and fiscally responsible compensation based upon a review of peer companies, allowing us to successfully attract and retain highly-qualified executives with the leadership skills and experience necessary for our long-term success;

- Provide incentive compensation that places a strong emphasis on financial performance with the flexibility to assess operational and individual performance; and

- Provide an appropriate link between compensation and the creation of shareholder value through awards tied to our long-term performance and share price appreciation.

Based on our overall compensation philosophy, the transition planning committee has established an executive compensation program comprised of base salary, annual cash incentive awards, long-term incentive awards, and benefits and perquisites, as the four key elements to promote these goals:

- *Base Salaries*. Appropriately remunerative base salary levels are critical in allowing us to attract and retain senior management employees to manage our transition as a separate publicly traded company and to manage our operations with a view toward our long-term success.

- *Annual Cash Incentive Awards*. The aim of this component of the compensation program is to reward corporate, group and individual performance against pre-established goals.

- *Long-Term Incentive Awards*. For fiscal year 2007, the long-term component of our executive compensation program will consist of a founders grant, discussed in more detail below, to be granted upon consummation of the transactions to each of our named executive officers. The value of the founders grant is generally expected to be within 2x-3x market median levels for long-term incentive compensation. The award value will be granted 75% in stock options and 25% in restricted shares or restricted share units. For fiscal year 2008 and thereafter, we expect that our long-term incentive program will consist of annual grants, targeted at market median levels, consisting of stock options, restricted share/restricted share units or long-term cash incentives, or some combination thereof. Our long-term incentive program is designed to align the interests of our named executive officers with those of our stockholders by motivating these officers to manage NewCo in a manner that fosters long-term performance, as reflected in stock price appreciation, increased stockholder value and achievement of profitability objectives. We also believe these long-term incentives are essential tools to promote executive retention. Since we do not intend to maintain a defined benefit pension plan or provide other post-retirement medical benefits, the grant of long-term incentive awards will be our primary means for rewarding executive longevity.

- *Benefits and Perquisites*. In order to attract and retain executive talent, we intend to provide certain limited executive benefits, including a voluntary deferred compensation plan, and perquisites that we believe are competitive within the industry.

The transition planning committee retained Mercer Human Resource Consulting, which we refer to as Mercer, in 2006 to serve as an outside compensation consultant to the transition planning committee and, ultimately, following the completion of the transaction, to the Compensation Committee. Prior to our becoming a publicly traded company, the transition planning committee was responsible, with input from our chief executive officer, for the development and design of our executive compensation program and its underlying philosophies. To assist the transition planning committee in this process, Mercer prepared data on named executive officer compensation levels and dilution from equity plans, using the comparator group described below as a benchmark. Additionally, Mercer advised the transition planning committee on executive compensation plan design issues,

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regulatory changes and best practices related to compensation. We expect that Mercer will continue to serve the Compensation Committee in a similar capacity following the consummation of the transaction, as the Compensation Committee continues to develop the principles and philosophy of our executive compensation program and, thereafter, periodically monitors and reviews the competitiveness and appropriateness of the design of our program. Mercer will report directly to the Compensation Committee. Mercer personnel provide certain other services to NewCo and similar services to the Kindred and AmerisourceBergen compensation committees, the nature and cost of which the transition planning committee believes do not impair Mercer s ability to provide an objective perspective regarding our executive compensation program.

Our chief executive officer, Mr. Weishar, has reviewed the recommendations made by Mercer with respect to our executive compensation program and provided input to the transition planning committee on such program and the philosophies underlying it.

Benchmarking Process

In general, we intend to target named executive officer base salaries between the 25th percentile and median of the market and named executive officer incentive target levels (both annual and long-term) at the market median, though actual compensation levels will be determined for each of our named executive officers based on their particular circumstances. We believe these targets will allow us to manage compensation costs and sustain a reasonable level of transition costs, yet be competitive in the market. In addition to base salary, compensation of our named executive officers will largely be comprised of variable incentive pay linked to our financial and stock performance and individual executive contributions. As a result, actual executive compensation will vary above and below the 25th percentile-median range, depending on performance. We believe this pay structure allows us to align the economic interest of our executives with that of our stockholders.

As we expect to be a significant company in the institutional pharmacy industry, with projected annual revenues of approximately $2 billion, our target labor market encompasses both similarly-sized companies in the general medical device, supply and services industry, as well as companies that provide healthcare pharmacy services. Based upon consultation with Mercer, we approved the use of a peer group that we believe have business models and operations comparable to our own and most of which are of a comparable size, with revenues within an approximate 0.5x to 2.0x range of our expected revenues. In addition, we view these companies as competitors for either customers or executive talent. The peer group includes:

Omnicare Inc.

Owens & Minor Inc.

St. Jude Medical Inc.

Henry Schein Inc.

Invacare Corp.

PSS World Medical Inc.

Lincare Holdings Inc.

Bioscrip Inc.

Rotech Healthcare Inc.

For purposes of reviewing the competitiveness of our executive compensation program, Mercer used a combination of proxy data from the above peers and survey data to benchmark compensation for our named executive officers. The survey data consists of general industry references for companies of comparable size to NewCo and were blended with the available proxy data to provide an overall market composite.

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Components of the Executive Compensation Program

The elements of compensation for our named executive officers will consist of base salary, annual cash incentives, long-term incentives and benefits and perquisites. For our named executive officers, we expect that our program will be structured so that variable, or at risk, compensation will account for a significant majority of total compensation for fiscal year 2007 if target performance objectives are met.

Base Salary. For our named executive officers, we expect that base salary will represent the major fixed component of compensation. Mr. Weishar s employment agreement, entered into on January 14, 2007, sets his base salary at $700,000, a rate individually negotiated with Mr. Weishar and which, based on consultation with Mercer, we believe falls between the market 25th percentile and median for our selected peer group. The transition planning committee also believed that this salary level was necessary and appropriate in light of the circumstances surrounding Mr. Weishar s employment, notably that he is assuming leadership of a company that will face special challenges as a new publicly traded company that is the product of the combination of two previously existing operating divisions.

Base salaries for our other named executive officers are generally structured so that they are between the 25th percentile and median for our peer group in order to remain competitive, while at the same time helping us to achieve our goal of becoming a cost leader within the industry. Within this range, we expect salary levels to be commensurate with the executive s position and level of responsibility.

The employment agreements for Messrs. Culotta and McCullough, each entered into on , 2007, set their base salaries at $405,000 and $360,000, respectively. Each of these rates was individually negotiated with the applicable executive. For Mr. Culotta, his base salary is set at a rate between the median and 75th percentile for our peer group, however, we believe that this salary is appropriate in light of his assuming the role of chief financial officer of a new publicly traded company. Mr. McCullough s salary represents an increase of approximately 20% from his prior base salary with Kindred. We believe such an increase appropriately reflects his increased responsibilities and duties as a senior executive of a new publicly traded company. Since we have not yet filled the positions of Senior Vice President and General Counsel and Senior Vice President, Marketing, we have not yet set the base salaries for the individuals who will serve in these capacities, though we expect that such base salaries will be between the 25th percentile and median for our peer group. The Compensation Committee expects to review base salaries at least annually and more frequently when promotions or changes in responsibility occur within our executive management. Salary increases will be based on factors such as competitive market data, assessment of individual performance, promotions, level of responsibility, and input from our chief executive officer. All salary increases for our named executive officers will be approved by the Compensation Committee.

Annual Cash Incentives. Pursuant to the NewCo annual incentive program, our named executive officers will have the opportunity to earn annual cash incentives for meeting annual performance goals. By placing a strong emphasis on financial performance measures, such as earnings and return on assets/invested capital, our annual incentive plan is designed to focus our named executive officers on profitability and the achievement of cost savings and earnings expectations. The plan, however, also provides us with the flexibility to assess operational performance through the use of other performance measures such as operational, quality and customer service.

For Messrs. Weishar, Culotta and McCullough, annual incentives will be based entirely on corporate performance objectives. The Compensation Committee has not yet established the actual performance measures for Messrs. Weishar s, Culotta s and McCullough s annual target bonus. The transition planning committee, however, has recommended that the corporate performance measures be weighted in favor of the achievement of financial performance measures, such as earnings, return on assets and return on invested capital. The Compensation Committee will also have the flexibility to tie a portion of Messrs. Weishar s, Culotta s and McCullough s target bonus to other performance measures, such as the achievement of operational, quality or customer service goals. With respect to our other named executive officers, corporate metrics are expected to comprise between 75% and 100% of the annual performance objectives, while group and individual performance

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will comprise from 0% to 25%. We believe this balance is consistent with the practices of our peer companies and supports our objectives of aligning compensation of the most senior executives with the achievement of corporate priorities. We expect that a majority of such corporate-level performance objectives will be based on financial metrics, with another portion based on operational metrics. For fiscal 2007, performance measures may also include specific merger synergies or milestones to motivate our executive officers during our transition into a public company. Before the end of the second quarter of the applicable fiscal year, the Compensation Committee will set performance targets and approve opportunities for the year.

Pursuant to the terms of his employment agreement, Mr. Weishar will be eligible to receive a target annual bonus equal to 100% of his base salary and a maximum annual bonus of 125% of his base salary, based on achievement of the relevant performance objectives. Award opportunities under the Annual Incentive Plan for our other named executive officers will be calibrated to be competitive with the market median, based upon market competitive review. For fiscal year 2007, Messrs. Culotta and McCullough will be eligible for annual target bonus opportunities (represented as a percentage of base salary) of 75% and 60%, respectively. Since we have not yet filled the positions of Senior Vice President and General Counsel and Senior Vice President, Marketing we have not yet set the target bonus opportunities for these positions. In addition, in order to support reasonable pay and performance linkages, the actual bonus awards for our named executive officers may range from 0% to 125% of the target award.

For Mr. Weishar, the setting of his annual bonus opportunity did not include the sign-on and integration bonuses for which he is eligible per the terms of his employment agreement, as discussed in more detail below.

Additionally, as a publicly traded company, we also intend to assess the structure of our annual incentive plan against the IRS rules governing the deductibility of executive compensation. This review may result in changes to the design of our annual incentive plan.

Long-Term Incentives

Outstanding AmerisourceBergen and Kindred Equity Awards

In connection with the transaction, stock options to purchase AmerisourceBergen and Kindred common stock held by our named executive officers who were formerly PharMerica LTC or KPS employees (currently this group is expected to consist solely of Mr. McCullough) that are unvested as of the distribution time will be converted into stock options to purchase our common stock, which will have the same terms and conditions as the cancelled AmerisourceBergen or Kindred options. In addition, unvested restricted shares of AmerisourceBergen and Kindred common stock held by our named executive officers who were formerly PharMerica LTC or KPS employees will be replaced with restricted shares of our common stock, which will have the same terms and conditions as apply to the forfeited AmerisourceBergen or Kindred restricted shares. Our intent in granting the replacement equity awards is to preserve the intrinsic value of the forfeited AmerisourceBergen and Kindred equity awards so as to attract and retain certain of our named executive officers. The following table sets forth the unvested AmerisourceBergen and Kindred equity awards held by certain of our named executive officers as of the close of the transaction, as well as the estimated number of NewCo equity awards we intend to grant to such named executive officers in replacement thereof.

Named Executive Officer	**Kindred Options**	**Estimated NewCo Options(1)**	**Kindred Restricted Shares**	**Estimated NewCo Restricted Shares(1)**
Mark A. McCullough	8,112		14,377	

(1) Assumes a NewCo common stock per share price of $, a Kindred common stock per share price of $.

NewCo Long-Term Incentive Founders Grants

Upon consummation of the transaction, it is anticipated that a majority of our chief executive officer s direct reports, including each of our named executive officers (other than the chief executive officer), will receive a

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founders grant with respect to fiscal year 2007. The value of this founders grant will be delivered 75% in stock options and 25% in restricted stock or restricted stock units and is expected to be 2x-3x market median levels within our peer group. We believe the anticipated founders grant levels are also in line with typical market practices for similar transactions to provide a significant equity stake in the enterprise to key executives. We believe the emphasis on stock option compensation reinforces a critical objective of appropriately linking compensation and the creation of shareholder value by tying compensation to share price appreciation, while the restricted share/restricted share unit grants support both share price appreciation and executive retention. The terms and conditions of the founders grant will be governed by the NewCo Omnibus Incentive Plan (discussed below) and in accordance with the terms of this plan, the exercise price of each option will be at least equal to 100% of the fair market value of a share of NewCo common stock on the date of grant. Each option is expected to vest in four equal annual installments and to have a term of seven years. We also expect that the restricted share/restricted share units will generally vest, in full, on the third anniversary of the date of grant, thus stressing the retentive aspect of these awards. For fiscal year 2008 and thereafter, we expect that our long-term incentive program will consist of annual grants, targeted at market median levels, consisting of stock options, performance share/performance share units or long-term cash incentives, or some combination thereof.

The purpose of the initial founders grant is to:

- Motivate and reward executives efforts to integrate the AmerisourceBergen and Kindred institutional pharmacy businesses;
- Build commitment to our company and promote retention during the post-closing transition;
- Make a substantial portion of the named executive officers compensation directly contingent on future stock price appreciation;
- Reinforce the importance of achieving profitability; and
- Complement the other components of our compensation program and provide competitive total compensation opportunities.

CEO Long-Term Incentive Grant

With respect to our chief executive officer, the transition planning committee agreed, pursuant to Mr. Weishar s employment agreement, to grant to him, on the fifth trading day following consummation of the transaction, a non-qualified stock option to purchase shares of NewCo s common stock representing 1.0% of the total number of shares of common stock outstanding immediately after the closing of the transaction at a price equal to the closing price per share on the grant date. Based on current projections of total outstanding shares following consummation of the transaction, the total number of shares subject to such option is expected to be 300,000. This option will vest in four equal installments on each of January 1, 2008, December 31, 2008, December 31, 2009 and December 31, 2010. We also agreed to grant to Mr. Weishar, on the closing date of the transaction, a number of restricted shares of common stock representing 0.75% of the total fair market value, based on the closing price of our common stock on such date, of the common stock then outstanding. The number of restricted shares that will be granted cannot be determined until the consummation of the transaction when the fair market value of our outstanding common stock is known. The restricted stock will vest in four equal installments on each of January 1, 2008, December 31, 2008, December 31, 2009 and December 31, 2010. The transition planning committee negotiated these equity grants with Mr. Weishar in order to compensate Mr. Weishar for the value of certain compensation he forfeited in connection with his decision to resign from his prior employer to serve as our chief executive officer.

Additional Information

As provided in the NewCo Omnibus Incentive Plan or the award agreements related thereto, none of the equity awards granted to our named executive officers (with the possible exception of those grants intended to replace outstanding Kindred or AmerisourceBergen equity awards as discussed above) will vest solely upon a change in control (as defined in the NewCo Omnibus Incentive Plan). However, certain outstanding, unvested equity awards may automatically vest upon certain terminations of a named executive officer s employment following a change in control. We believe that such a double trigger payment is reflective of a growing trend in market practice and will allow our executive officers to assess takeover bids objectively without regard to the potential impact on their job security.

As a new publicly traded company, we do not currently have a formal policy with respect to the timing of grants of equity-based awards in connection with the release of material non-public information. However, the Compensation Committee may develop such a policy following the consummation of the transaction.

Executive Benefits and Perquisites. Our named executive officers will be eligible to participate in our 401(k) plan and, except as described below, receive the same health, life and disability benefits available to our employees generally. We do not intend to offer a defined benefit pension plan or a supplemental executive retirement plan. We believe that our executive benefits and perquisites are consistent with market practice and therefore competitive within the industry and, as a result, will help us to attract and retain executive talent.

Voluntary Deferred Compensation Plan. We plan to offer each of our eligible executive officers, including our named executive officers, the ability to elect to defer up to 100% of their annual bonus and 50% of their base salary into a non-qualified deferred compensation plan. We believe the deferred compensation plan will serve to motivate and retain our executive officers by giving them the ability to take a more active role in structuring the timing of certain compensation payments.

Life Insurance. We are currently considering whether to provide each of our named executive officers with a bonus for the purpose of purchasing additional life insurance coverage of up to one times base salary.

Executive Long-Term Disability Plan. Generally, each of our employees will be entitled to long-term disability benefits at the rate of 50% of base salary with a maximum monthly payment of $7,500. We expect that our named executive officers will be eligible to participate in a supplemental executive long-term disability plan which will provide them with additional long-term disability benefits representing the difference between the $7,500 monthly maximum provided for under our general long-term disability plan and 50% of such named executive officer s base salary.

In addition, as part of the negotiation of his employment agreement, we will provide Mr. Weishar with the following additional perquisites:

Reimbursement. We will reimburse Mr. Weishar for an initiation fee incurred by him in connection with his membership at one social or country club.

Relocation and Temporary Living Expenses. We agreed to pay Mr. Weishar for all reasonable and customary relocation expenses associated with his relocation from Rhode Island to the Louisville area, including up to three house hunting trips, packing and moving of personal items and reasonable transaction expenses associated with the sale of Mr. Weishar s Rhode Island residence. We also agreed to pay for all costs of commuting and temporary accommodations for a specified period of time. Each of these benefits will be grossed-up for applicable taxes.

Employment Agreements

On January 14, 2007, we entered into an employment agreement with Mr. Weishar, our chief executive officer. The recruitment of Mr. Weishar was part of an extensive search for a chief executive officer and the transition planning committee determined that it was necessary and appropriate to enter into an employment agreement in order to attract and retain an experienced and highly qualified individual to serve in this capacity. In negotiating Mr. Weishar s employment agreement and compensation package, the transition planning committee considered competitive market data regarding total CEO compensation at our peer companies, as well as the need to compensate Mr. Weishar for significant compensation from his former employer that was forfeited or foregone as a direct result of his acceptance of employment with the Company. On , 2007, we entered into employment agreements with Mr. Culotta, our chief financial officer and Mr. McCullough, our chief operating

officer. Mr. Weishar played a key role in negotiating each of these employment agreements, including the compensation packages provided for therein. Our board of directors, based upon the recommendation of our compensation committee, determined that it was necessary and appropriate, and in the best interests of our shareholders, to enter into these employment agreements in order to attract and retain each of these individuals given their experience and qualifications to serve the company in the foregoing capacities. In addition, we expect that we will also enter into employment agreements with those individuals who will fill the positions of Senior Vice President and General Counsel and Senior Vice President, Marketing. For more detail regarding the foregoing employment agreements, including a summary of the material terms and conditions thereof, see Description of Employment Contracts below.

Stock Ownership Guidelines

We believe in the importance of encouraging our executive officers and other key employees to own stock in NewCo. Stock ownership requirements seek to align long-term interests of management with those of our stockholders and provide a continuing incentive to foster NewCo s success. Therefore, following the consummation of the transaction, the Compensation Committee intends to consider the adoption of stock ownership guidelines for certain key executive officers, including our named executive officers. The Compensation Committee may also consider the adoption of stock ownership guidelines for non-employee directors.

Tax Deductibility of Compensation

Section 162(m) of the Internal Revenue Code restricts deductibility for federal income tax purposes of annual individual compensation in excess of $1 million to the named executive officers if certain conditions are not fully satisfied. We intend, to the extent practicable, to preserve deductibility of compensation paid to our executive officers, while maintaining flexible compensation programs that attract highly-qualified executives.

The Compensation Committee does not believe that it would be in the best interests of NewCo or its stockholders to restrict the Compensation Committee s ability to implement compensation programs that may result in non-deductible compensation expenses. As a result, the Compensation Committee may, from time to time, approve elements of compensation for certain named executive officers that are consistent with our overall compensation program and philosophy, but that are not fully deductible.

Description of Employment Contracts

Employment Agreement with Mr. Weishar

On January 14, 2007, we entered into an employment agreement with Mr. Gregory Weishar, our Chief Executive Officer. Until the transaction is consummated, Mr. Weishar will be an employee of KPS. As a result of the closing of the transaction, Mr. Weishar s employment will be transferred from KPS to NewCo. The term of the agreement ends on December 31, 2009. At the end of the term, the agreement automatically renews for additional one-year periods, unless either Mr. Weishar or we give notice of non-renewal to the other at least four months prior to the expiration of the relevant period. Mr. Weishar receives an annual base salary of $700,000 and is eligible to receive a performance-based annual cash bonus with a target payment equal to 100% of his annual base salary and a maximum bonus of 125% of his base salary to the extent that the performance objectives, including quantitative performance objectives, established annually by the board or the Compensation Committee are met. Mr. Weishar received a special one-time cash signing bonus of $1.2 million. We also agreed to pay all reasonable and customary relocation expenses associated with Mr. Weishar s relocation from Rhode Island to the Louisville, Kentucky area.

In addition to the above, Mr. Weishar is entitled to receive two special integration bonuses with respect to the performance of NewCo for two specified periods after the closing of the transaction, subject to the following terms and conditions: (1) if NewCo achieves a $30 million synergy target during Mr. Weishar s employment on or before the first anniversary of the closing of the transaction, as determined by the board or the Compensation Committee in its reasonable discretion, Mr. Weishar will receive a one-time cash bonus of $500,000 and (2) if NewCo achieves a synergy target of $45 million or more during Mr. Weishar s employment term and at or before 18 months after the closing of the transaction, as determined by the board or the Compensation Committee in its reasonable discretion, Mr. Weishar will receive a separate bonus of $500,000. To establish these targets, the transition planning committee identified cost-saving opportunities to be achieved by NewCo operating as a stand-alone business. The transition planning committee considered that the bulk of cost saving opportunities would come from site consolidations, overhead reductions and other aggregate efficiencies resulting from the combined businesses. Preliminary estimates of these potential savings at the time of Mr. Weishar s employment served as the basis for setting the synergy targets to be used in connection with his special integration bonuses. These and other cost-savings opportunities, which the transition planning committee continues to analyze and identify, will provide the basis for a recommendation to the board or Compensation Committee of NewCo. We expect that the Compensation Committee and the board will use this synergy analysis as the basis for determining whether NewCo has achieved the synergy targets. Ultimately, the board and the Compensation Committee will have discretion, consistent with their fiduciary obligations to stockholders, to decide how to measure whether the cost-savings have been achieved and the integration bonus targets have been met.

We agreed to grant to Mr. Weishar, or the fifth trading day following consummation of the transaction, a non-qualified stock option to purchase shares of NewCo s common stock representing 1.0% of the total number of shares of common stock outstanding immediately after the closing of the transaction at a price equal to the closing price per share on the grant date. The option shall vest in four equal installments on each of January 1, 2008, December 31, 2008, December 31, 2009 and December 31, 2010. We also agreed to grant to Mr. Weishar, on the closing date of the transaction, a number of restricted shares of common stock representing 0.75% of the total fair market value, based on the closing price of our common stock on such date, of the common stock then outstanding. The restricted stock will vest in four equal installments on each of January 1, 2008, December 31, 2008, December 31, 2009 and December 31, 2010.

If either (a) (1) the transaction has not closed by August 1, 2007, (2) Mr. Weishar s employment with KPS has continued through August 1, 2007 and (3) Mr. Weishar s employment terminates by August 31, 2007 (other than in a termination by NewCo for cause) or (b) Mr. Weishar s employment is terminated by NewCo without cause or by Mr. Weishar with good reason before the closing, NewCo (or KPS) will pay to Mr. Weishar a single lump sum payment of $1.7 million in cash. In addition, Mr. Weishar will be entitled to receive a lump-sum cash payment equal to the sum of (i) any earned but unpaid base salary through the date of termination, (ii) any expense reimbursement payments then due and (iii) an amount in respect of any earned but unused vacation days through the date of termination (with the value of unused vacation days being equal to his then annual base salary divided by 250).

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

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

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

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

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Assuming (i) the agreement had been in effect at December 31, 2006 and that Mr. Weishar had been terminated without cause or resigned for good reason as of that date, (ii) he had been paid his base salary through such date and (iii) he had received all reimbursement payments due him through such date and had no unused vacation days as of such date, Mr. Weishar would have received an aggregate payment pursuant to the foregoing of $4.9 million, representing the sum of his target bonus under clause (ii) of the first bullet above and the amount payable pursuant to the second bullet above.

In addition to the foregoing cash payments:

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

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

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

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

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

Good Reason is defined as any material diminution in Mr. Weishar s authorities, titles or offices, or the assignment to him of duties that materially impair his ability to perform the duties normally assigned to the CEO of a corporation of the size and nature of NewCo (other than a failure to be reelected 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 NewCo s principal office, or of his principal place of employment to a location more than 35 miles from Louisville, Kentucky; any material breach by NewCo, or any of its affiliates, of any material obligation to Mr. Weishar; or any failure of NewCo 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 NewCo 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 NewCo requesting cure.

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

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due and (iv) an amount in respect of any earned but unused vacation days through the date of termination (with the value of unused vacation days being equal to his then annual base salary divided by 250). Assuming (i) the agreement had been in effect at December 31, 2006 and that Mr. Weishar s employment had been terminated for death or disability as of that date, (ii) he had been paid his base salary through such date and (iii) he had received all reimbursement payments due him through such date and had no unused vacation days as of such date, Mr. Weishar would have received an aggregate payment pursuant to the foregoing of $0.7 million, representing his target bonus under clause (ii) above.

In addition to the foregoing cash payment:

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

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

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

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

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

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

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

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

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Change in Control. In the event of a change in control (as defined in the employment agreement) of NewCo, Mr. Weishar is not entitled to any cash compensation except to the extent that the employment agreement is terminated under any of the circumstances described above. In addition,

- each compensatory stock option, including the initial awards referred to above, he has received shall become fully vested, and exercisable, on or before such change in control;

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

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

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

Mr. Weishar also agreed to certain confidentiality, non-competition and non-solicitation provisions in his employment agreement.

Employment Agreements with other Named Executive Officers

On , 2007, we entered into employment agreements with Mr. Culotta and Mr. McCullough (whom we collectively refer to in this section as the executive officers), each of which will become effective as of the first day of business operations of NewCo (the Closing Date). Each of the agreements provides for an indefinite term of employment, subject to certain terminations of employment described in more detail below (the Employment Period).

Pursuant to the terms of the employment agreements Mr. Culotta and Mr. McCullough will receive an annual base salary of $405,000 and $360,000, respectively, which shall be reviewed annually by our compensation committee and/or our chief executive officer and may be increased, but not decreased, as determined by the compensation committee. During the Employment Period, each of the executive officers will be 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 and 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

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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

Continued payment for 18 months of (i) 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).

Assuming (i) the agreements had been in effect at December 31, 2006 and that each of the executive officers had been terminated without cause or resigned for good reason as of that date, (ii) the executive officer had been paid his base salary through such date and annual bonus for such year; and (iii) the executive officer had received all reimbursement payments due him through such date and had no unused vacation days as of such date, Mr. Culotta and Mr. McCullough would have received an aggregate payment pursuant to the foregoing of $1,062,625 and $864,000, respectively (assuming a target bonus of $303,750 and $216,000, respectively).

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 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;

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.

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 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

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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 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 (or his estate), the Accrued Obligations. In addition, each outstanding option, restricted stock 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 do not entitle the executive officers to any additional payments or benefits solely upon the occurrence of a change in control (as defined in the employment agreements). However, if, within one year following a change in control, the executive officer s employment is terminated (i) by the company or the executive officer following the occurrence of (A) a reduction in the executive 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 executive officer s responsibilities and/or duties which constitute a demotion; (C) a material loss of title or office; or (D) a relocation of the executive officer s principal place of employment of more than 50 miles, unless approved by the executive, or (ii) by the company without Cause, the executive 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. In addition, subject to the executive officer s execution of a written release of claims against the company, the executive officer will become vested in any outstanding options, restricted stock, or other equity incentive awards outstanding as of the date of such termination.

In the event the payments made to the executive officer in connection with a change in control pursuant to the employment agreement or any other agreement or plan exceed the amount which can be deducted by the company under Section 280G of the Code, then such payments shall be reduced to the maximum amount which can be deducted by the company.

Each of the executive officers has also agreed to certain confidentiality, non-competition and non-solicitation provisions in his or her employment agreement.

NewCo Omnibus Incentive Plan

Prior to the completion of the transaction, we intend to adopt an incentive plan, the NewCo Omnibus Incentive Plan (which we refer to as the Plan), under which we will be able to grant equity-based and other awards. The following is a summary of what we currently expect to be the terms of the Plan. The final terms, however, may be different. The effectiveness of the NewCo Omnibus Incentive Plan and any awards granted thereunder will be contingent upon receipt of necessary Compensation Committee and stockholder approvals.

Authorized Shares. Subject to adjustment, up to 3,800,000 shares of our common stock will be available for awards to be granted under the Plan plus such number of shares as may be issued for converted equity awards held by employees of KPS and PharMerica LTC. No participant in the Plan may receive stock options and stock appreciation rights in any fiscal year that relate to more than 650,000 shares of our common stock. Shares of common stock to be issued under the Plan may be made available from authorized but unissued common stock or

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common stock that we acquire. In addition, subject to certain adjustments, the maximum number of shares that may be subject to the grant of incentive stock options is 3,800,000. The maximum number of shares available for awards of restricted stock, restricted stock units, deferred shares and other stock-based awards is 1,900,000.

If any shares of our common stock covered by an award (other than a substitute award as defined below) terminate or are forfeited, then these shares will again be available for issuance under the Plan. Shares of our common stock underlying substitute awards shall not reduce the number of shares of our common stock available for delivery under the Plan. A substitute award is any award granted in assumption of, or in substitution for, an outstanding award previously granted by a company acquired by us or with which we combine including, without limitation, Kindred and AmerisourceBergen equity awards to be substituted in connection with the closing of the transaction.

Administration. Our Compensation Committee will administer the Plan and will have authority to select individuals to whom awards are granted, determine the types of awards and number of shares covered, and determine the terms and conditions of awards, including the applicable vesting schedule, performance conditions, and whether the award will be settled in cash, shares or a combination of the two.

Types of Awards. The Plan will provide for grants of incentive stock options, non-qualified stock options, stock appreciation rights, restricted stock, deferred shares, performance awards, including cash bonus awards, and other stock-based awards.

Stock options. The exercise price of an option (other than a substitute award) may not be less than the fair market value of a share of our common stock on the date of grant and each option will have a term to be determined by the Compensation Committee (not to exceed ten years). Stock options will be exercisable at such time or times as determined by the Compensation Committee.

Stock appreciation rights. A stock appreciation right (SAR) may be granted free-standing or in tandem with another award under the plan. Upon exercise of a SAR, the holder of that SAR is entitled to receive the excess of the fair market value of the shares for which the right is exercised over the exercise price of the SAR. The exercise price of a SAR (other than a substitute award) will not be less than the fair market value of a share of our common stock on the date of grant.

Restricted stock/restricted stock units. Shares of restricted stock are shares of our common stock subject to restrictions on transfer and a substantial risk of forfeiture. A restricted stock unit consists of a contractual right denominated in shares of our common stock which represents the right to receive the value of a share of common stock at a future date, subject to certain vesting and other restrictions. Awards of restricted stock and restricted stock units will be subject to restrictions and such other terms and conditions as the Compensation Committee may determine, which restrictions and such other terms and conditions may lapse separately or in combination at such time or times, in such installments or otherwise, as the Compensation Committee may deem appropriate. The Compensation Committee, in its discretion, may award dividend equivalents with respect to awards of restricted stock and restricted stock units.

Deferred shares. An award of deferred shares entitles the participant to receive shares of our common stock upon the expiration of a specified deferral period. In addition, deferred shares may be subject to restrictions on transferability, forfeiture and other restrictions as determined by the Compensation Committee. The Compensation Committee, in its discretion, may award dividend equivalents with respect to awards of deferred stock.

Other awards: The Compensation Committee is authorized to grant other stock-based awards, either alone or in addition to other awards granted under the Plan. Other awards may be settled in shares, cash, awards granted under the Plan or any other form of property as the Compensation Committee determines and the Compensation Committee, in its discretion, may grant dividend equivalents with respect to such awards.

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Eligibility. Our employees, directors and consultants will be eligible to participate in the Plan.

Adjustments. The Compensation Committee must adjust the terms of any outstanding awards and the number of shares of common stock issuable under the Plan for any change in shares of our common stock resulting from a stock split, reverse stock split, stock dividend, spin-off, combination or reclassification of our common stock, or any other event that affects our capitalization if such an adjustment is necessary in order to prevent enlargement or dilution of the benefits or potential benefits intended to be made available under the Plan.

Performance Awards. The Plan will provide that grants of performance awards, including cash-denominated awards and (if determined by the Compensation Committee) options, deferred shares, restricted stock or other stock-based awards will be made based upon certain performance objectives provided for under the terms of the plan. The maximum number of shares of our common stock subject to a performance award in any fiscal year to any one participant is 500,000 shares and the maximum amount that can be earned in respect of a performance award denominated in cash or value other than shares on an annualized basis is $5 million. Such performance awards may be structured, at the discretion of the Compensation Committee, to qualify as performance-based compensation for purposes of Section 162(m) of the Code. The Compensation Committee, in its discretion, may award dividend equivalents with respect to performance awards.

Termination of Service. The Compensation Committee will determine the effect of a termination of employment or service on awards granted under the Plan.

Amendment, Modification and Termination. Our board may from time to time suspend, discontinue, revise or amend the Plan and the Compensation Committee may amend the terms of any award in any respect, provided that no such action will adversely impair or affect the rights of a holder of an outstanding award under the Plan without the holder s consent, and no such action will be taken without stockholder approval, if required by the rules of the stock exchange on which our shares are traded.

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SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS

As of the date hereof, each of AmerisourceBergen and Kindred own one share of our common stock, which constitutes all of our outstanding shares of common stock. The following table sets forth information with respect to the projected beneficial ownership of our outstanding common stock immediately following completion of the transaction by:

- each person who is expected by us to be the beneficial owner of five percent or more of our common stock;
- each director, our chief executive officer and our four other most highly compensated officers identified in the Management Executive Officers and Directors section above; and
- all of our directors and executive officers as a group.

Beneficial ownership is determined in accordance with the rules of the Securities and Exchange Commission and generally includes voting or investment power with respect to securities. Shares of common stock and options, warrants and convertible securities that are currently exercisable or convertible within 60 days of this preliminary prospectus into shares of our common stock are deemed to be outstanding and to be beneficially owned by the person holding the options, warrants or convertible securities for the purpose of computing the percentage ownership of the person, but are not treated as outstanding for the purpose of computing the percentage ownership of any other person.

To the extent our directors and officers own shares of AmerisourceBergen or Kindred common stock on the record date, they will participate in the transaction on the same terms as other holders of AmerisourceBergen or Kindred common stock.

The information below is based upon the number of shares of AmerisourceBergen or Kindred common stock beneficially owned by each person or entity as of June 1, 2007, except as is otherwise disclosed in the footnotes to the table. The share amounts in the table reflect the expected distribution ratio of shares of our common stock for every share of AmerisourceBergen common stock and shares of our common stock for every share of Kindred common stock held by the listed person or entity.

Except as otherwise noted in the footnotes below, the individual director or executive officer or their family members had sole voting and investment power with respect to such securities. The address of each individual named below is c/o PharMerica Corporation, 1901 Campus Place, Louisville, Kentucky 40299. Upon completion of the transaction, we expect that we will have issued and outstanding an aggregate of approximately 30 million shares of our common stock.

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DIRECTORS AND EXECUTIVE OFFICERS AND FIVE PERCENT HOLDERS OWNERSHIP

Name and Address of Beneficial Owner	Common Stock Beneficially Owned in Parent Company	Our Common Stock Beneficially Owned[(8)]	Percent of Class After the Transaction
Paul J. Diaz	1,026,812(1)(9)		
Edward L. Kuntz	260,112(1)(9)		
Gregory S. Weishar			
R. David Yost	2,169,500(2)(10)		
Michael J. Culotta			
Mark A. McCullough	19,428(1)(9)		
Janice D. Rutkowski	29,915(2)(10)		
Richard Toole	17,500(2)(10)		
Anthony Hernandez			
Goldman Sachs Group Inc. 85 Broad Street New York, NY 10004	22,567,004(2)(3)		
AXA Financial, Inc. 1290 Avenue of the Americas New York, NY 10104	16,185,289(1)(4)		
State Street Corp. State Street Financial Center One Lincoln Street Boston, MA 02111	11,813,079(2)(5)		
Pzena Investment Management, LLC 120 W. 45th Street, 34th Fl New York, NY 10036	10,136,106(2)(6)		
Franklin Mutual Advisors, LLC 101 John F. Kennedy Parkway Short Hills, NJ 07078	7,599,584(1)(7)		
Directors and executive officers as a group (including the above named persons)			

(1) Kindred common stock.
(2) AmerisourceBergen common stock.
(3)

Based on the Schedule 13G/A filed on February 8, 2007, these securities are beneficially owned by Goldman Sachs Asset Management, L.P., or GSAM LP. GSAM LP, an investment advisor, disclaims beneficial ownership of any securities managed, on GSAM LP s behalf, by third parties.

(4) Based on the Schedule 13G filed on February 14, 2007, AXA Assurances I.A.R.D. Mutuelle has sole voting power over 9,285,992 shares, shared voting power over 2,073,940 shares and sole dispositive power over 16,185,289 shares. AXA Assurances Vie Mutuelle has sole voting power over 9,285,992 shares, shared voting power over 2,073,940 shares and sole dispositive power over 16,185,289 shares. AXA Courtage Assurance Mutuelle has sole voting power over 9,285,992 shares, shared voting power over 2,073,940 shares, and sole dispositive power over 16,185,289 shares. AXA has sole voting power over 9,285,992 shares, shared voting power over 2,073,940 shares, and sole dispositive power over 16,185,289 shares. AXA Financial, Inc. has sole voting power over 9,277,992 shares, shared voting power over 2,073,940 shares, and sole dispositive power over 16,175,249 shares. As indicated in the Schedule 13G, a majority of the shares reported in the Schedule 13G are held by unaffiliated third party client accounts managed by Alliance Capital Management, L.P., as investment advisor.

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(5) Based on the Schedule 13G filed on February 12, 2007, State Street Corp. has sole voting and investment power over these securities.

(6) Based on the Schedule 13G filed on February 13, 2007, Pzena Investment Management LLC has sole voting power over 4,763,431 shares and sole dispositive power over 10,136,106 shares.

(7) Franklin Mutual Advisors, LLC, which we refer to as FMA, has advised Kindred that advisory clients of FMA own the referenced shares. FMA has indicated that these shares are beneficially owned by one or more open-end investment companies or other management accounts of FMA. Under its advisory contracts, FMA has sole voting and investment power over these shares owned by its clients which FMA manages. FMA disclaims beneficial ownership of the shares held by FMA.

(8) These amounts assume (a) AmerisourceBergen stockholders will receive approximately shares of our common stock in respect of each share of AmerisourceBergen common stock and (b) Kindred stockholders will receive approximately shares of our common stock in respect of each share of Kindred common stock.

(9) Includes options to purchase 579,651, 118,244, and 2,886 shares of Kindred common stock held by Paul J. Diaz, Edward L. Kuntz, and Mark A. McCullough, respectively, which will vest within 60 days of June 1, 2007.

(10) Includes 22,500, 1,250 and 750 restricted stock of AmerisourceBergen held by R. David Yost, Janice D. Rutkowski and Richard Toole, respectively, and options to purchase 1,382,500, 28,050 and 16,750 shares of AmerisourceBergen common stock held by R. David Yost, Janice D. Rutkowski and Richard Toole, respectively.

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MASTER TRANSACTION AGREEMENT

The following is a summary of the material terms and conditions of the master transaction agreement. This summary may not contain all the information about the master transaction agreement that is important to you. This summary is qualified in its entirety by reference to the master transaction agreement, which is incorporated by reference into this preliminary prospectus. We encourage you to read the master transaction agreement in its entirety.

The representations, warranties and covenants made by the parties in the master transaction agreement are qualified, including by information in the schedules referenced in the master transaction agreement that the parties delivered in connection with the execution of the master transaction agreement. Representations and warranties may be used to allocate risk between the respective parties to the master transaction agreement, including cases in which the parties may not have complete knowledge of all relevant facts. Furthermore, the representations and warranties in the master transaction agreement may be subject to standards of materiality that may differ from those applicable under the federal securities laws. These representations and warranties may or may not have been accurate as of any specific date and do not purport to be accurate as of the date of this preliminary prospectus. Accordingly, they should not be relied upon as statements of fact.

Timing of the Transaction

Closing Date. The closing date for the transaction will occur as soon as practicable, and in any event, within five business days after satisfaction or waiver of all of the closing conditions to the transaction set forth in the master transaction agreement (other than the conditions that by their nature are satisfied on the closing date), provided that if the working capital of PharMerica LTC and KPS have not been finally determined, the closing date will occur within five business days after such final determination.

Spin-Offs and Mergers; Effective Time. On the closing date, AmerisourceBergen will consummate the spin-off of PharMerica LTC and Kindred will concurrently consummate the spin-off of KPS. On the closing date, following the consummation of the spin-offs, AmerisourceBergen and Kindred will cause the mergers to occur at the effective time. The effective time of the mergers will be such time on the closing date as is mutually agreed by AmerisourceBergen and Kindred, provided that the effective time will occur after consummation of the spin-offs.

We anticipate that the transaction will be completed during the third calendar quarter of 2007. However, completion of the transaction could be delayed if there is a delay in satisfying any closing conditions to the transaction. There can be no assurances as to whether, or when, the transaction will close. If the transaction is not completed on or before September 30, 2007 or for certain other reasons, either AmerisourceBergen or Kindred may, subject to certain exceptions, terminate the master transaction agreement. See Termination of the Master Transaction Agreement below.

Transaction Steps

Transfer of Assets; Assumption of Liabilities. Prior to the spin-offs, each of AmerisourceBergen and Kindred will take all actions necessary to cause PharMerica LTC and KPS, respectively, to own, subject to certain limited exceptions, all of such parent company s and its other subsidiaries right, title and interest in all assets owned, used or held for use primarily in connection with the institutional pharmacy business of such parent company. Each of AmerisourceBergen and Kindred will take all actions necessary to assign and transfer to PharMerica LTC and KPS, respectively, all of such parent company s and its other subsidiaries liabilities relating to such parent company s institutional pharmacy business.

Prior to the spin-offs, each of PharMerica LTC and KPS will take all actions necessary to cause AmerisourceBergen and Kindred, respectively, to own all of its and its subsidiaries right, title and interest in all assets that are not owned, used or held for use primarily in connection with the institutional pharmacy business of such company. Each of PharMerica LTC and KPS will take all actions necessary to assign and transfer to AmerisourceBergen and Kindred, respectively, all of its and its subsidiaries liabilities not relating to its institutional pharmacy business.

Transfers to AmerisourceBergen. Prior to the spin-offs and the AmerisourceBergen cash distribution, PCA will transfer its wholly-owned subsidiaries, PMSI and TMESYS, which are engaged in AmerisourceBergen s workers compensation services business, to AmerisourceBergen or a subsidiary of AmerisourceBergen that is not a subsidiary of PharMerica LTC.

Cash Distributions. Immediately prior to the spin-offs, PharMerica LTC will make the AmerisourceBergen cash distribution to AmerisourceBergen and KPS will make the Kindred cash distribution to KHO. The AmerisourceBergen cash distribution and the Kindred cash distribution will each be in an amount equal to $125 million as adjusted for changes to the working capital of PharMerica LTC or Kindred, as applicable, outside of an agreed upon working capital range.

To finance the cash distributions, each of PharMerica LTC and KPS will enter into a financing arrangement prior to the spin-offs in an amount equal to the size of its cash distribution. We refer to these financings as the initial financings. At closing, we will enter into a new senior secured credit facility in an amount sufficient to refinance the initial financings immediately after closing and to provide us with sufficient cash for operations following the closing.

Transfer to Kindred. Immediately following the Kindred cash distribution, but prior to the KPS spin-off, KHO will distribute all of the outstanding shares of KPS to Kindred.

Spin-Offs. On the closing date, AmerisourceBergen and Kindred will each deliver a single stock certificate representing all of the outstanding shares of common stock of PharMerica LTC and KPS, respectively, to the distribution agent. The distribution agent will hold these shares in trust for the benefit of the holders of record of AmerisourceBergen and Kindred common stock that would be entitled to receive shares of PharMerica LTC and KPS common stock in the applicable spin-off, pending conversion of such shares into shares of our common stock in the mergers. The mergers will occur immediately after the spin-offs.

Mergers. Immediately after the spin-offs, Hippo Merger Corporation will merge with and into PharMerica LTC, with PharMerica LTC as the surviving corporation, and Rhino Merger Corporation will concurrently merge with and into KPS, with KPS as the surviving corporation. We formed Hippo Merger Corporation and Rhino Merger Corporation as wholly-owned subsidiaries for the sole purpose of effectuating this transaction. At the effective time, as a result of the mergers, each AmerisourceBergen stockholder will be entitled to receive approximately shares of our common stock in respect of each share of AmerisourceBergen common stock held on the record date and each Kindred stockholder will be entitled to receive approximately shares of our common stock in respect of each share of Kindred common stock held on the record date. The number of shares of AmerisourceBergen common stock or Kindred common stock held by any such holder on the record date will not change as a result of the transaction. If a holder of AmerisourceBergen or Kindred shares sells such shares prior to the effective time of the transaction, such holder may also be selling the right to receive shares of our common stock. Such stockholder is encouraged to consult with its financial advisor regarding the specific implications of selling its AmerisourceBergen or Kindred common stock prior to or at the effective time of the transaction. AmerisourceBergen stockholders and Kindred stockholders will each initially own approximately 50% of the outstanding shares of our common stock.

Distribution Procedures

If you are a holder of record of AmerisourceBergen or Kindred common stock on the record date, you will not be required to pay any cash or deliver any other consideration in order to receive the shares of our common stock that you will be entitled to receive upon completion of the transaction. On or prior to the closing date, we will deposit with the distribution agent, for the benefit of the holders of PharMerica LTC and KPS common stock, the shares of our common stock issuable in connection with the mergers. At the effective time, AmerisourceBergen and Kindred will instruct the distribution agent to make book-entry credits for the shares of our common stock that each holder of AmerisourceBergen and Kindred as of the record date is entitled to receive. Since shares of our common stock will be in uncertificated book-entry form, stockholders will only receive share ownership statements if share certificates are specifically requested or required by law.

Fractional Shares

No fractional shares of our common stock will be distributed in connection with the mergers. Instead, all fractional shares of our common stock that a stockholder of PharMerica LTC or KPS common stock would otherwise be entitled to receive shall be aggregated. The distribution agent will sell all fractional shares which result from such aggregation through one or more member firms of the NYSE in one or more transactions and will distribute, in lieu of such fractional shares, cash payments representing each stockholder s proportionate interest, if any, in the net proceeds from such sale or sales by the distribution agent. Until the net proceeds of such sale or sales have been distributed to the applicable stockholders, the distribution agent will hold the proceeds in trust for such stockholders until they are distributed by the distribution agent. We will pay all commissions, transfer taxes and other out-of-pocket transaction costs incurred in connection with such sale or sales by the distribution agent.

Treatment of Stock Options and Restricted Shares Held by PharMerica LTC and KPS Employees

Stock Options. For purposes of the applicable AmerisourceBergen and Kindred equity plans, the spin-offs will result in a termination of employment for PharMerica LTC and KPS employees. Options to purchase AmerisourceBergen and Kindred common stock held by these employees that are vested at the time of the spin-offs will remain exercisable for AmerisourceBergen or Kindred common stock, as applicable, for a certain period of time following the spin-offs, as provided for in the relevant equity plan or award agreement. Pursuant to the terms of the relevant equity plans and in accordance with applicable law, AmerisourceBergen or Kindred, as applicable, may, in its sole discretion, adjust the terms and conditions of these vested options (including the number of shares subject to, or the exercise price of, such options) to equitably reflect the transaction.

Options held by PharMerica LTC and KPS employees that are unvested as of the distribution time will cease to represent a right with respect to AmerisourceBergen or Kindred common stock, as applicable, and will be deemed in the spin-offs to be converted into non-qualified stock options to purchase PharMerica LTC or KPS common stock, as applicable, and will then be converted in the mergers into NewCo Options. The NewCo Options will be granted pursuant to the NewCo Omnibus Incentive Plan and will have the same terms and conditions as applied to the respective AmerisourceBergen or Kindred options immediately prior to the transaction. In determining the option price and number of shares of our common stock underlying each NewCo Option, our Compensation Committee will use the spread and ratio tests set forth in Section 424 of the Code and the regulations promulgated thereunder in order to preserve the pre-distribution intrinsic value of the corresponding unvested AmerisourceBergen and Kindred options. As a result, (i) the number of our common shares subject to each NewCo Option will be equal to the number of shares subject to the original AmerisourceBergen or Kindred option, as applicable, multiplied by a fraction, the numerator of which is the value of AmerisourceBergen or Kindred common stock, as applicable, immediately before the transaction and the denominator of which is the value of our common stock immediately after the transaction and (ii) the exercise price of each NewCo Option will be equal to the exercise price of the original AmerisourceBergen or Kindred option, as applicable, multiplied by a fraction, the numerator of which is the value of our common stock immediately after the transaction and the denominator of which is the value of AmerisourceBergen or Kindred common stock, as applicable, immediately before the transaction. Under no circumstance will a NewCo Option be exercisable after the original expiration date of the related AmerisourceBergen or Kindred option, as applicable.

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Restricted Shares. In the spin-offs, PharMerica LTC and KPS employees, as well as AmerisourceBergen and Kindred employees, who hold restricted shares of AmerisourceBergen and Kindred common stock will receive shares of our common stock in the same ratio to their restricted shares of AmerisourceBergen and Kindred common stock as that applicable to holders of unrestricted shares of AmerisourceBergen and Kindred, as the case may be. Shares of our common stock received by holders of AmerisourceBergen restricted stock will continue to be subject to restrictions on vesting and transferability. Shares of our common stock received by holders of Kindred restricted stock will not be subject to restrictions on vesting and transferability.

In connection with the spin-offs, unvested restricted shares of AmerisourceBergen and Kindred common stock held by PharMerica LTC and KPS employees will be cancelled, and we will make substitution grants of restricted shares to these employees pursuant to the NewCo Omnibus Incentive Plan. The substitution grants will have the same terms and conditions as apply to the AmerisourceBergen or Kindred restricted shares immediately before the transaction and will have an equivalent value of the cancelled AmerisourceBergen or Kindred restricted shares, as applicable, based on the value of a share of AmerisourceBergen common stock or Kindred common stock, as applicable, immediately prior to the transaction and a share of our common stock immediately following the transaction and in each case without regard to any restrictions or periods of restriction to which such substitution grant is subject.

Employee Matters

Under the terms of the master transaction agreement, PharMerica LTC and KPS will generally assume all liabilities associated with PharMerica LTC and KPS employees, respectively, except as otherwise specifically provided in the agreement, and AmerisourceBergen and Kindred shall generally retain all liabilities associated with employees who are not PharMerica LTC and Kindred employees, respectively. If the employment of any PharMerica LTC or KPS employee is terminated prior to the closing date, AmerisourceBergen or Kindred, as applicable, will be responsible for the payment of any severance in connection with such termination. PharMerica LTC and KPS employees will receive credit for service for all periods of employment with PharMerica LTC and KPS, as applicable, for purposes of vesting, eligibility and benefit levels under any plan in which they participate after the consummation of the transaction (other than for purposes of benefit accruals under defined benefit pension plans).

Solvency and Surplus Conditions

Delaware Surplus Conditions

Section 170 of the DGCL provides that a Delaware corporation s directors may declare and pay dividends to stockholders on a corporation s capital stock either out of surplus or, if there is no surplus, out of a corporation s net profits for the fiscal year in which the dividend is declared and/or the preceding fiscal year. Surplus is defined as the excess, if any, of the net assets of a corporation over the amount determined to be the capital of the corporation. Net assets of a corporation are the amount by which a corporation s total assets exceed its total liabilities. A corporation s capital is generally equal to the aggregate par value of its shares, unless the corporation s board of directors determines otherwise.

As described below under Conditions to the Completion of the Transaction , it is a condition to consummation of the transaction that the board of directors of PharMerica LTC be satisfied that the AmerisourceBergen cash distribution will be made out of surplus and that the board of directors of AmerisourceBergen be satisfied that the spin-off of PharMerica LTC to the stockholders of AmerisourceBergen will be made out of surplus. It is also a condition to consummation of the transaction that the board of directors of KPS be satisfied that the Kindred cash distribution will be made out of surplus, that the board of directors of KHO be satisfied that the distribution of KPS to Kindred will be made out of surplus and that the board of directors of Kindred be satisfied that the spin-off of KPS to the stockholders of Kindred will be made out of surplus.

As of the date of the master transaction agreement, the board of directors of each of PharMerica LTC and AmerisourceBergen had determined that, if the effective time had occurred on the date of the master transaction agreement, the applicable surplus condition described above would have been satisfied.

As of the date of the master transaction agreement, the board of directors of each of KPS, KHO and Kindred had determined that, if the effective time had occurred on the date of the master transaction agreement, the applicable surplus condition described above would have been satisfied.

There can be no assurance that each applicable board of directors will be able to make the determination that the applicable surplus exists on the closing date.

Solvency Conditions

Prior to consummating the transaction, each of AmerisourceBergen and Kindred will make determinations as to whether it and its applicable subsidiaries will be solvent after consummation of the transaction. For purposes of the master transaction agreement, solvent means, with respect to any person on any date of determination, that on such date (a) the fair value of the property of such person is greater than the total amount of liabilities, including contingent liabilities, of such person, (b) the present fair salable value of the assets of such person is not less than the amount that will be required to pay the probable liability of such person on its debts as they become absolute and matured, (c) such person does not intend to, and does not believe that it will, incur debts or liabilities beyond such person s ability to pay such debts and liabilities as they mature, (d) such person is not engaged in business or a transaction, and is not about to engage in business or a transaction, for which such person s property would constitute an unreasonably small capital and (e) such person is able to pay its debts and liabilities, contingent obligations and other commitments as they mature in the ordinary course of business. The amount of contingent liabilities at any time will be computed as the amount that, in the light of all the facts and circumstances existing at such time, represents the amount that can reasonably be expected to become an actual or matured liability.

As described below under Conditions to the Completion of the Transaction , it is a condition to consummation of the transaction that (1) the board of directors of PCA be satisfied that, after giving effect to the transfer of PMSI and TMESYS to AmerisourceBergen or a subsidiary of AmerisourceBergen, PCA will be solvent, (2) the board of directors of PharMerica LTC be satisfied that, after giving effect to the AmerisourceBergen cash distribution, PharMerica LTC will be solvent and (3) the board of directors of AmerisourceBergen be satisfied that, after giving effect to the spin-off of PharMerica LTC to the stockholders of AmerisourceBergen, AmerisourceBergen will be solvent. It is also a condition to consummation of the transaction that (1) the board of directors of KPS be satisfied that after giving effect to the Kindred cash distribution, KPS will be solvent, (2) the board of directors of KHO be satisfied that, after giving effect to the distribution of KPS to Kindred, KHO will be solvent and (3) the board of directors of Kindred be satisfied that, after giving effect to the spin-off of KPS to the stockholders of Kindred, Kindred will be solvent.

As of the date of the master transaction agreement, the board of directors of each of PCA, PharMerica LTC and AmerisourceBergen had determined that, if the effective time had occurred on the date of the master transaction agreement, the applicable solvency condition described above would have been satisfied.

As of the date of the master transaction agreement, the board of directors of each of KPS, KHO and Kindred had determined that, if the effective time had occurred on the date of the master transaction agreement, the applicable solvency condition described above would have been satisfied.

There can be no assurance that each applicable board of directors will be able to make the determination that the applicable solvency condition is satisfied on the closing date.

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Conditions to the Completion of the Transaction

Mutual Closing Conditions. The obligations of each party to the master transaction agreement to consummate the transaction are subject to the satisfaction or waiver at or before the effective time of the transaction of the following conditions:

- absence of legal prohibitions on the completion of the transaction;
- effectiveness of the registration statement for our common stock being issued in the transaction and the absence of any SEC stop order suspending such effectiveness or any proceeding for such purpose pending before or threatened by the SEC;
- approval for listing on the NYSE of our common stock to be issued in the mergers, subject to official notice of issuance;
- receipt of applicable state board of pharmacy and controlled substances permits, receipt of DEA permits and enrollments in the federal Medicare program and applicable state Medicaid programs, other than those permits and approvals the failure of which to obtain would not, individually or in the aggregate, have an effect that would reasonably be expected to be adverse and material to our business and operations or the business and operations of our subsidiaries, taken as a whole, after giving effect to the transaction;
- receipt by NewCo of financing commitments (subject only to the condition that the effective time shall have occurred) in an amount sufficient to (i) refinance the aggregate of the AmerisourceBergen cash distribution and Kindred cash distribution at the effective time and (ii) provide appropriate cash reserves to pay the fees and expenses and fund our operations after the effective time;
- absence of any pending action or proceeding by any governmental authority that (1) seeks to make illegal, delay materially or otherwise prohibit the completion of the transaction or to obtain material damages in connection with the transaction, (2) seeks to restrain our ability or the ability of our subsidiaries from exercising full rights of ownership over PharMerica LTC or KPS common stock or seeks to prohibit the ownership or operation by us or any of our subsidiaries of any material portion of the business or assets of PharMerica LTC and KPS, taken as a whole or (3) seeks to compel us or any of our subsidiaries to hold separate or dispose of any material portion of the business or assets of PharMerica LTC and KPS, taken as a whole;
- execution and delivery of each of the transaction agreements, including the information services agreement, the prime vendor agreement, the trademark license agreement and each of the transition services agreements;
- satisfaction of the board of directors of each of AmerisourceBergen and Kindred that, after giving effect to the transaction, we will be solvent at the effective time;
- satisfaction of the board of directors of (1) PCA that, after giving effect to the transfer of PMSI and TMESYS to AmerisourceBergen or a subsidiary of AmerisourceBergen, PCA will be solvent, (2) PharMerica LTC (i) that the AmerisourceBergen cash distribution will be made out of surplus as defined in Section 170 of the DGCL and (ii) that, after giving effect to such distributions, PharMerica LTC will be solvent, and (3) AmerisourceBergen (i) that the spin-off of PharMerica LTC to the stockholders of AmerisourceBergen will be made out of surplus as defined in Section 170 of the DGCL and (ii) that, after giving effect to such distribution, AmerisourceBergen will be solvent; and

satisfaction of the board of directors of (1) KPS (i) that the Kindred cash distribution will be made out of surplus as defined in Section 170 of the DGCL and (ii) that, after giving effect to such distributions, KPS will be solvent, (2) KHO, (i) that the distribution of KPS to Kindred will be made out of surplus as defined in Section 170 of the DGCL and (ii) that, after giving effect to such distributions, KHO will be solvent and (3) Kindred (i) that the spin-off of KPS to the stockholders of Kindred will be made out of surplus as defined in Section 170 of the DGCL and (ii) that, after giving effect to such distribution, Kindred will be solvent.

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Additional Closing Conditions for the Benefit of AmerisourceBergen, PharMerica LTC and Hippo Merger Corporation. The obligation of AmerisourceBergen, PharMerica LTC and Hippo Merger Corporation to complete the transaction is subject to satisfaction or waiver at or before the effective time of the following additional conditions:

- (1) performance in all material respects by Kindred of the obligations required to be performed by it at or prior to the effective time; (2) accuracy as of the date specified in the master transaction agreement of the representations and warranties made by Kindred to the extent specified in the master transaction agreement and (3) delivery of a certificate of an executive officer of Kindred to the foregoing effect;

- delivery of an opinion of AmerisourceBergen s counsel that (1) the spin-off of PharMerica LTC will qualify as a transaction described in Section 355(a) of the Code, (2) the common stock of PharMerica LTC will be treated as qualified property for purposes of Section 355(c)(2) and Section 361(c)(2) of the Code and (3) the conversion of PharMerica LTC common stock into our common stock in the mergers will be treated for federal income tax purposes as an exchange described in Section 351 of the Code;

- receipt by AmerisourceBergen of a private letter ruling from the IRS with respect to certain tax matters;

- receipt of all waivers, consents, amendments and releases required under AmerisourceBergen s existing credit agreement to consummate the transaction; and

- payment by PharMerica LTC to AmerisourceBergen of the AmerisourceBergen cash distribution.

Additional Closing Conditions for the Benefit of Kindred, KPS and Rhino Merger Corporation. The obligation of Kindred, KHO, KPS and Rhino Merger Corporation to complete the transaction is subject to satisfaction or waiver at or before the effective time of the following additional conditions:

- (1) performance in all material respects by AmerisourceBergen of the obligations required to be performed by it at or prior to the effective time; (2) accuracy as of the date specified in the master transaction agreement of the representations and warranties made by AmerisourceBergen to the extent specified in the master transaction agreement and (3) delivery of a certificate of an executive officer of AmerisourceBergen to the foregoing effect;

- delivery of opinion of Kindred s counsel that (1) the spin-off of KPS will qualify as a transaction described in Section 355(a) of the Code, (2) the common stock of KPS will be treated as qualified property for purposes of Section 355(c)(2) and Section 361(c)(2) of the Code and (3) the conversion of KPS common stock into our common stock in the mergers will be treated for federal income tax purposes as an exchange described in Section 351 of the Code;

- receipt by Kindred of a private letter ruling from the IRS with respect to certain tax matters;

- receipt of all waivers, consents, amendments and releases required under Kindred s existing credit agreement to consummate the transaction; and

- payment by KPS to KHO of the Kindred cash distribution.

Representations and Warranties

The master transaction agreement contains substantially similar representations and warranties that are customary for this type of transaction made by each of AmerisourceBergen and Kindred, as applicable, as to, among other matters:

- certain corporate matters;
- actions by, or filings with, any governmental authority necessary to complete the transaction;
- SEC filings, the absence of material misstatements or omissions from such filings and compliance with the Sarbanes-Oxley Act of 2002;

- financial statements of AmerisourceBergen, Kindred, PharMerica LTC and KPS;
- absence of certain changes and undisclosed liabilities with respect to PharMerica LTC and KPS;
- employees and employee benefit plans to the extent relating to PharMerica LTC and KPS;
- environmental, intellectual property and real property matters with respect to PharMerica LTC and KPS;
- material contracts of PharMerica LTC and KPS;
- tax treatment of the transaction; and
- opinions from the financial advisors of each of AmerisourceBergen and Kindred as to the fairness of the exchange ratio applicable to the companies respective stockholders in the transaction.

In addition, the master transaction agreement contains a representation and warranty by AmerisourceBergen that the earnings before interest, taxes, depreciation and amortization of AmerisourceBergen s institutional pharmacy business for the nine months ended June 30, 2006 will not be less than $28,673,469, and a representation and warranty by Kindred that the earnings before interest, taxes, depreciation and amortization of Kindred s institutional pharmacy business for the nine months ended September 30, 2006 will not be less than $30,335,375.

Certain of these representations and warranties are qualified as to materiality or material adverse effect. For purposes of the master transaction agreement, material adverse effect means, with respect to AmerisourceBergen or Kindred, as the case may be, a material adverse effect on the condition (financial or otherwise), business, assets, or results of operations of such party s institutional pharmacy business, taken as a whole, provided that none of the following will be taken into account in determining whether there has been or will be a material adverse effect:

- changes or conditions generally affecting the industries in which the applicable party s institutional pharmacy business operates, but only to the extent the effect on such party s institutional pharmacy business, taken as a whole, is not materially worse than the effect on the other party s institutional pharmacy business, taken as a whole;
- changes in general economic, regulatory or political conditions, including changes in applicable laws, accounting rules or interpretations of applicable laws or accounting rules, the engagement by the United States in hostilities, or the occurrence of any military or terrorist attack upon or within the United States, but only to the extent the effect on such party s institutional pharmacy business, taken as a whole, is not materially worse than the effect on the other party s institutional pharmacy business, taken as a whole; or
- the announcement of the transaction or the master transaction agreement.

The representations and warranties in the master transaction agreement will survive after the effective time for a period of 15 months.

Governance of NewCo

Pursuant to the terms of the master transaction agreement, our board of directors will initially consist of nine directors, four of whom will be designated by AmerisourceBergen, four of whom will be designated by Kindred and one of whom will be our chief executive officer, Mr. Weishar. AmerisourceBergen intends to designate , , and R. David Yost, AmerisourceBergen s Chief Executive Officer, as its four nominees to our board of directors while Kindred intends to designate , , Edward L. Kuntz, Executive Chairman of the board of directors of Kindred, and Paul J. Diaz, Kindred s President and Chief Executive Officer, as its four nominees to our board of directors. Messrs. Yost, Kuntz and Diaz have agreed that they will serve as directors no longer than through the 2008 annual meeting of our stockholders. In addition, Messrs. Kuntz and Diaz have agreed that they would resign from our board of directors if requested by

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Kindred s Nominating and Corporate Governance Committee. AmerisourceBergen also will be entitled to designate the initial chairman of our board as well as the initial chair of the Audit Committee of our board, subject to the consent of Kindred, which will not be unreasonably withheld.

Also pursuant to the terms of the master transaction agreement, AmerisourceBergen and Kindred will designate by mutual agreement the individuals who will initially serve as our chief financial officer, chief operating officer, chief administrative officer and general counsel.

Mutual Releases; Indemnification

Release of Pre-Closing Claims. As of the effective time, we will release AmerisourceBergen, Kindred and their respective subsidiaries from any and all liabilities existing or arising from acts or events occurring or failing to occur at or prior to the effective time, whether or not known as of the effective time, subject to certain exceptions specified in the master transaction agreement. As of the effective time, AmerisourceBergen and Kindred will release us and our subsidiaries from any and all liabilities existing or arising from acts or events occurring or failing to occur at or prior to the effective time, whether or not known as of the effective time, subject to certain exceptions specified in the master transaction agreement.

Indemnification by AmerisourceBergen and Kindred. Subject to certain exceptions specified in the master transaction agreement, after the consummation of the transaction, each of AmerisourceBergen and Kindred will severally and not jointly indemnify us and our affiliates against any and all damages, liabilities and expenses arising out of, relating to or resulting from any of the following:

- any misrepresentation or breach of warranty in the master transaction agreement by the applicable parent company;
- any breach by the applicable parent company of a covenant or agreement in the master transaction agreement; and
- all entities, assets and liabilities retained by the applicable parent company.

In general, AmerisourceBergen and Kindred will only be liable to us for damages for misrepresentations or breaches of warranty which exceed $30 million in the aggregate (and we will be indemnified only to the extent of damages in excess of $30 million) and were actually incurred or suffered by us. In addition, each parent company s liability to us for misrepresentations or breaches of warranty is generally limited to $155 million.

Indemnification by NewCo. Subject to certain exceptions specified in the master transaction agreement, after the consummation of the transaction, we will indemnify each of AmerisourceBergen and Kindred and their respective affiliates against any and all damages, liabilities and expenses arising out of, relating to or resulting from any of the following:

- any breach by us of a covenant or agreement in the master transaction agreement; and
- all entities, assets and liabilities assigned and transferred to us in connection with the transaction.

Indemnification for Taxes. Indemnification with respect to taxes and tax matters will be governed by the terms of the tax matters agreement. See Additional Agreements with AmerisourceBergen and Kindred Tax Matters Agreement.

Covenants

Each of AmerisourceBergen and Kindred has undertaken certain covenants in the master transaction agreement. The following summarizes the more significant of these covenants:

Interim Operations. AmerisourceBergen and Kindred have each agreed to conduct its business (to the extent relating to its institutional pharmacy business) in the ordinary course consistent with past practice and to not

engage in specified transactions without the prior written consent of the other parent company and to maintain in effect all of its governmental licenses and approvals and existing relationships with its customers, lenders, suppliers and others with whom it has a material business relationship.

Financing. AmerisourceBergen and Kindred have each agreed to use commercially reasonable efforts to cause PharMerica LTC and KPS, respectively, to obtain the AmerisourceBergen cash distribution and the Kindred cash distribution, as applicable, by negotiating definitive agreements with lenders and satisfying all conditions to borrowing included in such definitive agreements prior to the cash distributions.

Intercompany Accounts. AmerisourceBergen and Kindred have agreed that all intercompany accounts between AmerisourceBergen and PharMerica LTC and between Kindred and KPS shall be paid in full in cash on the closing date, subject to certain specified exceptions. If the AmerisourceBergen cash distribution, together with cash on hand at PharMerica LTC is not sufficient to pay all intercompany account balances between AmerisourceBergen and PharMerica LTC, the remaining balances will be cancelled at the effective time. If the Kindred cash distribution, together with cash on hand at KPS is not sufficient to pay all intercompany account balances between Kindred and KPS, the remaining balances will be cancelled at the effective time.

No Solicitation. AmerisourceBergen and Kindred have agreed that neither the parent companies, their subsidiaries nor any of their officers, directors, employees, agents or advisors will, directly or indirectly (1) solicit, initiate or take any action to facilitate or encourage the submission of an Acquisition Proposal (as defined in the master transaction agreement), (2) enter into or participate in any discussions or negotiations with or otherwise cooperate with any third party that is seeking to make, or has made, an Acquisition Proposal or (3) enter into an agreement, letter of intent, term sheet or other similar instrument relating to an Acquisition Proposal.

Non-Competition. AmerisourceBergen and Kindred have agreed that neither they nor their respective affiliates will, directly or indirectly, acquire, manage, operate, engage in, finance or own any interest in any institutional pharmacy business in the United States for a period of five years following the closing date, *provided* that AmerisourceBergen and Kindred shall be permitted to (1) merge with, acquire the assets of or have an investment in any person that draws 10% or less of its annual revenue or operating income from the institutional pharmacy business or (2) merge with, acquire the assets of or have an investment in any person that draws more than 10% of its annual revenue or operating income from the institutional pharmacy business so long as the institutional pharmacy segment of such business is divested within 12 months of such acquisition or merger.

Non-Solicitation by AmerisourceBergen and Kindred. AmerisourceBergen and Kindred have agreed that neither they nor their respective affiliates will, subject to limited exceptions, solicit, induce or attempt to induce any of our employees to leave our employ. This non-solicitation restriction applies for two years from the closing date for our employees who are vice-presidents or more senior and for one year from the closing date for all other employees.

Non-Solicitation by NewCo. We have agreed that neither we nor our affiliates will, subject to limited exceptions, solicit, induce or attempt to induce any employees of our parent companies to leave their employ. This non-solicitation restriction applies for two years from the closing date for employees of our parent companies who are vice-presidents or more senior and for one year from the closing date for all other employees.

Transition Planning Committee. AmerisourceBergen and Kindred have formed a transition planning committee which consists of three AmerisourceBergen representatives and three Kindred representatives. AmerisourceBergen and Kindred have agreed that the transition planning committee will be responsible for all aspects of our transition planning until consummation of the transaction. All decision made by the transition planning committee must be approved by a majority of its members.

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Indemnification of Directors and Officers. We have agreed to indemnify and advance expenses to the present and former directors and officers of AmerisourceBergen, Kindred, PharMerica LTC, KPS and their respective subsidiaries, in respect of acts or omissions of such persons while acting in a capacity for the institutional pharmacy businesses of AmerisourceBergen and Kindred, respectively. We have also agreed to provide directors and officers liability insurance for each of such indemnified persons in respect of acts or omissions of such persons occurring prior to the effective time while acting in a capacity for the institutional pharmacy businesses of AmerisourceBergen and Kindred, respectively.

Termination of the Master Transaction Agreement

The master transaction agreement may be terminated at any time before the effective time of the transaction in any of the following ways:

- by mutual written agreement of AmerisourceBergen and Kindred;
- by either AmerisourceBergen or Kindred if:
  - the transaction has not been consummated on or before September 30, 2007, *provided* that neither AmerisourceBergen or Kindred may terminate the master transaction agreement for this reason if its breach of any provision of the master transaction agreement has resulted in the failure of the transaction to be consummated on or before such date, *provided*, *further* that either party may extend such date until October 31, 2007 if the transaction has not been consummated solely as a result of the failure to satisfy the mutual closing condition requiring receipt of certain state and federal permits and approvals if either AmerisourceBergen or Kindred delivers a notice to the other indicating that it believes in good faith that such condition will be satisfied by October 31, 2007;
  - any applicable law makes the transaction illegal or enjoins completion of the transaction;
  - the earnings before interest, income taxes, depreciation and amortization of AmerisourceBergen s institutional pharmacy business for the nine months ended June 30, 2006 is less than $24,577,259 (this condition has already been satisfied); or
  - the earnings before interest, income taxes, depreciation and amortization of Kindred s institutional pharmacy business for the nine months ended September 30, 2006 is less than $26,001,750;
- by AmerisourceBergen if:
  - any of the mutual closing conditions or the closing conditions for the benefit of AmerisourceBergen, PharMerica LTC and Hippo Merger Corporation have not been satisfied by September 30, 2007, *provided* that AmerisourceBergen may not terminate the master transaction agreement for this reason if its breach of any provision of the master transaction agreement has resulted in the failure of such condition to closing to be satisfied; or
  - (i) Kindred has not delivered the audited financial statements for its institutional pharmacy business as of December 31, 2005 and 2004 and for the years ended December 31, 2005, 2004 and 2003 on or before January 31, 2007 or (ii) Kindred has not delivered the audited financial statements of the institutional pharmacy business as of December 31, 2006 and for the year ended December 31, 2006, on or before March 31, 2007 (this condition has already been satisfied);

by Kindred if:

any of the mutual closing conditions or the closing conditions for the benefit of Kindred, KHO, KPS and Rhino Merger Corporation have not been satisfied by September 30, 2007, *provided* that Kindred may not terminate the master transaction agreement for this reason if its breach of any provision of the master transaction agreement has resulted in the failure of such condition to closing to be satisfied; or

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AmerisourceBergen has not delivered the audited financial statements for its institutional pharmacy business as of September 30, 2006 and 2005 and for the years ended September 30, 2006, 2005 and 2004 on or before January 31, 2007 (this condition has already been satisfied).

If the master transaction agreement is validly terminated, the agreement will become void without any liability on the part of any party unless the termination results from a party s knowing and willful breach of certain provisions of the master transaction agreement or the tax matters agreement or knowing and willful failure to use reasonable best efforts to fulfill a closing condition.

Amendments; Waivers

Any provision of the master transaction agreement may be amended or waived prior to the effective time of the transaction if, but only if, such amendment or waiver is in writing and signed, in the case of an amendment, by each party to the agreement or, in the case of a waiver, by each party against whom the waiver is to be effective.

Fees and Expenses

All fees and expenses incurred in connection with the master transaction agreement will be paid by the party incurring the fee or expense, *provided* that we will be responsible for certain fees and expenses incurred by AmerisourceBergen and Kindred on our behalf prior to the effective time, including (1) fees and expenses owed to third parties in connection with the activities of the transition planning committee, the filing, printing and mailing of the registration statement, the pro forma financial statements included in the registration statement, the determination of our name, the search for, and compensation of, our directors and officers and the search for, and lease of, office, pharmacy or other space for us, (2) fees and expenses owed to our counsel, (3) fees and expenses owed to Buchanan Ingersoll & Rooney PC for legal services provided to assist us in obtaining appropriate state board of pharmacy licenses and other certifications for our pharmacy locations and (4) any amounts paid prior to the closing date to our executives who were not employed by either PharMerica LTC or KPS as of the signing of the master transaction agreement.

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ADDITIONAL AGREEMENTS WITH AMERISOURCEBERGEN AND KINDRED

Following the transaction, AmerisourceBergen, Kindred and NewCo will be stand-alone, publicly traded companies. While intercompany agreements between AmerisourceBergen and PharMerica LTC and between Kindred and KPS will generally terminate on the closing date pursuant to the terms of the master transaction agreement, certain intercompany agreements will continue in effect following the closing date. In addition, we will be entering into a number of agreements on the closing date with each of AmerisourceBergen and Kindred in connection with the transaction. The following is a summary of the material terms and conditions of those agreements. This summary is qualified by reference to the tax matters agreement, transition services agreements, information services agreement, prime vendor agreement and master pharmacy provider agreement, each of which is incorporated by reference into this preliminary prospectus.

Tax Matters Agreement

In connection with the transaction, the tax matters agreement will govern our, AmerisourceBergen s and Kindred s rights and obligations after the spin-offs and mergers with respect to taxes, for both pre-merger and post-merger periods. Generally, Kindred and AmerisourceBergen, respectively, are responsible for the taxes of KPS (and its subsidiaries) and PharMerica LTC (and its subsidiaries), respectively, that relate to pre-merger periods and we are responsible for all taxes that relate to post-merger periods.

To preserve the tax-free treatment of the spin-offs, we have agreed to certain tax-related restrictions and indemnities in the tax matters agreement, under which we:

- have generally undertaken to maintain our current business as an active business for a period of two years following the completion of the mergers;
- are generally restricted, for a period of two years following the mergers, from (i) reacquiring our stock, (ii) issuing stock to any person other than as compensation for services, (iii) making changes in our equity structure, (iv) liquidating, merging or consolidating certain of our subsidiaries, (v) transferring certain material assets except in the ordinary course of business, and (vi) entering into negotiations with respect to, or consenting to, certain acquisitions of our stock;
- are generally restricted from taking any other action (including an action that would be inconsistent with the representations relied upon by AmerisourceBergen and Kindred described above) that could jeopardize the tax-free status of the spin-offs; and
- have generally agreed to indemnify AmerisourceBergen and Kindred for taxes and related losses incurred as a result of the spin-offs failing to qualify as tax-free transactions if the taxes and related losses are attributable to our failure to comply with applicable representations, undertakings and restrictions placed on our actions under the tax matters agreement or are otherwise attributable to any act, failure to act or omission by us or our subsidiaries.

Each of AmerisourceBergen and Kindred is required to indemnify us for any taxes for which it is responsible under the tax matters agreement, any taxes that are imposed upon us because PharMerica LTC or KPS, as the case may be, was part of the consolidated tax return of AmerisourceBergen or Kindred, respectively, or any taxes resulting from a breach of certain representations or covenants made by AmerisourceBergen or Kindred, respectively.

Prime Vendor Agreement

In connection with the transaction, we will enter into a prime vendor agreement with AmerisourceBergen Drug Corporation, a wholly-owned subsidiary of AmerisourceBergen. Pursuant to such agreement, we have agreed to purchase at least 95% of our prescription pharmaceutical drugs from AmerisourceBergen Drug Corporation and to participate in its generic formulary purchase program for a period of five years following the

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closing date. We have also agreed to a minimum purchase volume equal to $1 billion in the first year after the effective date of the transaction. In addition, AmerisourceBergen Drug Corporation will support the distribution of pharmaceuticals that we purchase directly from manufacturers and provide inventory management support and packaging services. The prime vendor agreement may be terminated by either party for cause. We believe that the prime vendor agreement is an arm s-length agreement, the terms of which are no less favorable than those that could be obtained from an unaffiliated third party.

Master Pharmacy Provider Agreement

Prior to the transaction, KPS entered into a master pharmacy provider agreement with certain wholly-owned subsidiaries of Kindred, including KHO. In addition, KPS or one of its subsidiaries entered into or is party to contracts pursuant to which KPS provides pharmaceutical and consulting services to individual Kindred-owned facilities. The master pharmacy provider agreement, which expires on July 1, 2012, sets forth the terms and conditions applicable to the individual pharmaceutical and consulting services contracts, including the prices to be charged by KPS pursuant to such contracts. For the year ended December 31, 2006, Kindred-operated facilities had paid KPS $97 million pursuant to individual pharmacy and consulting contracts governed by the master pharmacy provider agreement, and KPS expects to continue receiving payments from Kindred pursuant to the terms of the agreement. If Kindred receives a proposal from a third party offering to provide the services currently provided by KPS to all Kindred facilities within one or more states at a more competitive price, Kindred may accept the alternative proposal and terminate its contracts with the applicable facilities if KPS chooses not to match the terms of the alternative proposal. In addition, either party may terminate the master pharmacy provider agreement for cause, a facility may terminate an individual contract upon a change in control of such facility or the occurrence of certain other events and Kindred may terminate the master pharmacy provider agreement if 20 or more individual contracts governed by the agreement are terminated by Kindred for cause.

Hospital Pharmacy Management Agreements with Kindred

Prior to the transaction, Kindred Hospital Pharmacy Services, Inc., a wholly-owned subsidiary of KPS, entered into pharmacy management agreements with certain wholly-owned subsidiaries of Kindred. Pursuant to these agreements, Kindred Hospital Pharmacy Services, Inc. will provide pharmacy management, staffing, patient care and certain other services to pharmacies in Kindred-operated facilities until June 30, 2009. In return for such services, Kindred Hospital Pharmacy Services is reimbursed certain specified costs and paid a monthly management fee. For the year ended December 31, 2006, Kindred had paid Kindred Hospital Pharmacy Services $51 million in management fees, and KPS expects to continue receiving such fees pursuant to the terms of the agreements. The agreements may be terminated by either party for cause.

Information Services Agreement

In connection with the transaction, we will enter into an information technology services agreement with Kindred. Pursuant to this agreement, Kindred will be our exclusive provider of certain information services and support related to information technology infrastructure and financial systems for a period of five years following the closing date. The services provided by Kindred will include business services necessary to operate, manage and support certain financial applications we use, including enabling and/or supporting technology infrastructure and technology procurement services to support certain business functions. Such services will include, among other matters, functions for financial management and systems and payroll. We will support internally all other operating systems, including functions for order entry, pharmacy dispensing, clinical consulting, billing and collections, electronic medication management, sales and marketing, medical records management, human resources, internal and external customer call center support and general business systems.

Except for certain services which will be provided at cost, Kindred will provide such services to us at its cost plus 10%. Kindred s cost for these services will be the actual costs and expenses incurred by Kindred in providing these services, including certain overhead costs and costs of the Kindred employees providing the services. Some of such costs as to infrastructure will be allocated between us and Kindred. The information services agreement may be terminated by either party for cause and, in certain circumstances, by us in the event that Kindred undergoes a change of control to one of our competitors.

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Transition Services Agreements

In connection with the transaction, we will enter into a transition services agreement with Kindred. Pursuant to such agreement, Kindred will provide us with certain corporate administrative services, such as internal audit, employee benefit administration and financial reporting services, for a period of up to 12 months following the closing date. Kindred will provide such services at its cost, which will be the actual costs and expenses incurred by Kindred in providing these services, including overhead costs and per hour costs of the Kindred employees providing the services. In addition, we will enter into a transition services agreement with AmerisourceBergen. Pursuant to such agreement, AmerisourceBergen will provide us with certain transition services, such as accounting, treasury, human resources, tax and employee benefit administration services for a period of up to 12 months following the closing date. AmerisourceBergen will provide such services at its cost, which will be the actual costs and expenses incurred by AmerisourceBergen in providing these services, including overhead costs and per hour costs of the AmerisourceBergen employees providing the services. Each of the transition services agreements may be terminated by either party for cause, by us upon 60 days written notice and by the service provider upon a payment default.

In connection with the transaction, we will also enter into a transition services agreement with AmerisourceBergen pursuant to which we will provide the workers compensation services business of AmerisourceBergen with certain transition services for a period of up to 12 months.

Pharmacy Services Staffing Agreement with Pharmacy Healthcare Solutions

Prior to the transaction, PharMerica LTC entered into a pharmacy services staffing agreement with Pharmacy Healthcare Solutions d/b/a Advocate Rx Solutions, a wholly-owned subsidiary of AmerisourceBergen. Pursuant to such agreement, Advocate Rx will provide PharMerica LTC with temporary staffing for its pharmacies at fixed per-hour rates until January 10, 2008. As of January 31, 2007, PharMerica LTC had paid Advocate Rx $547,449 for services since February 2006 and expects to continue paying Advocate Rx for such services pursuant to the terms of the agreement. The staffing agreement may be terminated by either party upon 30 days prior written notice.

Trademark License Agreement

In connection with the transaction, KPS will enter into a trademark license agreement with Kindred. Pursuant to such agreement, KPS will be granted, until December 31, 2007, a limited license to use certain trademarks owned by Kindred, including the Kindred logo and the Kindred Pharmacy Services trademark. We believe that the license agreement will provide us with a sufficient opportunity to change the name of KPS and its subsidiaries and to establish our own trademarks following the closing of the transaction. The trademark license agreement may be terminated by either party for cause.

Purchase and License Agreement with AutoMed Technologies, Inc.

Prior to the transaction, PharMerica LTC entered into a purchase and license agreement with AutoMed Technologies, Inc., a wholly-owned subsidiary of AmerisourceBergen. Pursuant to such agreement, PharMerica LTC purchased certain equipment and received certain perpetual, non-exclusive, non-transferable licenses to use software owned by AutoMed. In addition, we are obligated to seek (though not to accept) bids from AutoMed each time we desire to purchase products or services which are provided by AutoMed. As of January 31, 2007, PharMerica LTC had paid AutoMed $98,286 since 2002 for products, services and fees pursuant to the agreement and expects to continue paying AutoMed an annual license fee for use of certain software. Such licenses may be terminated by AutoMed for cause.

CERTAIN RELATIONSHIPS AND RELATED PARTY TRANSACTIONS

We will be entering into a number of agreements on the closing date of the transaction with each of AmerisourceBergen and Kindred. See Additional Agreements with AmerisourceBergen and Kindred.

Certain of our directors are employees and/or directors of AmerisourceBergen or Kindred. See Management Executive Officers and Directors and Management Compensation of Directors.

We will be reimbursing certain fees and expenses incurred by AmerisourceBergen and Kindred in connection with the transaction. See Master Transaction Agreement Fees and Expenses.

DESCRIPTION OF OUR CAPITAL STOCK

We have summarized below the material terms of our capital stock that are expected to be in effect following the transaction. You are encouraged to read our certificate of incorporation and bylaws, which will be filed as exhibits to the registration statement of which this preliminary prospectus is a part, for greater detail on the provisions that may be important to you.

Sales of Unregistered Securities

Prior to the effective time, our authorized capital stock will consist of 100 shares of common stock, par value $0.01 per share, and 100 shares of preferred stock, par value $0.01 per share. In connection with our incorporation, we issued one share of common stock to AmerisourceBergen and one share of common stock to Kindred. This issuance was exempt from registration pursuant to Section 4(2) of the Securities Act because the issuance did not involve any public offering of securities.

We have organized Hippo Merger Corporation and Rhino Merger Corporation under the laws of the State of Delaware for the sole purpose of effectuating the mergers with PharMerica LTC and KPS. Hippo Merger Corporation s authorized capital stock consists of 100 shares of common stock, par value $0.01 per share, all of which shares have been issued to us in consideration of an aggregate capital contribution of $100. Rhino Merger Corporation s authorized capital stock consists of 100 shares of common stock, par value $0.01 per share, all of which shares have been issued to us in consideration of an aggregate capital contribution of $100. We are the sole stockholder of Hippo Merger Corporation and Rhino Merger Corporation.

In connection with the transaction, AmerisourceBergen and Kindred will each deliver to the distribution agent for the benefit of their stockholders on the record date a single stock certificate, representing all of the outstanding shares of common stock of PharMerica LTC and KPS issuable in the spin-offs. The distribution agent will hold such shares in trust pending conversion of such shares into shares of our common stock pursuant to the mergers.

On the closing date, PharMerica LTC will be merged with and into Hippo Merger Corporation, with PharMerica LTC as the surviving corporation, and KPS will be merged with and into Rhino Merger Corporation, with KPS as the surviving corporation. In connection with the mergers, each issued and outstanding share of capital stock of Hippo Merger Corporation and Rhino Merger Corporation will be converted into one fully paid and nonassessable share of common stock, par value $.01 per share, of the surviving corporations.

At the effective time of the mergers, each outstanding share of PharMerica LTC common stock will be converted into the right to receive approximately shares of our common stock and each share of KPS common stock will be converted into the right to receive approximately shares of our common stock.

At the effective time of the mergers, the shares of our common stock owned by AmerisourceBergen and Kindred will be returned to us.

Authorized Capital Stock Following the Transaction

Immediately following the transaction, our authorized capital stock will consist of 175,000,000 shares of common stock, par value $0.01, and 1,000,000 shares of preferred stock, par value $0.01. Immediately following the transaction, we expect that approximately 30 million shares of our common stock will be issued and outstanding. No shares of preferred stock will be outstanding.

Common Stock

The holders of our common stock will be entitled to one vote for each share on all matters voted on by stockholders, including elections of directors, and, except as otherwise required by law or provided in any resolution adopted by our board of directors with respect to any series of preferred stock, the holders of our common stock will possess all voting power. The holders of our common stock will not be entitled to cumulative voting of their shares in elections of directors. Subject to any preferential rights of any outstanding series of our preferred stock created by our board of directors from time to time, the holders of shares of our common stock will be entitled to receive dividends as declared by our board of directors out of funds that are legally available for that purpose. For a more complete discussion of our dividend policy, see Dividend Policy.

The holders of our common stock will have no preemptive rights. The rights, preferences and privileges of holders of common stock are subject to, and may be adversely affected by, the rights of the holders of shares of any series of preferred stock which our board of directors may designate and issue in the future.

Preferred Stock

The certificate of incorporation authorizes the issuance of an aggregate of 1,000,000 shares of preferred stock. As of the date of this prospectus, there were no shares of preferred stock outstanding.

Our board of directors may, from time to time, direct the issue of shares of preferred stock in series and may, at the time of issue, determine the designation, powers, rights, preferences and limitations of each series. Satisfaction of any dividend preferences of outstanding preferred stock would reduce the amount of funds available for the payment of dividends on our shares of common stock. Holders of preferred stock may be entitled to receive a preference payment in the event of any liquidation, dissolution or winding-up of our company before any payment is made to the holders of our common stock. Under certain circumstances, the issuance of preferred stock may render more difficult or tend to discourage a merger, tender offer or proxy contest, the assumption of control by a holder of a large block of our company s securities or the removal of incumbent management. The board of directors may issue shares of preferred stock with voting and conversion rights that could adversely affect the holders of shares of our common stock. Specifically, our certificate of incorporation authorizes our board to adopt a rights plan without stockholder approval. This could delay or prevent a change in control of us or the removal of existing management. As of the date of this preliminary prospectus, we have not adopted a rights plan.

Transfer Agent and Registrar

The transfer agent and registrar for our common stock is The Bank of New York.

New York Stock Exchange Listing

We have applied for listing of our common stock on the NYSE under the symbol PMC .

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STATUTORY, CHARTER AND BYLAW PROVISIONS

Corporate Governance

We are a corporation organized under the laws of the state of Delaware and are governed by the DGCL, our certificate of incorporation and our bylaws.

Composition of our Board of Directors

Under our certificate of incorporation and bylaws, our board of directors will be elected annually by our stockholders. Any vacancies on our board of directors arising from death, resignation, retirement, disqualification, removal from office or other cause, and newly created directorships resulting from an increase in the size of the board may be filled by our board of directors.

Quorum/Voting

At all meetings of our board of directors, a majority of the total number of directors will be a quorum. If there is a quorum, a vote of the majority of the directors present at the meeting will be considered an act of our board of directors.

Liability and Indemnification of Directors

The DGCL, our certificate of incorporation and our bylaws contain provisions relating to the limitation of liability and indemnification of our directors. They provide that our directors are not personally liable to us or our stockholders for monetary damages for breach of fiduciary duty as a director, except to the extent that such exemption from liability or limitation thereof is not permitted under the DGCL.

As such, our directors will not be liable for breach of fiduciary duty except for:

- any breach of a director s duty of loyalty to us or our stockholders;
- acts or omissions not in good faith or involving intentional misconduct or a knowing violation of the law;
- any transaction from which a director derived improper personal benefit;
- the unlawful payment of dividends; and
- unlawful repurchases or redemptions.

Anti-Takeover Provisions

Some provisions of Delaware law and our certificate of incorporation and bylaws could make it more difficult to acquire our company or remove our incumbent officers and directors. These provisions, summarized below, may discourage our acquisition by a third party or prevent attempts by our stockholders to replace or remove our current management, which could limit stockholders opportunity to sell shares at a premium. We believe that these provisions provide increased protection against any unfriendly or unsolicited proposal to acquire or restructure us and that their benefits outweigh any potential disadvantages to our stockholders.

Stockholder Action by Written Consent; Special Meetings

Our certificate of incorporation provides that no action may be taken by the stockholders except at an annual or special meeting of stockholders. Stockholders may not take any action by written consent. Our bylaws provide that special meetings of our stockholders may only be called by our board of directors, the chairman of our board of directors or our chief executive officer. Stockholders are not permitted to call a special meeting.

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Notice Provisions Relating to Stockholder Proposals and Nominees

Our bylaws establish an advance notice procedure for stockholders to make nominations of candidates for election as directors or to bring other business before an annual meeting of our stockholders. Our stockholder notice procedure provides that only persons who are nominated by, or at the direction of, the board of directors or our chairman of the board, or by a stockholder who has given timely written notice to our secretary prior to the meeting at which directors are to be elected, will be eligible for election as our directors. Our stockholder notice procedure also provides that at an annual meeting, only such business may be conducted as has been brought before the meeting by, or at the direction of, our chairman of the board or our board, or by a stockholder who has given timely written notice to our secretary of such stockholder s intention to bring such business before the meeting. Under our stockholder notice procedure, for notice of stockholder nominations to be made at an annual meeting to be timely, such notice must be delivered to our principal executive offices not less than 90 calendar days and not more than 120 calendar days prior to the anniversary date of our preceding annual meeting of stockholders, except that, in the case of the annual meeting occurring in 2008 or if the date of the annual meeting is more than thirty days before or more than 70 days after such anniversary date, notice by the stockholder in order to be timely must be received 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 notice of the date of the annual meeting was mailed or public announcement in a press release or in a filing with the SEC of the date of the meeting is first made by us, whichever occurs first.

In addition, under our stockholder notice procedure, a stockholder s notice to us proposing to nominate a person for election as a director or relating to the conduct of business other than the nomination of directors must contain the information required by our bylaws. If the chairman of a meeting determines that an individual was not nominated, or other business was not brought before the meeting, in accordance with our stockholder notice procedure, the individual will not be eligible for election as a director, or the business will not be conducted at the meeting, as the case may be.

Rights Plan

As of the date of this preliminary prospectus, we have not approved a stockholder rights plan. Under our certificate of incorporation, our board of directors will have the authority, without stockholder approval:

- to create one or more series of preferred stock; and

- to determine the designation, powers, preferences and relative, participating, optional or other rights, if any, of shares of each such series, and the qualifications, limitations and restrictions thereof, if any.

With this authority, our board of directors could adopt a rights plan without the prior approval of our stockholders. The adoption of a rights plan may discriminate against existing or prospective stockholders who beneficially own, or tender for, a substantial amount of shares of our outstanding common stock. One possible effect of this could be to ensure the continuity of management by rendering it more difficult for a potential acquiror to obtain control of us.

Amendment of Bylaws

Our certificate of incorporation and bylaws provide that the bylaws may be amended, altered or repealed by a resolution of a majority of our board of directors. They further provide that our bylaws may be amended by the stockholders at a regular or special meeting only upon the affirmative vote of the holders of three quarters or more of the combined voting power of our common stock entitled to vote in the election of the directors.

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Delaware Anti-takeover Law

Following the transaction, we will be subject to Section 203 of the DGCL, an anti-takeover law. In general, Section 203 prohibits a publicly held Delaware corporation from engaging in a business combination with an interested stockholder for a period of three years following the date that person became an interested stockholder, unless the business combination or the transaction in which the person became an interested stockholder is approved in a prescribed manner. Generally, a business combination includes a merger, asset or stock sale, or other transaction resulting in a financial benefit to the interested stockholder. Generally, an interested stockholder is a person that, together with affiliates and associates, owns, or within three years before the determination of interested stockholder status did own, 15% or more of a corporation s voting stock. The existence of this provision may have an anti-takeover effect with respect to transactions not approved in advance by our board of directors, including discouraging attempts that might result in a premium over the market price for shares of our common stock.

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DESCRIPTION OF OUR INDEBTEDNESS

Initial Financing

Prior to the spin-offs, PharMerica LTC and KPS will each enter into a financing arrangement for daylight loans, which we refer to as the initial financings. The initial financings will be provided by a syndicate of lenders arranged by J.P. Morgan Securities Inc. (JPMorgan) pursuant to a commitment letter that PharMerica LTC, KPS and NewCo entered into with JPMorgan and JPMorgan Chase Bank, N.A. (JPMCB) on May 31, 2007 (the Commitment Letter). PharMerica LTC and KPS will each obtain a $125 million loan under the initial financings, for a total of $250 million, subject to certain adjustments for changes in working capital. The initial financings will be funded immediately prior to closing.

The initial financing amounts will be adjusted to account for differences in PharMerica LTC s and KPS s closing working capital immediately preceding the closing. In the master transaction agreement, the parties have agreed to set a target range for working capital for each of PharMerica LTC and KPS to be measured as of the end of the calendar month immediately preceding the closing. If the working capital of either PharMerica LTC or KPS exceeds the target for such business, such business will increase its initial borrowing by the amount of the excess. Conversely, if the working capital of either PharMerica LTC or KPS is less than the target for such business, such business will decrease its initial borrowing by the amount of the shortfall. Working capital means the excess of current assets over current liabilities, subject to certain adjustments. The working capital of each of PharMerica LTC and KPS is expected to fall within the target range for such business.

The proceeds of the initial financings will be used by PharMerica LTC and KPS to make the AmerisourceBergen cash distribution and the Kindred cash distribution, respectively, prior to consummation of the transaction. The amounts of the distributions to AmerisourceBergen and Kindred will be in the amounts of the indebtedness incurred by PharMerica LTC and KPS, respectively.

The closing and funding of the initial financings is subject to a successful syndication, the completion of definitive documentation and certain other conditions precedent.

New Senior Secured Credit Facility

In connection with the transaction, we will enter into a new senior secured credit facility (consisting of a $275 million term loan facility and a $100 million revolving credit facility) to refinance the initial financings entered into by PharMerica LTC and KPS and provide us with sufficient cash for operations. The senior secured credit facility will be provided by a syndicate of lenders arranged by JPMorgan. Under the Commitment Letter, JPMCB provided a commitment to provide 20% of the senior secured credit facility and the initial financings and JPMorgan agreed to use its commercially reasonable efforts to assemble a syndicate of lenders willing to provide the senior secured credit facility and the initial financings on the terms and conditions agreed to with PharMerica LTC, KPS and NewCo in the Commitment Letter.

Borrowings under the senior secured credit facility will bear interest, at our option, at a base rate plus a margin between 0.0% and 0.75% per annum, or at an adjusted Eurodollar rate plus a margin between 0.625% and 1.75% per annum, in each case depending on our leverage ratio. The base rate is the higher of the prime lending rate of the administrative agent in New York and the federal funds rate plus 0.50%. The credit facility will also provide for letter of credit fees between 0.625% and 1.75%, and a commitment fee payable on the unused portion of the revolver, which shall accrue at a rate per annum ranging from 0.125% to 0.250%, in each case depending on our leverage ratio.

The obligations of NewCo under the senior secured credit facility will be guaranteed by its domestic subsidiaries, and the facility will be secured by substantially all of the assets of NewCo and its subsidiary guarantors and by a pledge of all of the capital stock of our domestic subsidiaries and a portion of the capital stock of certain of our foreign subsidiaries.

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The scheduled maturity date for the senior secured credit facility will be the fifth anniversary of the closing date of the facility. There will be no amortization under the term loan facility.

The senior secured credit facility will contain financial covenants that will require us to maintain a maximum leverage ratio and (other than at any time when the leverage ratio is less than 2.0 to 1 or investment grade ratings have been obtained from both S&P and Moody s) a minimum fixed charge coverage ratio, in each case at a level to be agreed upon. In addition, the senior secured credit facility will restrict our ability to, among other things, incur additional indebtedness, make investments, sell assets, pay dividends or repurchase stock. These covenants may have a material adverse impact on our operations. The senior secured credit facility will also contain representations and warranties, affirmative covenants and events of default that are customary for facilities of this type.

The closing and funding of the senior secured credit facility is subject to a successful syndication, the completion of definitive documentation and certain other conditions precedent.

Immediately after closing the spin-offs, we will pay off the initial financings of PharMerica LTC and KPS and pay transaction fees and expenses with the proceeds of the term loans borrowed under the senior secured credit facility. As a result, we expect to have $275 million of outstanding indebtedness immediately after the closing of the transaction.

EXPERTS

The financial statements of Safari Holding Corporation as of December 31, 2006 included in this Registration Statement have been so included in reliance on the report of PricewaterhouseCoopers LLP, an independent registered public accounting firm, given on the authority of said firm as experts in auditing and accounting.

The financial statements of PharMerica LTC (a Carved-out Business of PharMerica, Inc., a wholly-owned subsidiary of AmerisourceBergen Corporation) at September 30, 2006 and 2005, and for each of the three years in the period ended September 30, 2006, appearing in this Prospectus and Registration Statement have been audited by Ernst & Young LLP, independent registered public accounting firm, as set forth in their report thereon appearing elsewhere herein, and are included in reliance upon such report given on the authority of such firm as experts in accounting and auditing.

The financial statements of Kindred Pharmacy Services Inc., a wholly-owned subsidiary of Kindred Healthcare, Inc., as of December 31, 2006 and December 31, 2005 and for each of the three years in the period ended December 31, 2006, included in this Registration Statement have been so included in reliance on the report of PricewaterhouseCoopers LLP, an independent registered public accounting firm, given on the authority of said firm as experts in auditing and accounting.

The financial statements of PharmaSTAT LLC as of July 31, 2006 and the seven months then ended and as of December 31, 2005 and the year then ended, included in this Registration Statement have been so included in reliance on the report of PricewaterhouseCoopers LLP, an independent registered public accounting firm, given on the authority of said firm as experts in auditing and accounting.

LEGAL MATTERS

The validity of the securities to be distributed by us under this prospectus will be passed upon for us by Holland & Knight LLP. Caplin and Drysdale, Chartered will provide to Kindred and Pepper Hamilton LLP will provide to AmerisourceBergen legal opinions regarding certain federal income tax matters relating to the spin-off, the merger and the distribution of our common stock.

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WHERE YOU CAN FIND MORE INFORMATION

We have filed a registration statement on Form S-4 with the SEC with respect to the shares of our common stock being distributed as contemplated by this preliminary prospectus. This preliminary prospectus is a part of, and does not contain all of the information set forth in, the registration statement and the exhibits and schedules to the registration statement. For further information with respect to our company and our common stock, please refer to the registration statement, including its exhibits and schedules. Statements made in this preliminary prospectus relating to any contract or other document are not necessarily complete, and you should refer to the exhibits attached to the registration statement for copies of the actual contract or document. You may review a copy of the registration statement, including its exhibits and schedules, at the SEC s public reference room, located at 100 F Street, N.E., Washington, D.C. 20549, as well as on the Internet website maintained by the SEC at www.sec.gov. Please call the SEC at 1-800-SEC-0330 for further information on the public reference room. Information contained on any website referenced in this preliminary prospectus is not incorporated by reference into this preliminary prospectus or the registration statement of which this preliminary prospectus is a part.

After the transaction, we will become subject to the information and reporting requirements of the Securities Exchange Act of 1934, as amended (Exchange Act), and, in accordance with the Exchange Act, we will file periodic reports, proxy statements and other information with the SEC. Our future filings will be available from the SEC as described above.

We will make available free of charge most of our future SEC filings through our Internet website (www.pharmerica.com) as soon as reasonably practicable after we electronically file these materials with the SEC. You will be able to access these future SEC filings on our website. You may also request a copy of our future SEC filings at no cost, by writing or telephoning us at:

1901 Campus Place

Louisville, Kentucky 40299

Telephone: 502-263-7216

We intend to furnish holders of our common stock with annual reports containing consolidated financial statements prepared in accordance with accounting principles generally accepted in the United States and audited and reported on, with an opinion expressed, by an independent registered public accounting firm.

You should rely only on the information contained in this preliminary prospectus or to which we have referred you. We have not authorized any person to provide you with different information or to make any representation not contained in this preliminary prospectus.

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KINDRED PHARMACY SERVICES, INC.

(a wholly owned subsidiary of Kindred Healthcare, Inc.)

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(a) All other schedules have been omitted because the required information is not present or not present in material amounts.

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Report of Independent Registered Public Accounting Firm

To the Board of Directors and Stockholders of

Kindred Healthcare, Inc.:

In our opinion, the accompanying consolidated balance sheets and related statements of operations, stockholder s equity, and cash flows present fairly, in all material respects, the financial position of Kindred Pharmacy Services, Inc., a wholly-owned subsidiary of Kindred Healthcare, Inc., and its subsidiaries at December 31, 2006 and 2005, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2006 in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the related financial statement schedule presents fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements. These financial statements and financial statement schedule are the responsibility of the Company s management. Our responsibility is to express an opinion on these financial statements and financial statement schedule based on our audits. We conducted our audits of these statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note 1 of the Consolidated Financial Statements, the Company began recognizing compensation expense for the fair value of stock based compensation awards effective January 1, 2006.

/s/ PricewaterhouseCoopers LLP

Louisville, KY

March 23, 2007

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KINDRED PHARMACY SERVICES, INC.

(a wholly owned subsidiary of Kindred Healthcare, Inc.)

CONSOLIDATED STATEMENTS OF OPERATIONS

(Dollars in thousands, except per share amounts)

	Year ended December 31, 2006	2005	2004
Revenues:			
Affiliated	$ 147,802	$ 130,143	$ 93,693
Non-affiliated	504,806	392,082	266,342
	652,608	522,225	360,035
Cost of goods sold	557,944	439,094	302,380
Gross profit	94,664	83,131	57,655
Selling, general and administrative expenses	73,612	48,867	38,193
Operating income	21,052	34,264	19,462
Investment income	(104)	(80)	
Income from continuing operations before income taxes	21,156	34,344	19,462
Provision for income taxes	8,357	13,343	7,555
Income from continuing operations	12,799	21,001	11,907
Income from discontinued operations, net of income taxes		6	155
Net income	$ 12,799	$ 21,007	$ 12,062
Basic earnings per common share:			
Income from continuing operations	$ 1,279,933	$ 2,100,124	$ 1,190,707
Income from discontinued operations		627	15,473
Net income	$ 1,279,933	$ 2,100,751	$ 1,206,180
Shares used in computing basic earnings per common share	10	10	10
Unaudited pro forma earnings per common share (see Note 10):			
Basic:			
Income from continuing operations	$ 0.62		
Income from discontinued operations			
Net income	$ 0.62		
Diluted:			
Income from continuing operations	$ 0.62		
Income from discontinued operations			
Net income	$ 0.62		

Shares used in computing unaudited pro forma earnings per common share:	
Basic	15,000,000
Diluted	15,003,615

See accompanying notes.

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KINDRED PHARMACY SERVICES, INC.

(a wholly owned subsidiary of Kindred Healthcare, Inc.)

CONSOLIDATED BALANCE SHEETS

(Dollars in thousands)

	December 31, 2006	December 31, 2005
ASSETS		
Current assets:		
Cash and cash equivalents	$ 3,730	$ 1,378
Accounts receivable less allowance for loss of $16,583 2006 and $15,961 2005	70,364	57,377
Inventories	27,975	24,243
Deferred tax assets	7,484	6,209
Other	2,896	5,411
	112,449	94,618
Property and equipment, at cost:		
Leasehold improvements	3,915	2,159
Equipment	32,002	23,890
Construction in progress	2,775	1,372
	38,692	27,421
Accumulated depreciation	(14,316)	(9,427)
	24,376	17,994
Goodwill	45,239	40,017
Intangible assets less accumulated amortization of $5,182 2006 and $1,763 2005	38,008	34,317
Other	16,712	7,677
	$ 236,784	$ 194,623
LIABILITIES AND STOCKHOLDER S EQUITY		
Current liabilities:		
Accounts payable	$ 15,811	$ 9,463
Salaries, wages and other compensation	14,943	11,182
Other accrued liabilities	2,547	1,672
	33,301	22,317
Deferred tax liabilities	1,359	1,759
Deferred credits and other liabilities	215	158
Commitments and contingencies		
Minority interest	3,608	
Stockholder s equity:		
Common stock, $100 par value; authorized 10 shares; issued 10 shares 2006 and 2005	1	1
Net contributions from Kindred	133,683	119,015
Deferred compensation		(445)

Retained earnings	64,617	51,818
	198,301	170,389