

SAFARI HOLDING CORP  
Form S-4/A  
June 27, 2007  
Table of Contents

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**  
(State or Other Jurisdiction of  
Incorporation or Organization)

**5122**  
(Primary Standard Industrial  
Classification Code Number)  
**1901 Campus Place**

**87-0792558**  
(I.R.S. Employer  
Identification No.)

Edgar Filing: SAFARI HOLDING CORP - Form S-4/A

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)

---

**James M. Lurie**

**Holland & Knight LLP**

**195 Broadway**

**New York, New York 10007**

**(212) 513-3354**

*Copies to:*

**Deanna L. Kirkpatrick**

**Davis Polk & Wardwell**

**450 Lexington Avenue**

**New York, New York 10017**

**(212) 450-4000**

**Janet L. Fisher**

**Cleary Gottlieb Steen & Hamilton LLP**

**One Liberty Plaza**

**New York, New York 10006**

**(212) 225-2000**

---

**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.**

## Edgar Filing: SAFARI HOLDING CORP - Form S-4/A

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

---

**Table of Contents**

**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

**Table of Contents**

[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

**Table of Contents**

[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



---

**Table of Contents**

**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.

**Table of Contents****TABLE OF CONTENTS**

	<b>Page</b>
<b><u>QUESTIONS AND ANSWERS ABOUT THE TRANSACTION</u></b>	1
<b><u>SUMMARY</u></b>	4
<u>Our Company</u>	4
<u>The Transaction</u>	5
<u>Conditions to the Completion of the Transaction</u>	9
<u>Regulatory Approvals</u>	10
<u>Termination of the Master Transaction Agreement</u>	10
<u>Post-Closing Indemnities</u>	11
<u>Relationship with the Parent Companies after the Transaction</u>	11
<u>Dividend Policy</u>	12
<u>Management of NewCo</u>	12
<u>Stockholder Rights</u>	12
<u>Capital Stock</u>	12
<u>Listing and Trading of NewCo Common Stock</u>	13
<u>AmerisourceBergen and Kindred Stock Options</u>	13
<u>AmerisourceBergen and Kindred Restricted Stock</u>	13
<u>U.S. Federal Income Tax Consequences</u>	13
<u>Appraisal Rights</u>	14
<u>Accounting Treatment</u>	14
<u>Risk Factors</u>	14
<b><u>SUMMARY SELECTED HISTORICAL AND PRO FORMA FINANCIAL DATA</u></b>	15
<b><u>General</u></b>	15
<u>Summary Selected Financial Data of PharMerica LTC</u>	15
<u>Summary Selected Financial Data of KPS</u>	16
<u>Summary Selected Unaudited Pro Forma Condensed Financial Data of NewCo</u>	17
<b><u>RISK FACTORS</u></b>	19
<u>Risk Factors Relating to the Transaction</u>	19
<u>Risk Factors Relating to Our Business</u>	24
<u>Risk Factors Relating to Ownership of Our Common Stock</u>	33
<b><u>CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS</u></b>	35
<b><u>THE TRANSACTION</u></b>	37
<u>Reasons for the Transaction</u>	37
<u>Reasons of the AmerisourceBergen Board of Directors for the Transaction</u>	37
<u>Potential Risks and Costs Considered by the AmerisourceBergen Board of Directors</u>	38
<u>Reasons of the Kindred Board of Directors for the Transaction</u>	38
<u>Potential Risks and Costs Considered by the Kindred Board of Directors</u>	39
<u>Manner of Effecting the Transaction</u>	40
<u>Distribution Procedures</u>	41
<u>The Number of NewCo Shares You will Receive</u>	41
<u>Fractional Shares</u>	41
<u>Treatment of Stock Options and Restricted Shares Held by Employees of PharMerica LTC and KPS</u>	41
<u>Results of the Transaction</u>	42
<u>Listing and Trading of Our Common Stock</u>	42
<u>Accounting Treatment</u>	43
<u>Appraisal Rights</u>	43
<u>Material U.S. Federal Income Tax Consequences of the Transaction</u>	43
<b><u>DIVIDEND POLICY</u></b>	47
<b><u>CAPITALIZATION</u></b>	48
<b><u>UNAUDITED PRO FORMA CONDENSED FINANCIAL INFORMATION</u></b>	49
<b><u>UNAUDITED PRO FORMA CONDENSED STATEMENT OF OPERATIONS</u></b>	51

**Table of Contents**

	<b>Page</b>
<u>UNAUDITED PRO FORMA CONDENSED BALANCE SHEET</u>	53
<u>NOTES TO UNAUDITED PRO FORMA CONDENSED FINANCIAL STATEMENTS</u>	54
<u>SELECTED HISTORICAL FINANCIAL DATA</u>	60
<u>Sources of information</u>	60
<u>Selected Historical Financial Data of PharMerica LTC</u>	60
<u>Selected Historical Financial Data of KPS</u>	61
<u>MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS</u>	62
<u>Overview</u>	62
<u>PharMerica LTC Results of Operations</u>	66
<u>KPS Results of Operations</u>	70
<u>Critical Accounting Policies</u>	75
<u>Recently Issued Accounting Pronouncements</u>	79
<u>Quantitative and Qualitative Disclosure About Market Risk</u>	80
<u>Changes in and Disagreements with Accountants on Accounting and Financial Disclosure</u>	80
<u>OUR BUSINESS</u>	81
<u>Overview</u>	81
<u>Institutional Pharmacy Business</u>	81
<u>Pharmacy Management Business</u>	82
<u>Our Strategy</u>	82
<u>Sales and Marketing</u>	83
<u>Customers</u>	83
<u>Suppliers/Inventory</u>	84
<u>Information Technology</u>	84
<u>Selected Operating Data</u>	85
<u>Sources of Pharmacy Revenues</u>	85
<u>Supplier and Manufacturer Rebates</u>	86
<u>Competition</u>	86
<u>Patents, Trademarks and Licenses</u>	86
<u>Corporate Integrity Agreement</u>	86
<u>Employees</u>	87
<u>Properties</u>	87
<u>Government Regulation</u>	87
<u>Legal Proceedings</u>	93
<u>Available Information</u>	94
<u>MANAGEMENT</u>	95
<u>Executive Officers and Directors</u>	95
<u>Board Structure</u>	96
<u>Committees</u>	96
<u>Compensation of Directors</u>	98
<u>Compensation and Governance Committee Interlocks and Insider Participation</u>	98
<u>Independence of Directors</u>	98
<u>Compensation of our Named Executive Officers</u>	99
<u>Compensation Discussion and Analysis</u>	99
<u>Description of Employment Contracts</u>	106
<u>NewCo Omnibus Incentive Plan</u>	112
<u>SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS</u>	115
<u>DIRECTORS AND EXECUTIVE OFFICERS AND FIVE PERCENT HOLDERS OWNERSHIP</u>	116
<u>MASTER TRANSACTION AGREEMENT</u>	118
<u>Timing of the Transaction</u>	118
<u>Transaction Steps</u>	118
<u>Distribution Procedures</u>	119

**Table of Contents**

	<b>Page</b>
<u>Fractional Shares</u>	120
<u>Treatment of Stock Options and Restricted Shares Held by PharMerica LTC and KPS Employees</u>	120
<u>Employee Matters</u>	121
<u>Solvency and Surplus Conditions</u>	121
<u>Conditions to the Completion of the Transaction</u>	123
<u>Representations and Warranties</u>	124
<u>Governance of NewCo</u>	125
<u>Mutual Releases: Indemnification</u>	126
<u>Covenants</u>	126
<u>Termination of the Master Transaction Agreement</u>	128
<u>Amendments: Waivers</u>	129
<u>Fees and Expenses</u>	129
<u>ADDITIONAL AGREEMENTS WITH AMERISOURCEBERGEN AND KINDRED</u>	130
<u>Tax Matters Agreement</u>	130
<u>Prime Vendor Agreement</u>	130
<u>Master Pharmacy Provider Agreement</u>	131
<u>Hospital Pharmacy Management Agreements with Kindred</u>	131
<u>Information Services Agreement</u>	131
<u>Transition Services Agreements</u>	132
<u>Pharmacy Services Staffing Agreement with Pharmacy Healthcare Solutions</u>	132
<u>Trademark License Agreement</u>	132
<u>Purchase and License Agreement with AutoMed Technologies, Inc.</u>	132
<u>CERTAIN RELATIONSHIPS AND RELATED PARTY TRANSACTIONS</u>	133
<u>DESCRIPTION OF OUR CAPITAL STOCK</u>	134
<u>Sales of Unregistered Securities</u>	134
<u>Authorized Capital Stock Following the Transaction</u>	134
<u>Common Stock</u>	134
<u>Preferred Stock</u>	135
<u>Transfer Agent and Registrar</u>	135
<u>New York Stock Exchange Listing</u>	135
<u>STATUTORY, CHARTER AND BYLAW PROVISIONS</u>	136
<u>Corporate Governance</u>	136
<u>Composition of our Board of Directors</u>	136
<u>Quorum/Voting</u>	136
<u>Liability and Indemnification of Directors</u>	136
<u>Anti-Takeover Provisions</u>	136
<u>DESCRIPTION OF OUR INDEBTEDNESS</u>	139
<u>Initial Financing</u>	139
<u>New Senior Secured Credit Facility</u>	139
<u>EXPERTS</u>	140
<u>LEGAL MATTERS</u>	140
<u>WHERE YOU CAN FIND MORE INFORMATION</u>	141
<u>INDEX TO FINANCIAL STATEMENTS</u>	F-1
<u>KINDRED PHARMACY SERVICES, INC.</u>	F-2
<u>PHARMASTAT, LLC</u>	F-35
<u>PHARMERICA LTC</u>	F-44
<u>SAFARI HOLDING CORPORATION</u>	F-70

*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*

**Table of Contents**

*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 .*

**Table of Contents**

**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.

**Table of Contents**

*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



## **Table of Contents**

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.

---

**Table of Contents**

**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.

## **Table of Contents**

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

## **Table of Contents**

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.

**Table of Contents**

***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.

**Table of Contents**

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

**Table of Contents**

**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,

## **Table of Contents**

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





## **Table of Contents**

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

## **Table of Contents**

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.

## **Table of Contents**

### **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

## **Table of Contents**

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**.

**Table of Contents****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.

<i>(dollars in thousands)</i>	Six months ended		Year ended September 30,		
	March 31,		2006	2005	2004
	2007	2006			
<b>Statement of operations data:</b>					
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	
<b>Balance sheet data:</b>					
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	
<b>Statistical data:</b>					
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.



**Table of Contents****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.

<i>(dollars in thousands)</i>	<b>Three months ended</b>		<b>Year ended December 31,</b>		
	<b>March 31,</b>	<b>2006</b>	<b>2006</b>	<b>2005</b>	<b>2004</b>
<b>Statement of operations data:</b>					
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
		<b>March 31,</b>	<b>2006</b>	<b>December 31,</b>	<b>2004</b>
<b>Balance sheet data:</b>					
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
<b>Statistical data:</b>					
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.



## **Table of Contents**

### **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.

**Table of Contents**

	Three months ended March 31, 2007	Pro forma Fiscal year ended December 31, 2006 (unaudited)
<i>(dollars in thousands, except per share amount)</i>		
<b>Statement of operations data:</b>		
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)
<b>Balance sheet data:</b>	
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.

## **Table of Contents**

### **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.



## **Table of Contents**

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.



**Table of Contents**

***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;

---

**Table of Contents**

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



---

**Table of Contents**

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.

## **Table of Contents**

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.

## **Table of Contents**

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

---

**Table of Contents**

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 AWP 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

---

**Table of Contents**

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.

## **Table of Contents**

### ***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.

## **Table of Contents**

*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.

---

**Table of Contents**

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





**Table of Contents**

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.

## **Table of Contents**

### ***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

## **Table of Contents**

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;

## Table of Contents

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.

**Table of Contents**

**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;



**Table of Contents**

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.**

**Table of Contents**

**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.

## Edgar Filing: SAFARI HOLDING CORP - Form S-4/A

*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

## **Table of Contents**

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.

## Edgar Filing: SAFARI HOLDING CORP - Form S-4/A

*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.

---

## **Table of Contents**

*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.

## **Table of Contents**

*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.



---

## **Table of Contents**

**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

## **Table of Contents**

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.

---

## **Table of Contents**

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.

## Table of Contents

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:

## Edgar Filing: SAFARI HOLDING CORP - Form S-4/A

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.

---

**Table of Contents**

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,

**Table of Contents**

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.

**Table of Contents**

**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.



**Table of Contents****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.

<i>(dollars in thousands)</i>	<b>Pro forma as of March 31, 2007 (unaudited)</b>
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

**Table of Contents**

**NEWCO**

**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

**Table of Contents**

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.

**Table of Contents****NEWCO****UNAUDITED PRO FORMA CONDENSED STATEMENT OF OPERATIONS (In thousands, except per share amounts)**

	Three months ended March 31, 2007		Pro forma adjustments		Pro forma
	KPS	PharMerica LTC	Financing and dividend	Other adjustments	
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.

**Table of Contents****NEWCO****UNAUDITED PRO FORMA CONDENSED STATEMENT OF OPERATIONS**

(In thousands, except per share amounts)

	<b>KPS</b> <b>Fiscal year</b> <b>ended</b> <b>December 31,</b> <b>2006</b>	<b>PharMerica</b> <b>LTC</b> <b>Fiscal year</b> <b>ended</b> <b>September 30,</b> <b>2006</b>	<b>Pro forma adjustments</b>		<b>Pro forma</b>
			<b>Financing</b> <b>and</b> <b>dividend</b>	<b>Other</b> <b>adjustments</b>	
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
<b>Pro forma earnings per common share:</b>					
Basic					\$ 0.52
Diluted					\$ 0.52
<b>Pro forma shares used in computing earnings per common share:</b>					
Basic					30,000(g)
Diluted					30,020(g)

See accompanying notes.

**Table of Contents****NEWCO****UNAUDITED PRO FORMA CONDENSED BALANCE SHEET**

(Dollars in thousands)

ASSETS	As of March 31, 2007		Pro forma adjustments		Pro forma
	KPS	PharMerica LTC	Financing and dividend (h)	Other adjustments	
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) (9,265)(m)	226,349
Intangible assets less accumulated amortization	36,945	8,250		53,690(n) (8,250)(m)	90,635
Deferred tax assets		931		(931)(o)	
Other	19,994	202	1,500	(7,717)(p) (3,647)(q)	10,332
Total assets	\$ 238,446	\$ 315,692	\$ 8,610	\$ 214,090	\$ 776,838
<b>LIABILITIES AND STOCKHOLDERS EQUITY</b>					
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) (1)(r)	300
Capital in excess of par value				(300)(r)	333,329
				1(r)	
				325,000(l)	
				8,628(s)	

Edgar Filing: SAFARI HOLDING CORP - Form S-4/A

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.

**Table of Contents****NEWCO****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.



**Table of Contents****NEWCO****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):

	Fair value	Weighted average useful life (years)	Depreciation expense	
			Three months ended	Fiscal year ended
			March 31, 2007	December 31, 2006
Fixed assets				
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

## Edgar Filing: SAFARI HOLDING CORP - Form S-4/A

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.

Table of Contents

## NEWCO

## 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):

	Fair value	Weighted average useful life (years)	Amortization expense	
			Three months ended March 31, 2007	Fiscal year ended December 31, 2006
<b>Finite-lived intangible assets</b>				
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.

## Edgar Filing: SAFARI HOLDING CORP - Form S-4/A

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.

**Table of Contents****NEWCO****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.

**Table of Contents****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)
<b>Finite-lived intangible assets:</b>		
Trade names	\$ 27,100	20.0

Edgar Filing: SAFARI HOLDING CORP - Form S-4/A

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

**Table of Contents****NEWCO****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):

	<b>KPS</b>	<b>PharMerica LTC</b>
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)	
	<b>\$ 8,628</b>	<b>\$ 133,863</b>



**Table of Contents****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.

<i>(dollars in thousands)</i>	<b>Six months ended</b>		<b>Year ended</b>				
	<b>March 31,</b>		<b>September 30,</b>				
	<b>2007</b>	<b>2006</b>	<b>2006</b>	<b>2005</b>	<b>2004</b>	<b>2003</b>	<b>2002</b>
<b>Statement of operations data:</b>							
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
<b>Balance sheet data:</b>							
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
<b>Statistical data:</b>							
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.

**Table of Contents****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.

<i>(dollars in thousands)</i>	Three months ended		Year ended December 31,				
	March 31, 2007	2006	2006	2005	2004	2003	2002
<b>Statement of operations data:</b>							
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
<b>Balance sheet data:</b>							
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
<b>Statistical data:</b>							
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.

**Table of Contents**

**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

## **Table of Contents**

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.

---

## **Table of Contents**

### ***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.

## **Table of Contents**

### ***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

**Table of Contents**

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
<b>Percentage of revenues:</b>		
Gross profit	14.5%	15.0%
Selling, general and administrative expenses	12.7%	12.2%
Operating income	1.8%	2.8%
<b>Six months ended</b>		
	<b>March 31,</b>	
	<b>2007</b>	<b>2006</b>
Revenues	\$ 626,741	\$ 590,569
Gross profit	\$ 94,688	\$ 88,809
Operating income	\$ 13,886	\$ 13,921
Net income	\$ 8,269	\$ 8,295
<b>Percentage of revenues:</b>		
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.

**Table of Contents**

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):

	<b>Year ended September 30,</b>	
	<b>2006</b>	<b>2005</b>
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.



**Table of Contents**

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):

	<b>Year ended September 30,</b>	
	<b>2005</b>	<b>2004</b>
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.

**Table of Contents**

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
<b>Total</b>	<b>\$ 29,214</b>	<b>\$ 12,376</b>	<b>\$ 13,171</b>	<b>\$ 3,390</b>	<b>\$ 277</b>

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

## **Table of Contents**

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 ).

**Table of Contents****For the three months ended March 31, 2007 and 2006**

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

	<b>Three months ended March 31,</b>	
	<b>2007</b>	<b>2006</b>
<b>Revenues:</b>		
Institutional pharmacies	\$ 161,183	\$ 143,585
Hospital pharmacy management	13,521	12,623
	\$ 174,704	\$ 156,208
<b>Net income:</b>		
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
<b>Operating data:</b>		
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.

Edgar Filing: SAFARI HOLDING CORP - Form S-4/A

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.

## **Table of Contents**

### **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.

**Table of Contents**