UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

☑ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended March 31, 2017

or

☐ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from to

Commission File Number: 001-36677

DIPLOMAT PHARMACY, INC.
(Exact name of Registrant as specified in its charter)

Michigan
(State or other jurisdiction of incorporation or organization)

4100 S. Saginaw St., Flint, Michigan
(Address of principal executive offices)

38-2063100
(IRS employer identification number)

48507
(Zip Code)

(888) 720-4450
(Registrant’s telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes ☑ No ☐

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes ☑ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company or an emerging growth company. See the definitions of “large accelerated filer,” “accelerated filer,” “smaller reporting company” and “emerging growth company” in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer ☑ Accelerated filer ☐ Non-accelerated filer ☐

Smaller Reporting Company ☐ Emerging Growth Company ☐

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes ☐ No ☑

As of May 8, 2017, there were 67,197,543 outstanding shares of the registrant’s no par value common stock.
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DIPLOMAT PHARMACY, INC.
Form 10-Q
For the Quarter Ended March 31, 2017

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# PART I
## FINANCIAL INFORMATION

### ITEM 1. FINANCIAL STATEMENTS

**DIPLOMAT PHARMACY, INC.**
Condensed Consolidated Balance Sheets (Unaudited)
(Dollars in thousands)

<table>
<thead>
<tr>
<th>ASSETS</th>
<th>March 31, 2017</th>
<th>December 31, 2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Current assets:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash and equivalents</td>
<td>$16,581</td>
<td>$7,953</td>
</tr>
<tr>
<td>Accounts receivable, net</td>
<td>255,461</td>
<td>275,568</td>
</tr>
<tr>
<td>Inventories</td>
<td>200,286</td>
<td>215,351</td>
</tr>
<tr>
<td>Prepaid expenses and other current assets</td>
<td>7,378</td>
<td>6,235</td>
</tr>
<tr>
<td><strong>Total current assets</strong></td>
<td><strong>479,706</strong></td>
<td><strong>505,107</strong></td>
</tr>
<tr>
<td>Property and equipment, net</td>
<td>19,923</td>
<td>20,372</td>
</tr>
<tr>
<td>Capitalized software for internal use, net</td>
<td>46,838</td>
<td>50,247</td>
</tr>
<tr>
<td>Goodwill</td>
<td>336,775</td>
<td>316,616</td>
</tr>
<tr>
<td>Definite-lived intangible assets, net</td>
<td>197,638</td>
<td>199,862</td>
</tr>
<tr>
<td>Deferred income taxes</td>
<td>4,263</td>
<td>6,010</td>
</tr>
<tr>
<td>Other noncurrent assets</td>
<td>1,045</td>
<td>1,040</td>
</tr>
<tr>
<td><strong>Total assets</strong></td>
<td><strong>$1,086,188</strong></td>
<td><strong>$1,099,254</strong></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>LIABILITIES AND SHAREHOLDERS’ EQUITY</th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Current liabilities:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Accounts payable</td>
<td>$301,392</td>
<td>$320,684</td>
</tr>
<tr>
<td>Borrowings on line of credit</td>
<td>5,718</td>
<td>39,255</td>
</tr>
<tr>
<td>Short-term debt, including current portion of long-term debt</td>
<td>9,925</td>
<td>7,500</td>
</tr>
<tr>
<td>Accrued expenses:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Compensation and benefits</td>
<td>7,905</td>
<td>5,674</td>
</tr>
<tr>
<td>Other</td>
<td>14,279</td>
<td>12,233</td>
</tr>
<tr>
<td><strong>Total current liabilities</strong></td>
<td><strong>339,219</strong></td>
<td><strong>385,346</strong></td>
</tr>
<tr>
<td>Long-term debt, less current portion</td>
<td>121,514</td>
<td>100,184</td>
</tr>
<tr>
<td>Contingent consideration</td>
<td>3,735</td>
<td>—</td>
</tr>
<tr>
<td><strong>Total liabilities</strong></td>
<td><strong>464,468</strong></td>
<td><strong>485,530</strong></td>
</tr>
<tr>
<td>Commitments and contingencies</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Shareholders’ equity:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Preferred stock (10,000,000 shares authorized; none issued and outstanding)</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>Common stock (no par value; 590,000,000 shares authorized; 67,164,606 and 66,764,999 issued and outstanding at March 31, 2017 and December 31, 2016, respectively)</td>
<td>507,381</td>
<td>503,828</td>
</tr>
<tr>
<td>Additional paid-in capital</td>
<td>33,486</td>
<td>33,268</td>
</tr>
<tr>
<td>Retained earnings</td>
<td>80,673</td>
<td>76,306</td>
</tr>
<tr>
<td><strong>Total Diplomat Pharmacy shareholders’ equity</strong></td>
<td><strong>621,540</strong></td>
<td><strong>613,402</strong></td>
</tr>
<tr>
<td>Noncontrolling interests</td>
<td>180</td>
<td>322</td>
</tr>
<tr>
<td><strong>Total shareholders’ equity</strong></td>
<td><strong>621,720</strong></td>
<td><strong>613,724</strong></td>
</tr>
<tr>
<td><strong>Total liabilities and shareholders’ equity</strong></td>
<td><strong>$1,086,188</strong></td>
<td><strong>$1,099,254</strong></td>
</tr>
</tbody>
</table>

See accompanying notes to condensed consolidated financial statements.

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### DIPLOMAT PHARMACY, INC.

**Condensed Consolidated Statements of Operations (Unaudited)**

(Dollars in thousands, except per share amounts)

<table>
<thead>
<tr>
<th></th>
<th>Three Months Ended</th>
<th>2017</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>March 31</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Net sales</strong></td>
<td></td>
<td>$1,078,740</td>
<td>$995,870</td>
</tr>
<tr>
<td><strong>Cost of products sold</strong></td>
<td></td>
<td>(993,691)</td>
<td>(916,632)</td>
</tr>
<tr>
<td><strong>Gross profit</strong></td>
<td></td>
<td>85,049</td>
<td>79,238</td>
</tr>
<tr>
<td><strong>Selling, general and administrative expenses</strong></td>
<td></td>
<td>(76,501)</td>
<td>(54,194)</td>
</tr>
<tr>
<td><strong>Income from operations</strong></td>
<td></td>
<td>8,548</td>
<td>25,044</td>
</tr>
<tr>
<td><strong>Other (expense) income:</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Interest expense</strong></td>
<td></td>
<td>(2,049)</td>
<td>(1,434)</td>
</tr>
<tr>
<td><strong>Other</strong></td>
<td></td>
<td>33</td>
<td>107</td>
</tr>
<tr>
<td><strong>Total other expense</strong></td>
<td></td>
<td>(2,016)</td>
<td>(1,327)</td>
</tr>
<tr>
<td><strong>Income before income taxes</strong></td>
<td></td>
<td>6,532</td>
<td>23,717</td>
</tr>
<tr>
<td><strong>Income tax expense</strong></td>
<td></td>
<td>(2,307)</td>
<td>(8,534)</td>
</tr>
<tr>
<td><strong>Net income</strong></td>
<td></td>
<td>4,225</td>
<td>15,183</td>
</tr>
<tr>
<td>Less net loss attributable to noncontrolling interest</td>
<td></td>
<td>(142)</td>
<td>(246)</td>
</tr>
<tr>
<td><strong>Net income attributable to Diplomat Pharmacy, Inc.</strong></td>
<td></td>
<td>$4,367</td>
<td>$15,429</td>
</tr>
</tbody>
</table>

| **Net income per common share:** | | |
| **Basic**                        | | $0.07 | $0.24 |
| **Diluted**                       | | $0.06 | $0.23 |

| **Weighted average common shares outstanding:** | | |
| **Basic**                                       | | 66,886,866 | 64,539,161 |
| **Diluted**                                      | | 67,780,434 | 67,844,937 |

See accompanying notes to condensed consolidated financial statements.
# Condensed Consolidated Statements of Cash Flows (Unaudited)

**Diplomat Pharmacy, Inc.**  
(Dollars in thousands)

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- Cash flows from operating activities:
- Cash flows from investing activities:
- Cash flows from financing activities:
- Supplemental disclosures of cash flow information:
- See accompanying notes to condensed consolidated financial statements.

## Cash Flows from Operating Activities:

<table>
<thead>
<tr>
<th>Description</th>
<th>2017</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net income</td>
<td>$4,225</td>
<td>$15,183</td>
</tr>
<tr>
<td>Adjustments to reconcile net income to net cash provided by (used in) operating activities:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Depreciation and amortization</td>
<td>15,397</td>
<td>10,119</td>
</tr>
<tr>
<td>Net provision for doubtful accounts</td>
<td>2,784</td>
<td>2,246</td>
</tr>
<tr>
<td>Deferred income tax expense</td>
<td>1,746</td>
<td>7,633</td>
</tr>
<tr>
<td>Share-based compensation expense</td>
<td>972</td>
<td>1,503</td>
</tr>
<tr>
<td>Amortization of debt issuance costs</td>
<td>297</td>
<td>285</td>
</tr>
<tr>
<td>Change in fair value of contingent consideration</td>
<td>—</td>
<td>(9,071)</td>
</tr>
<tr>
<td>Contingent consideration payment</td>
<td>—</td>
<td>(400)</td>
</tr>
<tr>
<td>Other</td>
<td>—</td>
<td>1</td>
</tr>
<tr>
<td>Changes in operating assets and liabilities, net of business acquisitions:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Accounts receivable</td>
<td>21,406</td>
<td>(15,983)</td>
</tr>
<tr>
<td>Inventories</td>
<td>14,819</td>
<td>(14,912)</td>
</tr>
<tr>
<td>Accounts payable</td>
<td>(20,640)</td>
<td>(4,881)</td>
</tr>
<tr>
<td>Other assets and liabilities</td>
<td>3,289</td>
<td>2,698</td>
</tr>
<tr>
<td>Net cash provided by (used in) operating activities</td>
<td>44,295</td>
<td>(5,579)</td>
</tr>
</tbody>
</table>

## Cash Flows from Investing Activities:

<table>
<thead>
<tr>
<th>Description</th>
<th>2017</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Payments to acquire businesses, net of cash acquired</td>
<td>(26,532)</td>
<td>—</td>
</tr>
<tr>
<td>Expenditures for capitalized software for internal use</td>
<td>(1,285)</td>
<td>(4,432)</td>
</tr>
<tr>
<td>Expenditures for property and equipment</td>
<td>(569)</td>
<td>(1,316)</td>
</tr>
<tr>
<td>Other</td>
<td>(43)</td>
<td>1</td>
</tr>
<tr>
<td>Net cash used in investing activities</td>
<td>(28,429)</td>
<td>(5,747)</td>
</tr>
</tbody>
</table>

## Cash Flows from Financing Activities:

<table>
<thead>
<tr>
<th>Description</th>
<th>2017</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net payments on line of credit</td>
<td>(33,537)</td>
<td>—</td>
</tr>
<tr>
<td>Proceeds from long-term debt</td>
<td>25,000</td>
<td>—</td>
</tr>
<tr>
<td>Payments on long-term debt</td>
<td>(1,500)</td>
<td>(1,500)</td>
</tr>
<tr>
<td>Proceeds from issuance of stock upon stock option exercises</td>
<td>2,799</td>
<td>510</td>
</tr>
<tr>
<td>Contingent consideration payment</td>
<td>—</td>
<td>(600)</td>
</tr>
<tr>
<td>Net cash used in financing activities</td>
<td>(7,238)</td>
<td>(1,590)</td>
</tr>
</tbody>
</table>

## Supplemental Disclosures of Cash Flow Information:

<table>
<thead>
<tr>
<th>Description</th>
<th>2017</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash paid for interest</td>
<td>$1,710</td>
<td>$875</td>
</tr>
<tr>
<td>Cash paid for income taxes</td>
<td>117</td>
<td>443</td>
</tr>
</tbody>
</table>
## DIPLOMAT PHARMACY, INC.

**Condensed Consolidated Statement of Changes in Shareholders’ Equity**  
(Dollars in thousands)

<table>
<thead>
<tr>
<th>Shares</th>
<th>Amount</th>
<th>Common Stock</th>
<th>Paid-In Capital</th>
<th>Retained Earnings</th>
<th>Total Diplomat Pharmacy, Inc. Shareholders’ Equity</th>
<th>Noncontrolling Interest</th>
<th>Total Shareholders’ Equity</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Balance at January 1, 2017</strong></td>
<td>66,764,999</td>
<td>$503,828</td>
<td>$33,268</td>
<td>$76,306</td>
<td>$613,402</td>
<td>$322</td>
<td>$613,724</td>
</tr>
<tr>
<td><strong>Net income (loss)</strong></td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>4,367</td>
<td>—</td>
<td>4,367</td>
</tr>
<tr>
<td><strong>Stock issued upon stock option exercises</strong></td>
<td>391,965</td>
<td>3,553</td>
<td>(754)</td>
<td>—</td>
<td>2,799</td>
<td>—</td>
<td>2,799</td>
</tr>
<tr>
<td><strong>Share-based compensation expense</strong></td>
<td>—</td>
<td>972</td>
<td>—</td>
<td>—</td>
<td>972</td>
<td>—</td>
<td>972</td>
</tr>
<tr>
<td><strong>Restricted stock awards</strong></td>
<td>7,642</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td><strong>Balance at March 31, 2017</strong></td>
<td>67,164,606</td>
<td>$507,381</td>
<td>$33,486</td>
<td>$80,673</td>
<td>$621,540</td>
<td>$180</td>
<td>$621,720</td>
</tr>
</tbody>
</table>

See accompanying notes to condensed consolidated financial statements.
1. DESCRIPTION OF BUSINESS

Diplomat Pharmacy, Inc. and its consolidated subsidiaries (the “Company”) operate a specialty pharmacy business which stocks, dispenses and distributes prescriptions for various biotechnology and specialty pharmaceutical manufacturers. Its primary focus is on medication management programs for individuals with complex chronic diseases. Disease states covered include oncology, immunology, specialty infusion therapy, hepatitis, multiple sclerosis, and many other serious or long-term conditions. The Company has its corporate headquarters and main distribution facility in Flint, Michigan, and operates 24 other pharmacy locations in Alabama, Arizona, California, Connecticut, Florida, Illinois, Iowa, Kansas, Maryland, Massachusetts, Michigan, Minnesota, Nebraska, New York, North Carolina, Ohio, Pennsylvania, Texas, and Wisconsin. The Company also has centralized call centers to effectively deliver services to customers located in all 50 states in the United States of America (“U.S.”) and U.S. territories. The Company operates as one reportable segment.

2. BASIS OF PRESENTATION

Interim Unaudited Condensed Consolidated Financial Statements

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the U.S. (“U.S. GAAP”) and the applicable rules and regulations of the Securities and Exchange Commission (“SEC”) regarding interim financial reporting. Accordingly, they do not include all of the information and notes required by U.S. GAAP for complete financial statements. In the opinion of management, the interim financial statements include all adjustments of a normal recurring nature necessary for a fair presentation of the financial position, results of operations, cash flows and changes in shareholders’ equity. The results of operations for the three months ended March 31, 2017 are not necessarily indicative of the results that may be expected for the year ending December 31, 2017. These unaudited condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements and related notes for the year ended December 31, 2016 included in the Company’s Annual Report on Form 10-K, which was filed with the SEC on March 8, 2017.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation

The condensed consolidated financial statements include the accounts of Diplomat Pharmacy, Inc., its wholly-owned subsidiaries, and a 51 percent owned subsidiary, formed in August 2014, which the Company controls. An investment in an entity in which the Company owns less than 20 percent and does not have the ability to exercise significant influence is accounted for under the cost method.

Noncontrolling interest in a consolidated subsidiary in the condensed consolidated balance sheets represents the minority shareholders’ proportionate share of the equity in such subsidiary. Consolidated net income (loss) is allocated to the Company and noncontrolling interests (i.e., minority shareholders) in proportion to their percentage ownership.

All intercompany transactions and balances have been eliminated in consolidation.
Use of Estimates

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the amounts reported therein. Due to the inherent uncertainty involved in making estimates, actual results reported in future periods may be based upon amounts that differ from these estimates.

Inventories

Inventories consist of prescription and over-the-counter medications and are stated at the lower of cost or market. Cost is determined using the first-in, first-out method. Prescription medications are returnable to the Company’s vendors and fully refundable before six months of expiration, and any remaining expired medication is relieved from inventory on a quarterly basis.

Revenue Recognition

The Company recognizes revenue from prescription drug sales for home delivery at the time the drugs are shipped. At the time of shipment, the Company has performed substantially all of its obligations under its payor contracts and does not experience a significant level of returns or reshipments. Revenues from dispensing specialty prescriptions that are picked up by patients at an open door or retail pharmacy location are recorded at prescription adjudication, which approximates the fill date. Sales taxes are presented on a net basis (excluded from revenues and costs). Revenues generated from prescription drug sales were $1,073,865 and $990,011 for the three months ended March 31, 2017 and 2016, respectively.

The Company recognizes revenue from service, data, and consulting services when the services have been performed and the earnings process is therefore complete. Revenues generated from service, data, and consulting services were $4,875 and $5,859 for the three months ended March 31, 2017 and 2016, respectively.

Accounting Standards Update (“ASU”) Adoption — Balance Sheet Classification of Deferred Taxes

In April 2015, the Financial Accounting Standards Board (“FASB”) issued ASU No. 2015-17, Income Taxes (Topic 740): Balance Sheet Classification of Deferred Taxes (“ASU 2015-17”), eliminating the current requirement for companies to present deferred tax assets and liabilities as current and noncurrent. Instead, companies will be required to classify all deferred tax assets and liabilities as noncurrent. This ASU is effective for annual periods beginning on or after December 15, 2016, including interim periods within those annual periods, and can be adopted either prospectively or retrospectively.

Effective January 1, 2017, the Company retrospectively adopted the accounting guidance contained within ASU 2015-17. The following December 31, 2016 condensed consolidated balance sheet line items were adjusted due to this adoption:

<table>
<thead>
<tr>
<th></th>
<th>As Previously Reported</th>
<th>Adjustment</th>
<th>As Adjusted</th>
</tr>
</thead>
<tbody>
<tr>
<td>Deferred income taxes (current asset)</td>
<td>$14,703</td>
<td>($14,703)</td>
<td>—</td>
</tr>
<tr>
<td>Total current assets</td>
<td>519,810</td>
<td></td>
<td>505,107</td>
</tr>
<tr>
<td>Deferred income taxes (noncurrent asset)</td>
<td>—</td>
<td>6,010</td>
<td>6,010</td>
</tr>
<tr>
<td>Total assets</td>
<td>1,107,947</td>
<td>(8,693)</td>
<td>1,099,254</td>
</tr>
<tr>
<td>Deferred income taxes (noncurrent liability)</td>
<td>8,693</td>
<td>(8,693)</td>
<td>—</td>
</tr>
<tr>
<td>Total liabilities</td>
<td>494,223</td>
<td>(8,693)</td>
<td>485,530</td>
</tr>
<tr>
<td>Total liabilities and shareholders’ equity</td>
<td>1,107,947</td>
<td>(8,693)</td>
<td>1,099,254</td>
</tr>
</tbody>
</table>

ASU Adoption — Simplifying the Test for Goodwill Impairment

In January 2017, the FASB issued ASU No. 2017-04, Intangibles — Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment (“ASU 2017-04”), which eliminates Step 2 from the quantitative goodwill
impairment test. Instead, an entity should perform its annual, or interim, quantitative goodwill impairment test by comparing the fair value of a reporting unit with its carrying amount (Step 1). An entity should recognize an impairment charge for the amount by which the carrying amount exceeds the reporting unit’s fair value; however, the loss recognized should not exceed the total amount of goodwill allocated to that reporting unit. This ASU is effective for an entity’s annual or any interim goodwill impairment tests in fiscal years beginning after December 15, 2019. Early adoption is permitted.

Effective January 1, 2017, the Company adopted the accounting guidance contained within ASU 2017-04. There was no current impact to the Company as a result of this adoption.

New Accounting Pronouncements

In May 2014, the FASB issued ASU No. 2014-09, Revenue from Contracts with Customers (Topic 606) (“ASU 2014-09”), which will supersede the existing revenue recognition guidance under U.S. GAAP. The new standard focuses on creating a single source of revenue guidance for revenue arising from contracts with customers for all industries. The objective of the new standard is for companies to recognize revenue when it transfers the promised goods or services to its customers at an amount that represents what the company expects to be entitled to in exchange for those goods or services. In July 2015, the FASB issued ASU No. 2015-14, Revenue from Contracts with Customers (Topic 606) Deferral of the Effective Date, which defered the effective date of ASU 2014-09 by one year to annual reporting periods beginning after December 15, 2017 for public entities, though early adoption is permitted. ASU 2014-09 permits two methods of adoption: retrospectively to each prior reporting period presented (full retrospective method), or retrospectively with the cumulative effect of initially applying the guidance recognized at the date of initial application (cumulative catch-up transition method). The Company currently anticipates adopting ASU 2014-09 using the cumulative catch-up transition method. The Company continues to assess the impact that the adoption of ASU 2014-09 will have on its condensed consolidated financial statements and/or notes thereto, although the Company does not expect the impact to be significant.

In February 2016, the FASB issued ASU No. 2016-02, Leases (Topic 842), requiring lessees to recognize a right-of-use asset and a lease liability for all leases (with the exception of short-term leases) at lease commencement date. This ASU is effective for annual periods beginning on or after December 15, 2018, including interim periods within those annual periods. Early adoption is permitted. The Company is currently evaluating whether to early adopt and the impact that the adoption of this guidance will have on its condensed consolidated financial statements and/or notes thereto.

4. BUSINESS ACQUISITIONS

The Company accounts for its business acquisitions using the acquisition method as required by FASB Accounting Standards Codification Topic 805, Business Combinations. The Company ascribes significant value to the synergies and other benefits that do not meet the recognition criteria of acquired identifiable intangible assets. Accordingly, the value of these components is included within goodwill. The Company’s business acquisitions described below were treated as asset purchases for income tax purposes and the related goodwill resulting from these business acquisitions is deductible for income tax purposes. The results of operations for acquired businesses are included in the Company’s consolidated financial statements from their respective acquisition dates.

The assets acquired and liabilities assumed in the business combinations described below, including identifiable intangible assets, were based on their estimated fair values as of the acquisition date. The excess of purchase price over the estimated fair value of the net tangible and identifiable intangible assets acquired was recorded as goodwill. The allocation of the purchase price required management to make significant estimates in determining the fair values of assets acquired and liabilities assumed, especially with respect to identifiable intangible assets. These estimated fair values were based on information obtained from management of the acquired companies and historical experience and, with respect to the long-lived tangible and intangible assets, were made with the assistance of an independent valuation firm. These estimates included, but were not limited to, the cash flows that an asset is expected to generate in the future, and the cost savings expected to be derived from acquiring an asset, discounted at rates commensurate with the risks and uncertainties involved. For acquisitions that involved contingent consideration, the Company recognized a liability equal to the fair value of the contingent consideration.
obligation as of the acquisition date. The estimate of fair value of a contingent consideration obligation required subjective assumptions regarding future business results, discount rates, and probabilities assigned to various potential business result scenarios.

**Comfort Infusion, Inc.**

On March 22, 2017, the Company acquired Comfort Infusion, Inc. (“Comfort Infusion”), a specialty pharmacy and infusion services company based in Birmingham, AL that specializes in intravenous immune globulin therapy to support patients’ immune systems. The following table summarizes the consideration transferred to acquire Comfort Infusion:

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash</td>
<td>$10,600</td>
</tr>
<tr>
<td>Contingent consideration at fair value</td>
<td>3,700</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$14,300</strong></td>
</tr>
</tbody>
</table>

The purchase price includes a contingent consideration arrangement that requires the Company to pay the former owners additional cash payouts of up to $2,000 per performance period based upon the achievement of a certain gross profit targets in each of the 12-month periods ending March 31, 2018, 2019, and 2020. The maximum payout of contingent consideration is $6,000.

Approximately $1,050 of the purchase consideration was deposited into an escrow account to be held for 18 months after the closing date to satisfy any of the Company’s indemnification claims.

The Company incurred acquisition-related costs of $133 which were charged to “Selling, general and administrative expenses” during the three months ended March 31, 2017.

The following table summarizes the preliminary fair values of identifiable assets acquired and liabilities assumed at the acquisition date:

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash</td>
<td>$122</td>
</tr>
<tr>
<td>Accounts receivable</td>
<td>546</td>
</tr>
<tr>
<td>Inventories</td>
<td>86</td>
</tr>
<tr>
<td>Prepaid expenses and other current assets</td>
<td>24</td>
</tr>
<tr>
<td>Definite-lived intangible assets</td>
<td>2,360</td>
</tr>
<tr>
<td>Accounts payable</td>
<td>(273)</td>
</tr>
<tr>
<td>Accrued expenses — other</td>
<td>(207)</td>
</tr>
<tr>
<td><strong>Total identifiable net assets</strong></td>
<td>2,658</td>
</tr>
<tr>
<td>Goodwill</td>
<td>11,642</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$14,300</strong></td>
</tr>
</tbody>
</table>

Definite-lived intangible assets that were acquired and their respective useful lives are as follows:

<table>
<thead>
<tr>
<th>Description</th>
<th>Useful Life</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Patient relationships</td>
<td>9 years</td>
<td>$1,400</td>
</tr>
<tr>
<td>Non-compete employment agreements</td>
<td>5 years</td>
<td>960</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td></td>
<td>$2,360</td>
</tr>
</tbody>
</table>
On February 1, 2017, the Company acquired Affinity Biotech, Inc. (“Affinity”), a specialty pharmacy and infusion services company based in Houston, TX that provides treatments and nursing services for patients with hemophilia. The following table summarizes the consideration transferred to acquire Affinity:

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash</td>
<td>$17,097</td>
</tr>
<tr>
<td>Contingent consideration at fair value</td>
<td>35</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$17,132</strong></td>
</tr>
</tbody>
</table>

The purchase price includes a contingent consideration arrangement that requires the Company to pay the former owners an additional cash payout based upon the achievement of a certain earnings before interest, taxes, depreciation, and amortization target in the 12-month period ending January 31, 2018. The maximum payout of contingent consideration is $4,000.

Approximately $2,000 of the purchase consideration was deposited into an escrow account to be held for 18 months after the closing date to satisfy any of the Company’s indemnification claims.

The Company incurred acquisition-related costs of $224 which were charged to “Selling, general and administrative expenses” during the three months ended March 31, 2017.

The following table summarizes the preliminary fair values of identifiable assets acquired and liabilities assumed at the acquisition date:

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash</td>
<td>$1,043</td>
</tr>
<tr>
<td>Accounts receivable</td>
<td>3,537</td>
</tr>
<tr>
<td>Inventories</td>
<td>79</td>
</tr>
<tr>
<td>Prepaid expenses and other current assets</td>
<td>72</td>
</tr>
<tr>
<td>Definite-lived intangible assets</td>
<td>5,100</td>
</tr>
<tr>
<td>Other noncurrent assets</td>
<td>5</td>
</tr>
<tr>
<td>Accounts payable</td>
<td>(1,075)</td>
</tr>
<tr>
<td>Accrued expenses — compensation and benefits</td>
<td>(144)</td>
</tr>
<tr>
<td>Accrued expenses — other</td>
<td>(2)</td>
</tr>
<tr>
<td><strong>Total identifiable net assets</strong></td>
<td><strong>8,615</strong></td>
</tr>
<tr>
<td>Goodwill</td>
<td>8,517</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$17,132</strong></td>
</tr>
</tbody>
</table>

Definite-lived intangible assets that were acquired and their respective useful lives are as follows:

<table>
<thead>
<tr>
<th>Description</th>
<th>Useful Life</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Patient relationships</td>
<td>7 years</td>
<td>$4,000</td>
</tr>
<tr>
<td>Non-compete employment agreements</td>
<td>5 years</td>
<td>1,100</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td></td>
<td><strong>$5,100</strong></td>
</tr>
</tbody>
</table>
Valley Campus Pharmacy, Inc.

On June 1, 2016, the Company acquired Valley Campus Pharmacy, Inc., doing business as TNH Advanced Specialty Pharmacy (“TNH”). TNH, a specialty pharmacy based in Van Nuys, California, provides medication management programs for individuals with complex chronic diseases, including oncology, hepatitis, and immunology. The Company acquired TNH to expand its existing business, enhance its proprietary technology, and increase its geographic presence, particularly in California and Texas. The following table summarizes the consideration transferred to acquire TNH:

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash</td>
<td>$68,915</td>
</tr>
<tr>
<td>324,244 restricted common shares</td>
<td>9,507</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$78,422</strong></td>
</tr>
</tbody>
</table>

The above share consideration at closing is based on 324,244 shares, in accordance with the purchase agreement, multiplied by the per share closing market price of the Company’s common stock as of May 31, 2016 ($32.58), and multiplied by 90 percent to account for the restricted nature of the shares.

Approximately $3,800 of the purchase consideration was deposited into an escrow account to be held for one year after the closing date to satisfy any indemnification claims that may be made by the Company.

The following table summarizes the preliminary fair values of identifiable assets acquired and liabilities assumed at the acquisition date:

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash</td>
<td>$2,114</td>
</tr>
<tr>
<td>Accounts receivable</td>
<td>16,271</td>
</tr>
<tr>
<td>Inventories</td>
<td>4,740</td>
</tr>
<tr>
<td>Prepaid expenses and other current assets</td>
<td>46</td>
</tr>
<tr>
<td>Property and equipment</td>
<td>200</td>
</tr>
<tr>
<td>Capitalized software for internal use</td>
<td>14,000</td>
</tr>
<tr>
<td>Definite-lived intangible assets</td>
<td>13,890</td>
</tr>
<tr>
<td>Other noncurrent assets</td>
<td>21</td>
</tr>
<tr>
<td>Accounts payable</td>
<td>(29,773)</td>
</tr>
<tr>
<td>Accrued expenses — compensation and benefits</td>
<td>(400)</td>
</tr>
<tr>
<td>Accrued expenses — other</td>
<td>(1,962)</td>
</tr>
<tr>
<td><strong>Total identifiable net assets</strong></td>
<td>19,147</td>
</tr>
<tr>
<td>Goodwill</td>
<td>59,275</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$78,422</strong></td>
</tr>
</tbody>
</table>

Definite-lived intangible assets that were acquired and their respective useful lives are as follows:

<table>
<thead>
<tr>
<th>Description</th>
<th>Useful Life</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Physician relationships</td>
<td>10 years</td>
<td>$7,700</td>
</tr>
<tr>
<td>Noncompete employment agreements</td>
<td>5 years</td>
<td>4,490</td>
</tr>
<tr>
<td>Trade names and trademarks</td>
<td>1 year</td>
<td>1,700</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td></td>
<td><strong>$13,890</strong></td>
</tr>
</tbody>
</table>

Pro Forma Operating Results

The following 2017 unaudited pro forma summary presents condensed consolidated financial information as if the Affinity and Comfort Infusion acquisitions had occurred on January 1, 2016. The following 2016 unaudited pro forma summary presents condensed consolidated financial information as if the Affinity and Comfort Infusion acquisitions had occurred on January 1, 2016 and the TNH acquisition had occurred on January 1, 2015. The unaudited pro forma results reflect certain adjustments related to the acquisitions, such as amortization expense.
resulting from intangible assets acquired and adjustments to reflect the Company’s borrowings and tax rates. Accordingly, such pro forma operating results were prepared for comparative purposes only and do not purport to be indicative of what would have occurred had the acquisitions been made as of the as if dates or of results that may occur in the future.

<table>
<thead>
<tr>
<th>Three Months Ended March 31,</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2017</td>
</tr>
<tr>
<td>Net sales</td>
<td>$1,082,592</td>
</tr>
<tr>
<td>Net income attributable to Diplomat Pharmacy, Inc.</td>
<td>$3,807</td>
</tr>
<tr>
<td>Net income per common share — basic</td>
<td>$0.06</td>
</tr>
<tr>
<td>Net income per common share — diluted</td>
<td>$0.06</td>
</tr>
</tbody>
</table>

5. **FAIR VALUE MEASUREMENTS**

The Company utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs to the extent possible. Fair value is defined as the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. As such, fair value is a market-based measurement that should be determined based upon assumptions that market participants would use in pricing an asset or liability. As a basis for considering such assumptions, a three-tier fair value hierarchy was established, which prioritizes the inputs used in measuring fair value as follows:

- **Level 1:** Observable inputs such as quoted prices in active markets;
- **Level 2:** Inputs, other than quoted prices in active markets, that are observable either directly or indirectly; and
- **Level 3:** Unobservable inputs in which there is little or no market data, which require the reporting entity to develop its own assumptions.

An asset’s or liability’s fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

Assets and liabilities measured at fair value are based on one or more of the following three valuation techniques:

- **A. Market approach:** Prices and other relevant information generated by market transactions involving identical or comparable assets or liabilities.
- **B. Cost approach:** Amount that would be required to replace the service capacity of an asset (replacement cost).
- **C. Income approach:** Techniques to convert future amounts to a single present amount based upon market expectations (including present value techniques, option-pricing and excess earnings models).

The following table presents the placement in the fair value hierarchy of assets and liabilities that are measured and disclosed at fair value on a recurring basis at March 31, 2017:

<table>
<thead>
<tr>
<th>Asset / (Liability)</th>
<th>Level 3</th>
<th>Valuation Technique</th>
</tr>
</thead>
<tbody>
<tr>
<td>Contingent consideration</td>
<td>$ (3,735)</td>
<td>$ (3,735)</td>
</tr>
</tbody>
</table>

13
The following table sets forth a roll forward of the Level 3 measurements:

<table>
<thead>
<tr>
<th>Contingent Consideration</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Balance at January 1, 2017</td>
<td>$</td>
</tr>
<tr>
<td>Affinity acquisition</td>
<td>(35)</td>
</tr>
<tr>
<td>Comfort Infusion acquisition</td>
<td>(3,700)</td>
</tr>
<tr>
<td>Balance at March 31, 2017</td>
<td>$ (3,735)</td>
</tr>
</tbody>
</table>

The carrying amounts of the Company’s financial instruments — consisting primarily of cash and cash equivalents, accounts receivable, accounts payable, and other liabilities — approximate their estimated fair values due to the relative short-term nature of the amounts. The carrying amount of debt approximates fair value due to variable interest rates at customary terms and rates the Company could obtain in current financing.

6. **GOODWILL AND DEFINITE-LIVED INTANGIBLE ASSETS**

The following table sets forth a roll forward of goodwill for the three months ended March 31, 2017:

<table>
<thead>
<tr>
<th>Goodwill</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Balance at January 1, 2017</td>
<td>$ 316,616</td>
</tr>
<tr>
<td>Affinity acquisition</td>
<td>8,517</td>
</tr>
<tr>
<td>Comfort Infusion acquisition</td>
<td>11,642</td>
</tr>
<tr>
<td>Balance at March 31, 2017</td>
<td>$ 336,775</td>
</tr>
</tbody>
</table>

Definite-lived intangible assets consisted of the following:

<table>
<thead>
<tr>
<th>Intangible Asset</th>
<th>March 31, 2017</th>
<th>December 31, 2016</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Gross Carrying Amount</td>
<td>Accumulated Amortization</td>
</tr>
<tr>
<td>Patient relationships</td>
<td>$ 164,500</td>
<td>(35,710)</td>
</tr>
<tr>
<td>Non-compete employment agreements</td>
<td>56,749</td>
<td>(21,445)</td>
</tr>
<tr>
<td>Physician relationships</td>
<td>21,700</td>
<td>(3,630)</td>
</tr>
<tr>
<td>Trade names and trademarks</td>
<td>23,800</td>
<td>(8,326)</td>
</tr>
<tr>
<td></td>
<td>$ 266,749</td>
<td>(69,111)</td>
</tr>
</tbody>
</table>

7. **INVESTMENT IN NON-CONSOLIDATED ENTITY**

From October 2011 through January 2017, the Company maintained a 25.0 percent minority interest in Worksmart MD, LLC, also known as Ageology, though it fully impaired its investment during the fourth quarter of 2014. In transactions unrelated to the Company, SkyPoint Ventures LLC (“SkyPoint”), an affiliated entity of the Company’s chief executive officer, loaned $16,000 to Ageology through January 2017. In February 2017, SkyPoint elected to convert its $16,000 in outstanding loans into equity in Ageology, which equated to an approximate ownership of 51.8 percent. Concurrently, the Company converted its $2,500 in outstanding loans (which the Company had written off during the fourth quarter of 2014) into equity in Ageology, thereby increasing the Company’s minority interest to approximately 26.5 percent. Because the Company does not direct the activities that most significantly impact the economic performance of Ageology, management has determined that the Company is not nor ever has been Ageology’s primary beneficiary.

Subsequent to the February 2017 concurrent conversion transactions, SkyPoint loaned Ageology $860 during the three months ended March 31, 2017.
8. DEBT

The Company had $109,500 and $111,000 outstanding on Term Loan A as of March 31, 2017 and December 31, 2016, respectively. Unamortized debt issuance costs of $3,061 and $3,316 as of March 31, 2017 and December 31, 2016, respectively, are presented in the condensed consolidated balance sheets as direct deductions from the outstanding debt balances. During the first quarter of 2017, the Company fully drew down its $25,000 deferred draw term loan (“DDTL”), which was outstanding as of March 31, 2017. The Company also had $5,718 and $39,255 outstanding on its line of credit as of March 31, 2017 and December 31, 2016, respectively. The Company had $149,845 and $129,908 available to borrow on its line of credit at March 31, 2017 and December 31, 2016, respectively.

The interest rate on the Company’s Term Loan A and DDTL was 3.31 percent and 3.13 percent at March 31, 2017 and December 31, 2016, respectively. The Company’s line of credit interest rate was 4.50 percent at both March 31, 2017 and December 31, 2016. In addition, the Company is charged a monthly unused commitment fee ranging from 0.25 percent to 0.50 percent on its average unused daily balance on its $175,000 line of credit.

The Company’s credit facility, consisting of the Term Loan A, DDTL, and line of credit, contains certain financial and non-financial covenants. The Company was in compliance with all such covenants as of March 31, 2017 and December 31, 2016.

9. SHARE-BASED COMPENSATION

A summary of the Company’s stock option activity as of and for the three months ended March 31, 2017 is as follows:

<table>
<thead>
<tr>
<th></th>
<th>Number of Options</th>
<th>Weighted Average Exercise Price</th>
<th>Weighted Average Remaining Contractual Life (Years)</th>
<th>Aggregate Intrinsic Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Outstanding at January 1, 2017</td>
<td>4,413,341</td>
<td>$19.02</td>
<td>7.0</td>
<td>$11,558</td>
</tr>
<tr>
<td>Granted</td>
<td>300,000</td>
<td>14.86</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Exercised</td>
<td>(391,965)</td>
<td>7.14</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Expired/cancelled</td>
<td>(532,916)</td>
<td>27.55</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Outstanding at March 31, 2017</td>
<td>3,788,460</td>
<td>$18.73</td>
<td>6.9</td>
<td>$10,883</td>
</tr>
<tr>
<td>Exercisable at March 31, 2017</td>
<td>1,736,876</td>
<td>$12.25</td>
<td>4.3</td>
<td>$10,781</td>
</tr>
</tbody>
</table>

The Company recorded share-based compensation expense associated with stock options of $896 and $1,432 for the three months ended March 31, 2017 and 2016, respectively.

The Company granted service-based awards of 300,000 options to purchase common stock to key employees under its 2014 Omnibus Incentive Plan during the three months ended March 31, 2017. The options become exercisable in installments of 25 percent per year, beginning on the first anniversary of the grant date and each of the three anniversaries thereafter, and have a maximum term of ten years.
The 300,000 options to purchase common stock that were granted during the three months ended March 31, 2017 have a weighted average grant date fair value of $5.58 per option. The grant date fair values of these stock option awards were estimated using the Black-Scholes-Merton option pricing model using the assumptions set forth in the following table:

<table>
<thead>
<tr>
<th>Exercise price</th>
<th>$</th>
<th>$14.66 - $15.71</th>
</tr>
</thead>
<tbody>
<tr>
<td>Expected volatility</td>
<td></td>
<td>33.82% - 33.93%</td>
</tr>
<tr>
<td>Expected dividend yield</td>
<td></td>
<td>0%</td>
</tr>
<tr>
<td>Risk-free rate over the estimated expected life</td>
<td></td>
<td>2.11% - 2.32%</td>
</tr>
<tr>
<td>Expected life (in years)</td>
<td></td>
<td>6.25</td>
</tr>
</tbody>
</table>

Estimating grant date fair values for employee stock options requires management to make assumptions regarding expected volatility of value of those underlying shares, the risk-free rate over the expected life of the stock options and the date on which share-based payments will be settled. Expected volatility is based on an implied volatility for a group of industry-relevant healthcare companies as of the measurement date. Risk-free rate is determined based upon U.S. Treasury rates over the estimated expected option lives. Expected dividend yield is zero as the Company does not anticipate that any dividends will be declared during the expected term of the options. The expected term of options granted is calculated using the simplified method (the midpoint between the end of the vesting period and the end of the maximum term).

**Restricted Stock Awards**

The Company issues restricted stock awards to non-employee directors. A summary of the Company’s restricted stock award activity as of and for the three months ended March 31, 2017 is as follows:

<table>
<thead>
<tr>
<th>Number of Shares Subject to Restriction</th>
<th>Weighted Average Grant Date Fair Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Nonvested at January 1, 2017</td>
<td>$32.97</td>
</tr>
<tr>
<td>Granted</td>
<td>$14.01</td>
</tr>
<tr>
<td>Nonvested at March 31, 2017</td>
<td>$22.16</td>
</tr>
</tbody>
</table>

The Company recorded share-based compensation expense associated with restricted stock awards of $76 and $71 for the three months ended March 31, 2017 and 2016, respectively.

**10. CONTINGENCIES**

The Company is subject to claims and lawsuits that arise primarily in the ordinary course of business. In addition, on November 10, 2016, a putative class action complaint was filed in the U.S. District Court for the Eastern District of Michigan against Diplomat Pharmacy, Inc. and certain officers of the Company. Following appointment of lead plaintiffs and lead counsel, an amended complaint was filed on April 11, 2017. The amended complaint alleges violations of Sections 10(b) and 20(a) of the Securities Exchange Act of 1934 in connection with public filings made between February 29, 2016 and November 2, 2016 (the “potential class period”). The plaintiff seeks to represent a class of shareholders who purchased stock in the potential class period. The complaint seeks unspecified monetary damages and other relief. The Company believes the complaint and allegations to be without merit and intends to vigorously defend itself against these actions. The Company is unable at this time to determine whether the outcome of the litigation would have a material impact on its results of operations, financial condition, or cash flows. In the opinion of management, the disposition or ultimate resolution of all other currently known claims and lawsuits will not have a material adverse effect on the Company’s consolidated financial position, results of operations, or liquidity.
11. INCOME PER COMMON SHARE

The following table sets forth the computation of basic and diluted income per common share:

<table>
<thead>
<tr>
<th></th>
<th>Three Months Ended March 31,</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2017</td>
</tr>
<tr>
<td>Numerator:</td>
<td></td>
</tr>
<tr>
<td>Net income attributable to Diplomat Pharmacy, Inc.</td>
<td>$4,367</td>
</tr>
</tbody>
</table>

Denominator:

<table>
<thead>
<tr>
<th></th>
<th>2017</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Weighted average common shares outstanding, basic</td>
<td>66,886,866</td>
<td>64,539,161</td>
</tr>
<tr>
<td>Weighted average dilutive effect of stock options and restricted stock awards</td>
<td>893,568</td>
<td>1,959,494</td>
</tr>
<tr>
<td>Weighted average dilutive effect of contingent consideration</td>
<td>—</td>
<td>1,346,282</td>
</tr>
<tr>
<td>Weighted average common shares outstanding, diluted</td>
<td>67,780,434</td>
<td>67,844,937</td>
</tr>
</tbody>
</table>

Net income per common share:

<table>
<thead>
<tr>
<th></th>
<th>2017</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Basic</td>
<td>$0.07</td>
<td>$0.24</td>
</tr>
<tr>
<td>Diluted</td>
<td>$0.06</td>
<td>$0.23</td>
</tr>
</tbody>
</table>

Stock options to purchase a weighted average of 2,433,510 and 1,369,375 common shares were excluded from the computation of diluted weighted average common shares outstanding for the three months ended March 31, 2017 and 2016, respectively, as inclusion of such options would be anti-dilutive. Performance-based stock options to purchase up to a weighted average of 46,119 common shares were excluded from the computation of diluted weighted average common shares outstanding for the three months ended March 31, 2016 as all performance conditions were not satisfied as of March 31, 2016. Weighted average restricted stock awards of 2,560 common shares were excluded from the computation of diluted weighted average common shares outstanding for the three months ended March 31, 2017 as inclusion of such shares would be anti-dilutive.

12. SUBSEQUENT EVENT

On May 8, 2017, the Company acquired WRB Communications, Inc., a communications and contact center company based in Chantilly, VA that specializes in relationship management programs for leading pharmaceutical manufacturers and service organizations. Under the terms of the agreement, Diplomat transferred cash and stock consideration of approximately $24,500 and $4,500, respectively, with additional cash payouts of up to $500 per performance period based upon the achievement of certain earnings before interest, taxes, depreciation, and amortization targets in the 12-month periods ending April 30, 2018 and 2019. The maximum additional cash payout is $1,000.
ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

(Dollars in thousands, except per share, per patient, and per prescription data)

The following Management’s Discussion and Analysis of financial condition and results of operations (“MD&A”) should be read in conjunction with the condensed consolidated financial statements (audited), related notes, and other financial information appearing elsewhere in this Quarterly Report on Form 10-Q and the consolidated financial statements and related notes included in our Annual Report on Form 10-K for the year ended December 31, 2016, which was filed on March 8, 2017 with the Securities and Exchange Commission (“SEC”).

Forward-Looking Statements

Certain statements contained or incorporated in this Quarterly Report on Form 10-Q which are not statements of historical fact constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Forward-looking statements give current expectations or forecasts of future events or our future financial or operating performance. Words such as “anticipate,” “believe,” “estimate,” “expect,” “intend,” “may,” “plan,” “seek,” and similar terms and phrases, or the negative thereof, may be used to identify forward-looking statements.

The forward-looking statements contained in this report are based on management’s good-faith belief and reasonable judgment based on current information. The forward-looking statements are qualified by important factors, risks, and uncertainties, many of which are beyond our control, that could cause our actual results to differ materially from those in the forward-looking statements, including those described elsewhere in this report, as well as in our Annual Report on Form 10-K for the year ended December 31, 2016 and subsequent reports filed with or furnished to the SEC. Any forward-looking statement made by us in this report speaks only as of the date hereof or as of the date specified herein. We undertake no obligation to publicly update any forward-looking statement, whether as a result of new information, future developments, or otherwise, except as may be required by any applicable laws or regulations.

Overview

Diplomat Pharmacy, Inc. (the “Company,” “Diplomat,” “our,” “us,” or “we”) is the largest independent specialty pharmacy in the United States of America (“U.S.”), and is focused on improving the lives of patients with complex chronic diseases. Our patient-centric approach positions us at the center of the healthcare continuum for treatment of complex chronic diseases through partnerships with patients, payors, pharmaceutical manufacturers, and physicians. We offer a broad range of innovative solutions to address the dispensing, delivery, dosing, and reimbursement of clinically intensive, high-cost specialty drugs (many of which can cost more than $100,000 per patient, per year). We have expertise across a broad range of high-growth specialty therapeutic categories, including oncology, immunology, hepatitis, specialty infusion therapy, multiple sclerosis, and many other serious or long-term conditions. We dispense to patients in all 50 states and U.S. territories through our advanced distribution centers and manage centralized clinical call centers to deliver localized services on a national scale. Diplomat was founded in 1975 by our chief executive officer and chairman, Philip Hagerman, and his father, Dale, both trained pharmacists who transformed our business from a traditional pharmacy into a leading specialty pharmacy beginning in 2005.

Our core revenues are derived from the customized care management programs we deliver to our patients, including the dispensing of their specialty medications. Because our core therapeutic disease states generally require multiyear or lifelong therapy, our singular focus on complex chronic diseases helps drive recurring revenues and sustainable growth. Our organic revenue growth is primarily driven by new drugs coming to market, new indications for existing drugs, volume growth with current clients, and the addition of new clients. For the three months ended March 31, 2017 and 2016, we derived over 99 percent of our revenue from the dispensing of drugs and the reporting of data associated with those dispenses to pharmaceutical manufacturers and other outside companies.

Our historical revenue growth has largely been driven by our position as a leader in the oncology, immunology, specialty infusion, hepatitis, and multiple sclerosis therapeutic categories. For the three months ended March 31,
2017 and 2016, we generated approximately 94 percent and 93 percent, respectively, of our revenues in these categories.

We expect future revenue growth to be driven by a highly visible and recurring base of prescription volume and revenues, favorable demographic trends, advanced clinical developments, expanding drug pipelines, earlier detection of chronic diseases, improved access to medical care, mix shift toward higher-cost specialty drugs, and manufacturer price increases. In addition, we believe that our expanding breadth of services, our growing penetration with new customers, and our access to limited-distribution drugs will help us achieve sustainable revenue growth in the future. Further, we believe that limited distribution is becoming the delivery system of choice for many specialty drug manufacturers because it is conducive to smaller patient populations, facilitates high patient engagement, clinical expertise, and an elevated focus on service, and because it allows for real-time patient-specific (albeit de-identified) data. Accordingly, we believe our current portfolio of approximately 100 limited-distribution drugs, all of which are commercially available, is important to our revenue growth.

We also provide specialty pharmacy support services to a national network of retailers and independent hospital groups, as well as hospitals and health systems. Through many of these partners, we earn revenue by providing clinical and administrative support services on a fee-for-service basis to help them dispense specialty medications. Our other revenue for the three months ended March 31, 2017 and 2016 was derived from these services provided to retail and hospital pharmacy partners.

Recent Developments

WRB Communications, Inc. Acquisition

On May 8, 2017, we acquired WRB Communications, Inc., a communications and contact center company based in Chantilly, VA that specializes in relationship management programs for leading pharmaceutical manufacturers and service organizations. Under the terms of the agreement, Diplomat transferred cash and stock consideration of approximately $24,500 and $4,500, respectively, with additional cash payouts of up to $500 per performance period based upon the achievement of certain earnings before interest, taxes, depreciation, and amortization targets in the 12-month periods ending April 30, 2018 and 2019. The maximum additional cash payout is $1,000.

Comfort Infusion, Inc. Acquisition

On March 22, 2017, we acquired Comfort Infusion, Inc. (“Comfort Infusion”) for a total acquisition price of $13,600, excluding related acquisition costs. Included in the total acquisition price is $10,600 in cash, and contingent consideration of up to $6,000 in cash to the former holders of Affinity’s equity interests based upon the achievement of certain earnings before interest, taxes, depreciation and amortization targets in each of the twelve month periods ending March 31, 2018, 2019, and 2020, which was fair valued at $3,000 as of the acquisition date. Comfort Infusion is a specialty pharmacy and infusion services company based in Birmingham, AL that specializes in intravenous immune globulin therapy to support patients’ immune systems.

Affinity Biotech, Inc. Acquisition

On February 1, 2017, we acquired Affinity Biotech, Inc. (“Affinity”) for a total acquisition price of $17,132, excluding related acquisition costs. Included in the total acquisition price is $17,097 in cash, and contingent consideration of up to $4,000 in cash to the former holders of Affinity’s equity interests based upon the achievement of a certain earnings before interest, taxes, depreciation and amortization target in the twelve month period ending January 31, 2018, which was fair valued at $35 as of the acquisition date. Affinity is a specialty pharmacy and infusion services company based in Houston, TX that provides treatments and nursing services for patients with hemophilia.
Key Performance Metrics

We regularly review a number of metrics, including the following key metrics, to evaluate our business, measure our performance, identify trends affecting our business, formulate financial projections, and make strategic decisions:

<table>
<thead>
<tr>
<th></th>
<th>Three Months Ended March 31,</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2017</td>
</tr>
<tr>
<td>Prescriptions dispensed</td>
<td>220,000</td>
</tr>
<tr>
<td>Prescriptions serviced (not dispensed)</td>
<td>23,000</td>
</tr>
<tr>
<td>Total prescriptions</td>
<td>243,000</td>
</tr>
<tr>
<td>Net sales per prescription dispensed</td>
<td>$4,909</td>
</tr>
<tr>
<td>Gross profit per prescription dispensed</td>
<td>$383</td>
</tr>
<tr>
<td>Net sales per prescription serviced (not dispensed)</td>
<td>$40</td>
</tr>
<tr>
<td>Gross profit per prescription serviced (not dispensed)</td>
<td>$40</td>
</tr>
</tbody>
</table>

Prescription Data (rounded to the nearest thousand)

Prescriptions dispensed represent prescriptions filled and dispensed by Diplomat to patients, or in rare cases, to physicians. Prescriptions serviced (not dispensed) represent prescriptions filled and dispensed by a third-party (non-Diplomat) pharmacy, including unaffiliated retailers and health systems, as well as those for which we provide support services required to assist these patients and pharmacies through the complexity of filling specialty medications and for which we earn a fee.

Our volume for the three months ended March 31, 2017 was approximately 243,000 prescriptions dispensed or serviced, a 17 percent decrease compared to approximately 293,000 prescriptions dispensed or serviced for the three months ended March 31, 2016. The volume decrease was due to contracts that were not renewed, a decrease in prescriptions serviced for retailers, a business decision to exit dispensing certain high-volume, but low-profit, drugs, and a decrease in hepatitis C volume. These volume decreases were partially offset by the contribution of our Affinity, Comfort Infusion, and Valley Campus Pharmacy, Inc., doing business as TNH Advanced Specialty Pharmacy (“TNH”) acquisitions, new drugs to the market or newly dispensed by us, growth in patients from current payors and physician practices, and the addition of patients from new payors and physician practices.

Other Metrics

Other key metrics used in analyzing our business are net sales per prescription dispensed, gross profit per prescription dispensed, net sales per prescription serviced (not dispensed) and gross profit per prescription serviced (not dispensed).

Net sales per prescription dispensed represents total prescription revenue from prescriptions dispensed by Diplomat divided by the number of prescriptions dispensed by Diplomat. Gross profit per prescription dispensed represents gross profit from prescriptions dispensed by Diplomat divided by the number of prescriptions dispensed by Diplomat. Total prescription revenue from prescriptions dispensed includes all revenue collected from patients, third-party payors, and various patient assistance programs, as well as revenue collected from pharmaceutical manufacturers for data and other services directly tied to the actual dispensing of their drug(s). Gross profit represents total prescription revenue from prescriptions dispensed less the cost of the drugs purchased, including performance-related rebates paid by manufacturers to us, which are recorded as a reduction to cost of products sold.

Net sales per prescription serviced (not dispensed) represents total prescription revenue from prescriptions serviced divided by the number of prescriptions serviced for the non-Diplomat pharmacies. Gross profit per prescription serviced (not dispensed) is equal to net sales per prescription serviced because there is no cost of drug associated with such transactions. Total prescription revenue from prescriptions serviced includes revenue collected from partner pharmacies, including retailers and health systems, for support services rendered to their patients.
Components of Results of Operations

Net Sales

Revenue for a dispensed prescription is recognized at the time of shipment for home delivery and at prescription adjudication (which approximates the fill date) for patient pick up at open door or retail pharmacy locations. We can earn revenue from multiple sources for any one claim, including the primary insurance plan, the secondary insurance plan, the tertiary insurance plan, the patient co-pay, and patient assistance programs. Prescription revenue also includes revenue from pharmaceutical manufacturers and other outside companies for data reporting or additional services rendered for dispensed prescriptions. Service revenue is primarily derived from fees earned by us from retail and hospital pharmacies for patient support that is provided by us to those non-Diplomat pharmacies to dispense specialty drugs to patients. The retail and hospital pharmacies dispense the drug and pay us a service fee for clinically and administratively servicing their patients.

Cost of Products Sold

Cost of products sold represents the purchase price of the drugs that we ultimately dispense. These drugs are purchased directly from the manufacturer or from an authorized wholesaler and the purchase price is negotiated with the selling entity. In general, period-over-period percentage changes in cost of products sold will move directionally with period-over-period percentage changes in net sales for prescription dispensing transactions. This is due to the mathematical relationship between average wholesale price (“AWP”) and wholesale acquisition cost (“WAC”), where most commonly AWP equals WAC multiplied by 1.20, and our contractual relationships to purchase at a discount off WAC and receive reimbursement at a discount off AWP. The discounts off AWP and WAC that we receive vary significantly by drug and by contract. Rebates we receive from manufacturers are reflected as reductions to cost of products sold when they are earned.

Selling, General and Administrative Expenses ("SG&A")

Our operating expenses primarily consist of employee and employee-related costs, outbound prescription drug transportation and logistics costs, and amortization expense from definite-lived intangible assets associated with our acquired entities. Our employee and employee-related costs relate to both our patient-facing personnel and our non-patient-facing support and administrative personnel. Other operating expenses consist of occupancy and other indirect costs, insurance costs, professional fees, and other general overhead expenses. We expect that general and administrative expenses will continue to increase as we incur additional expenses related to our growth.

Other Expense

Other expense primarily consists of interest expense associated with our debt, and tax credits.
Results of Operations

The following table provides statements of operations data for each of the periods presented:

<table>
<thead>
<tr>
<th></th>
<th>Three Months Ended March 31, 2017</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net sales</td>
<td>$1,078,740</td>
<td>$995,870</td>
</tr>
<tr>
<td>Cost of products sold</td>
<td>(993,691)</td>
<td>(916,632)</td>
</tr>
<tr>
<td>Gross profit</td>
<td>85,049</td>
<td>79,238</td>
</tr>
<tr>
<td>Income from operations</td>
<td>(76,501)</td>
<td>(54,194)</td>
</tr>
<tr>
<td>Gross profit</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Income before income taxes</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Income tax expense</td>
<td>(2,049)</td>
<td>(1,434)</td>
</tr>
<tr>
<td>Other (expense) income:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other</td>
<td>33</td>
<td>107</td>
</tr>
<tr>
<td>Total other expense</td>
<td>(2,016)</td>
<td>(1,327)</td>
</tr>
<tr>
<td>Income before income taxes</td>
<td>6,532</td>
<td>23,717</td>
</tr>
<tr>
<td>Income tax expense</td>
<td>(2,307)</td>
<td>(8,534)</td>
</tr>
<tr>
<td>Net income</td>
<td>4,225</td>
<td>15,183</td>
</tr>
<tr>
<td>Less net loss attributable to noncontrolling interest</td>
<td>(142)</td>
<td>(246)</td>
</tr>
<tr>
<td>Net income attributable to Diplomat Pharmacy, Inc.</td>
<td>$4,367</td>
<td>$15,429</td>
</tr>
</tbody>
</table>

Net Sales

Net sales for the three months ended March 31, 2017 were $1,078,740, an $82,870 or 8 percent increase, compared to $995,870 for the three months ended March 31, 2016. This increase was primarily the result of approximately $116,000 from our recent acquisitions, approximately $74,000 from the impact of manufacturer price increases, and approximately $48,000 from drugs that were new in the past twelve months. These increases were partially offset by a decrease due to contracts that were not renewed as well as a decrease in hepatitis C versus the prior year period.

Cost of Products Sold

Cost of products sold for the three months ended March 31, 2017 was $993,691, a $77,059 or 8 percent increase, compared to $916,632 for the three months ended March 31, 2016. This increase was primarily the result of the same factors that drove the increase in our net sales over the same time period. Cost of goods sold was 92.1 percent and 92.0 percent of net sales for the three months ended March 31, 2017 and 2016, respectively. The slight reduction in gross margin from 8.0 percent to 7.9 percent for the three months ended March 31, 2016 and 2017, respectively, was primarily due to an increase in accrued direct and indirect remuneration (“DIR”) fees versus what had been accrued during the first quarter of 2016. The decline was also attributable to a continued shift in mix towards higher priced but lower percent margin drugs. These margin declines were partially offset by the impact of manufacturer price increases in the first quarter of 2017 versus the first quarter of 2016.

SG&A

SG&A for the three months ended March 31, 2017 were $76,501, a $22,307 increase, compared to $54,194 for the three months ended March 31, 2016. Change in fair value of contingent consideration was $0 and $(9,071) for the three months ended March 31, 2017 and 2016, respectively, thus leading to a period-over-period increase of $9,071. Total employee cost increased by $5,878 and includes the employee expense for our acquired entities. The increased employee expense was primarily attributable to the increased clinical and administrative complexity associated with our mix of business. Amortization expense from definite-lived intangible assets associated with our acquired entities increased $3,637. The remaining increase was in all other SG&A to support our business including freight, insurance, and other miscellaneous expenses. As a percent of net sales, SG&A, excluding the change in fair value of contingent consideration, accounted for 7.1 percent for the three months ended March 31, 2017 compared to 6.4 percent for the three months ended March 31, 2016. This increase is primarily attributable to the increase in
acquisition related amortization and the increased operating complexity associated with both our acquisitions and new drugs.

Other Expense

Our other expense for the three months ended March 31, 2017 was $2,016, compared to $1,327 for the three months ended March 31, 2016, and is primarily comprised of interest expense. The increase in interest expense was due to higher average borrowings in the first quarter of 2017.

Income Tax Expense

Our income tax expense for the three months ended March 31, 2017 and 2016 was $2,307 and $8,534, respectively, resulting in effective tax rates of 35 percent and 36 percent, respectively.

Liquidity and Capital Resources

Our primary uses of cash include funding our ongoing working capital needs, business acquisitions, acquiring and maintaining internal use software and property and equipment, and debt service. Our primary source of liquidity for our working capital is cash flows generated from operations. At various times during the course of the year, we may be in an operating cash usage position, which may require us to use our short-term borrowings. We continuously monitor our working capital position and associated cash requirements and explore opportunities to more effectively manage our inventory and capital spending. As of March 31, 2017 and December 31, 2016, we had $16,581 and $7,953, respectively, of cash and cash equivalents. Our cash balances fluctuate based on working capital needs and the timing of sweeping available cash each day to pay down any outstanding balance on our line of credit, which was $5,718 and $39,255 at March 31, 2017 and December 31, 2016, respectively. Our available liquidity under our line of credit was $149,845 and $129,908 at March 31, 2017 and December 31, 2016, respectively.

We believe that funds generated from operations, our cash and cash equivalents on hand, and available borrowing capacity under our line of credit will be sufficient to meet our working capital and capital expenditure requirements for at least the next 12 months. We may enhance our competitive position through additional complementary acquisitions in both existing and new markets. Therefore, from time to time, we may access the equity or debt markets to raise additional funds to finance acquisitions or otherwise on a strategic basis.

The following table provides cash flow data for each of the periods presented:

<table>
<thead>
<tr>
<th>Three Months Ended March 31</th>
<th>2017</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net cash provided by (used in) operating activities</td>
<td>$44,295</td>
<td>$ (5,579)</td>
</tr>
<tr>
<td>Net cash used in investing activities</td>
<td>(28,429)</td>
<td>(5,747)</td>
</tr>
<tr>
<td>Net cash used in financing activities</td>
<td>(7,238)</td>
<td>(1,590)</td>
</tr>
<tr>
<td>Net increase (decrease) in cash and cash equivalents</td>
<td>$8,628</td>
<td>$ (12,916)</td>
</tr>
</tbody>
</table>

Cash Flows From Operating Activities

Cash flows from operating activities consists of net income, adjusted for non-cash items, and changes in various working capital items, including accounts receivable, inventories, accounts payable, and other assets/liabilities.

The $49,874 increase in cash flow associated with operating activities for the three months ended March 31, 2017 compared to the three months ended March 31, 2016 was due to a $51,952 change in net working capital flows and an $8,880 increase in non-cash adjustments to net income, partially offset by a $10,958 decrease in net income.
Cash Flows From Investing Activities

Our primary investing activities have consisted of business acquisitions, labor expenditures associated with capitalized software for internal use, investments in non-consolidated entities, capital expenditures to purchase computer equipment, software, furniture and fixtures, as well as building improvements to support the expansion of our infrastructure and workforce. As our business grows, our capital expenditures and our investment activity may continue to increase.

The $22,682 increase in cash used in investing activities during the three months ended March 31, 2017 compared to the three months ended March 31, 2016 was primarily related to a $26,532 increase in cash used to acquire businesses, partially offset by a $3,894 decrease in spending on capitalized software and property and equipment.

Cash Flows From Financing Activities

Our primary financing activities have consisted of debt borrowings and repayments, payment of debt issuance costs, proceeds from stock option exercises, and, historically, proceeds from capital stock offerings and payments made to repurchase capital stock and stock options.

The $5,648 increase in cash used in financing activities during the three months ended March 31, 2017 compared to the three months ended March 31, 2016 was primarily related to a $33,537 net payment on the line of credit, partially offset by a full draw down of our $25,000 deferred draw term loan (“DDTL”) during the first quarter of 2017 and a $2,289 increase in proceeds from the issuance of common stock upon stock option exercises.

Debt

We had $109,500 and $111,000 outstanding on Term Loan A as of March 31, 2017 and December 31, 2016, respectively. During the first quarter of 2017, we fully drew down our $25,000 DDTL, which amount was outstanding as of March 31, 2017. We also had $5,718 and $39,255 outstanding on our line of credit as of March 31, 2017 and December 31, 2016, respectively. We had $149,845 and $129,908 available to borrow on our line of credit at March 31, 2017 and December 31, 2016, respectively.

The interest rate on our Term Loan A and DDTL was 3.31 percent and 3.13 percent at March 31, 2017 and December 31, 2016, respectively. Our line of credit interest rate was 4.50 percent at both March 31, 2017 and December 31, 2016. In addition, we are charged a monthly unused commitment fee ranging from 0.25 percent to 0.50 percent on our average unused daily balance on our $175,000 line of credit.

Our credit facility, consisting of the Term Loan A, DDTL, and line of credit, contains certain financial and non-financial covenants. We were in compliance with all such covenants as of March 31, 2017 and December 31, 2016.

Off-Balance Sheet Arrangements

During the periods presented, we did not have any relationships with unconsolidated entities or financial partnerships, such as entities often referred to as structured finance or special purpose entities, which would have been established for the purpose of facilitating off-balance sheet arrangements or other contractually narrow or limited purposes.

Critical Accounting Policies and Estimates

The MD&A is based on the condensed consolidated financial statements, which have been prepared in accordance with U.S. GAAP. The preparation of these condensed consolidated financial statements requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the consolidated financial statements, and the reported amounts of revenue and expenses. In accordance with U.S. GAAP, we base our estimates on historical experience and on various other assumptions that management believes are reasonable under the circumstances. Actual results might differ from these estimates.
under different assumptions or conditions and, to the extent that there are differences between our estimates and actual results, our future financial statement presentation, financial condition, results of operations and cash flows will be affected. During the three months ended March 31, 2017, there were no material changes to our critical accounting policies and use of estimates, which are disclosed in our audited consolidated financial statements for the year ended December 31, 2016 included in our Annual Report on Form 10-K, with the exception of our adoption of ASU 2017-04. See Note 3 for further details.

New Accounting Pronouncements

See Note 3 for a description of new accounting pronouncements.

ITEM 3. QUALITATIVE AND QUANTITATIVE DISCLOSURES ABOUT MARKET RISK

Our operations are solely in the United States of America (“U.S.”) and U.S. Territories and are exposed to market risks in the ordinary course of our business. These risks primarily include interest rate and certain exposure, as well as risks relating to changes in the general economic conditions in the U.S. We are exposed to interest rate fluctuations with regard to future issuances of fixed-rate debt, and existing and future issuances of floating-rate debt. Primary exposures include the U.S. Prime Rate and LIBOR related to debt outstanding under our credit facility. In the past, we used interest rate swaps to reduce the volatility of our financing costs and to achieve a desired proportion of fixed and floating-rate debt. We did not use these interest rate swaps for trading or other speculative purposes. We currently are not using any interest rate swaps, but may in the future. A 100 basis point increase in 2017 interest rates would have decreased our pre-tax income for the three months ended March 31, 2017 by approximately $0.3 million.

ITEM 4. CONTROLS AND PROCEDURES

Limitations on Controls

A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within the Company have been detected.

Disclosure Controls and Procedures

We maintain disclosure controls and procedures designed to provide reasonable assurance that information required to be disclosed in our reports that we file or submit under the Securities Exchange Act of 1934, as amended (the “Exchange Act”), is recorded, processed, summarized and reported within the specified time periods in the rules and forms of the Securities and Exchange Commission, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Principal Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

As previously disclosed in Item 9A of our Annual Report on Form 10-K for the year ended December 31, 2016 filed on March 8, 2017, management had then concluded that there was a material weakness in internal control over financial reporting related to the operating effectiveness of our evaluation and review of recorded inventory balances. Specifically, at certain locations the initial costs used to value ending inventories were not correct and we did not initially identify all items necessary to accurately complete our inventory reconciliation.

Our management, with the participation of the Chief Executive Officer and the Principal Financial Officer, evaluated the effectiveness of our disclosure controls and procedures (as defined in Rule 13a-15(e) or 15(d)-15(e) promulgated under the Exchange Act) as of March 31, 2017. Based on these evaluations, the Chief Executive Officer and the Principal Financial Officer concluded that our disclosure controls and procedures required by
paragraph (b) of Rule 13a-15 or 15d-15 were not effective as of March 31, 2017 as a result of the material weakness discussed above.

Notwithstanding the identified material weaknesses, our management has concluded that the condensed consolidated financial statements included in this quarterly filing fairly represent in all material respects our financial position, results of operations, cash flows, and changes in shareholders’ equity as of and for the periods presented in accordance with U.S. GAAP.

Changes in Internal Control over Financial Reporting

There were no changes in our internal control over financial reporting (as defined in Rule 13a-15(f) of the Exchange Act) that occurred during the first quarter of 2017, except as discussed below in “— Remediation Plan”, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Remediation Plan

Management is actively implementing a remediation plan to ensure that deficiencies contributing to the material weakness are remediated such that these controls will operate effectively, which includes steps to strengthen our inventory costing and reconciliation controls. The remediation actions we are taking include: additional testing of the pricing file utilized to cost physical inventory; and strengthening the depth and breadth of review of the inventory reconciliation by senior accounting and finance personnel.

We believe that these actions, and the improvements we expect to achieve as a result, will effectively remediate the material weakness. However, until the remediated controls operate for a sufficient period of time and management has concluded, through testing, that these controls are operating effectively, the material weakness in our internal controls over financial reporting will not be considered remediated. We expect that the remediation of this material weakness will be completed in fiscal 2017.
OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

On November 10, 2016, a putative class action complaint was filed in the U.S. District Court for the Eastern District of Michigan against Diplomat Pharmacy, Inc. and certain officers of the Company. Following appointment of lead plaintiffs and lead counsel, an amended complaint was filed on April 11, 2017. The amended complaint alleges violations of Sections 10(b) and 20(a) of the Securities Exchange Act of 1934 in connection with public filings made between February 29, 2016 and November 2, 2016 (the “potential class period”). The plaintiff seeks to represent a class of shareholders who purchased stock in the potential class period. The complaint seeks unspecified monetary damages and other relief. The Company believes the complaint and allegations to be without merit and intends to vigorously defend itself against these actions.

On April 13, 2017, the Company commenced an arbitration proceeding with CVS Health Corporation f/k/a CVS Caremark Corp., Caremark, LLC, Caremark PCS, LLC, and Silverscript Insurance Company (collectively “CVS/Caremark”) before the American Arbitration Association, as required under the Pharmacy Provider Agreement and related documents that govern the relationship between the Company and CVS/Caremark. The Company alleges that CVS/Caremark’s imposition of performance-based DIR fees on a varying percentage basis beginning in 2016 was in violation of the parties’ agreements as well as federal statutes, regulations, and guidance regulating the Medicare Part D prescription drug program. The Company is seeking declaratory and injunctive relief and monetary damages.

In addition, our business of providing specialized pharmacy services and other related services may subject us to litigation and liability for damages in the ordinary course of business. Although the results of litigation and claims cannot be predicted, we believe there are no other legal proceedings, the outcome of which, if determined adversely to us, would individually or in the aggregate be reasonably expected to have a material adverse effect on our business, financial position, cash flows, or results of operations.

ITEM 1A. RISK FACTORS

There have been no material changes to the risk factors previously disclosed in our Annual Report on Form 10-K for the year ended December 31, 2016, which was filed with the Securities and Exchange Commission on March 8, 2017.

ITEM 6. EXHIBITS

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<tr>
<th>Exhibit Number</th>
<th>Exhibit Description</th>
<th>Filed Herewith</th>
<th>Form</th>
<th>Period Ending</th>
<th>Exhibit / Appendix Number</th>
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† Confidential treatment has been requested for portions of this exhibit. These portions have been omitted from this exhibit to this Quarterly Report on Form 10-Q and submitted separately to the Securities and Exchange Commission.

* Indicates a management contract or compensatory plan or arrangement.

** This certification is deemed not filed for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, or otherwise subject to the liability of that section, nor shall it be deemed incorporated by reference into any filing under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended.
Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

DIPLOMAT PHARMACY, INC.
(Registrant)

By: /s/ ROBIN JOHNSON

Robin Johnson
Vice President, Finance
(Principal Financial Officer and Principal Accounting Officer)

Date: May 9, 2017
Exhibit 10.1

PHARMACY DISTRIBUTION AND SERVICES AGREEMENT

THIS PHARMACY DISTRIBUTION AND SERVICES AGREEMENT ("Agreement") is made effective as of the 1st day of July, 2017 ("Effective Date") between:

**CELGENE CORPORATION**
86 Morris Avenue
Summit, New Jersey 07901

(together with its subsidiaries and affiliates hereinafter collectively, "Celgene"),

and

**DIPLOMAT PHARMACY, INC. d/b/a DIPLOMAT SPECIALTY PHARMACY**
4100 South Saginaw Street
Flint, MI 48507

(hereinafter, "Pharmacy").

WHEREAS, Celgene is authorized to market and sell REVLIMID® (lenalidomide), POMALYST® (pomalidomide), and THALOMID® (thalidomide) in the United States of America and its territories; and

WHEREAS, Celgene and Pharmacy wish to enter into this Agreement under which Pharmacy, registered under REVLIMID REMS®, POMALYST REMS®, and THALOMID REMS(1) (as defined below), will provide data reporting and other services to Celgene.

NOW THEREFORE, in consideration of the promises and mutual covenants herein contained in this Agreement, the parties hereby agree as follows:

1. **DEFINITIONS**

   For purposes of this Agreement the following terms shall have the following meanings:

   1
1.1 “Adverse Drug Experience” or “ADE” shall have the meaning set forth in 21 CFR 314.80 as well as any occurrence of an elevated Beta HCG or positive urine pregnancy tests, or a pregnancy or a possible exposure of a pregnant woman, whether involving a Customer or partner of a male Customer or a pregnant female who comes into contact with the Product while dispensing. Furthermore:

(a) the term “Adverse Drug Experience” or “ADE” shall also include cases of special situations, as required by Guidelines on good pharmacovigilance practices: Module VI - Management and reporting of adverse reactions to medicinal products, which requires companies with marketed products centrally authorized by the EMA to report situations such as, by way of example only, outcome of use of medicinal product during pregnancy, adverse reaction during breastfeeding, use of product in children, reports of lack of efficacy, suspected transmission of infectious agents, reports of overdose, abuse, misuse, medication error, and reports from compassionate/named-patient use; and,

(b) the term “suspected to be associated with the use of” shall mean the causal relationship between the medicinal product and the adverse drug experience is considered at least a reasonable possibility.

1.2 “Affiliates” shall mean, with respect to a given party, any corporation, firm, partnership or other entity that directly or indirectly controls or is controlled by or is under common control with such party. For purposes of this Section 1.2, “control” shall mean direct or indirect ownership of greater than fifty percent (50%) of the equity having the power to vote on or direct the affairs of the entity.

1.3 “Certified Counselor” shall mean a licensed healthcare professional certified by Celgene as a counselor for REVLIMID REMS®, POMALYST REMS®, and THALOMID REMS® program(s) and who is either a: Doctor of Osteopathy (“D.O.”); Licensed Practical Nurse (“LPN”); Pharmacist (“R.Ph.”); Pharmacy Intern; Physician (“M.D.”); Physician Assistant (“P.A.”); Nurse Practitioner (“N.P.”); or Registered Nurse (“RN”).

1.4 “Certified Pharmacist” shall mean a Pharmacist certified by Celgene as a Pharmacist for REVLIMID REMS®, POMALYST REMS®, and THALOMID REMS® program(s) to dispense REVLIMID®, POMALYST®, and THALOMID®, or counsel patients.

1.5 “Certified Prescriber” shall mean a licensed healthcare professional who is licensed to prescribe medication and certified in the REVLIMID REMS®, POMALYST REMS®, and THALOMID® program(s).

1.6 “Customers” shall mean persons who are prescribed Product by a Certified Prescriber.

1.7 “Database” shall have the meaning set forth in Section 5.2.

1.8 “Dispensing” shall mean a prescription for Product was filled at the certified Dispensing Site, counseling for the patient to receive Product was completed and a confirmation number obtained, and the prescription for Product was either shipped (for greater clarity, to mean the prescribed Product has physically left the Dispensing Site or provided to the
‘Dispensing Site’ shall mean Pharmacy’s facility(ies) that fill and ship prescriptions, listed on Schedule 1.8, attached hereto, as may be amended from time to time by upon mutual agreement of the parties, after being properly certified in REVLIMID REMS®, POMALYST REMS®, and THALOMID REMS®. In the case of physician networks who are dispensing, it shall be responsible for placing and receiving orders of Product, administration, and record keeping, as well as certifying itself and any of its other Dispensing Sites and implementing REVLIMID REMS (8), POMALYST REMS®, and THALOMID REMS®.

1.10 “EMA” shall mean the European Medicines Agency.

1.11 “FDA” shall mean the United States Food and Drug Administration.

1.12 “High Risk Deviation” shall mean any action taken by the Pharmacy that is inconsistent or non-compliant with any provision, or part thereof, of REVLIMID REMS®, POMALYST REMS®, and THALOMID REMS® which or which may: (i) increases the risk of fetal exposure; or (ii) occurs on a consistent basis which evidences a negligent or willful disregard by the Pharmacy to the requirements of REVLIMID REMS®, POMALYST REMS®, and THALOMID REMS®. Any High Risk Deviation by Pharmacy shall be considered a material breach of the terms of this Agreement.

1.13 “Pharmacist” shall mean an individual who is currently licensed by the state in which he/she is practicing to engage in the practice of preparing, preserving, compounding and dispensing medical drugs.

1.14 “Pharmacy” shall be the corporate entity(ies) at Pharmacy responsible for placing and receiving orders of Product, administration, and record keeping, as well as certifying itself and all of its Dispensing Sites and implementing REVLIMID REMS®, POMALYST REMS®, and THALOMID REMS® program(s). Pharmacy may also fill and ship prescriptions.

1.15 “Pharmacy Intern” shall mean an individual who engages in the practice of pharmacy while under the personal supervision of a Pharmacist and is enrolled in a professional degree program of an accredited school or college of pharmacy and is satisfactorily progressing towards meeting requirements for licensure as a Pharmacist.

1.16 “REVLIMID REMS®, POMALYST REMS® and THALOMID REMS®” shall mean the controlled distribution program and component of the Risk Evaluation Mitigation Strategies (“REMS”) program specifically tailored to the sale and distribution of the Product(s) REVLIMID®, POMALYST®, and THALOMID® as described in Section 3 and in the Requirements document (“Requirements Document”), attached as Schedule 1.17, which may be updated from time to time by Celgene, at its sole discretion. In the event the Requirements Document is updated, Celgene shall inform Pharmacy within ten (10) business days, and allow Pharmacy thirty (30) days to meet requirements.
of the updated Requirements Document, unless a shorter time frame is necessary to meet Regulatory Authority requirements.

1.17 “Product” shall mean Celgene’s REVLIMID (lenalidomide), or POMALYST® (pomalidomide), or THALOMID® (thalidomide), and “Products” shall mean any two or more of REVLIMID® (lenalidomide) and/or POMALYST® (pomalidomide) and/or THALOMID® (thalidomide).

1.18 “Regulatory Authority” shall mean any governmental authority, agency or other instrumentality having regulatory responsibility, control or oversight over the manufacture, use, labeling, packaging, shipping, distribution, dispensing or destruction of the Product.

1.19 “SOP” shall mean the written standard operating procedures, specifications and instructions, mutually agreed upon by the parties, which may be updated from time to time, upon the sole discretion of the party who owns the SOP.

1.20 “Territory” shall mean the United States of America and its territories.

2. PRODUCT ORDERS, SHIPMENT, AND HANDLING

2.1 Orders. The parties hereto agree that, during the Term, as defined below, Pharmacy shall purchase REVLIMID®, POMALYST®, and/or THALOMID® directly and exclusively from Celgene at the commercial prices in effect at the time of order, and, subject to the right of Celgene to allocate supplies of Product under Section 2.6, Celgene shall supply Product to Pharmacy, for sale and distribution to Customers. Pharmacy shall order Product by phone, email, or EDI from Celgene in such quantities as are necessary to meet the demand for Product from Customers. All orders shall be firm, and Pharmacy may not change or cancel an order without the prior written approval from Celgene. All purchases of Product by Pharmacy shall be on the terms and conditions set forth in this Agreement. No purchase order, invoice or other form shall be deemed to vary the terms of this Agreement.

2.2 Shipment by Celgene. Celgene shall ship Product to Pharmacy by means of transportation (commercial truck or better) determined by Celgene and at Celgene’s cost. While Celgene shall use reasonable efforts to avoid any delay in delivering Product on the delivery dates agreed upon by the parties, Celgene shall not be liable to Pharmacy for late delivery.

2.3 Storage; Handling of Product; Inventory Accountability. Pharmacy shall unload each shipment of Product immediately upon receipt from Celgene in accordance with the applicable Pharmacy SOP. Pharmacy may transport Product to a Dispensing Site for storage and distribution; however, there shall be no transfer of Product between Dispensing Sites. Pharmacy shall use storage facilities and storage conditions for Product in compliance with applicable Celgene SOPs. Pharmacy shall at all times handle, store and distribute Product in accordance with applicable Celgene SOPs which shall incorporate by this reference the handling and storage provisions in the package labeling for Product. Pharmacy shall keep an inventory log of the Product, by strength,
reflecting its on-hand inventory, at all times. Pharmacy shall provide Celgene inventory reporting for all Products pharmacy is actively enrolled in a REMS program, to dispense REVLIMID®, POMALYST®, and/or THALOMID. Inventory reports will be sent to Celgene within five (5) days after the Date of Count (the “Date of Count” means the last business day of the quarter). Electronic counts will be provided at the end of Q1 and Q3, physical inventory counts will be provided at the end of Q2 and Q4. The inventory report template is detailed in Schedule 2.3. Pharmacy shall be responsible for all costs associated with storage, handling and shipment of Product from the Pharmacy/Dispensing Site to the Customer.

2.4 Inspection of Product; Remedies and Procedures for Defects. Pharmacy shall carefully examine Product upon delivery and shall notify Celgene within ten (10) business days of any non-delivery of a portion of a shipment or any defect in any Product that is reasonably discoverable upon visual inspection of the Product, without unloading individual shipping units. Along with notice of any defect, Pharmacy shall furnish to Celgene a detailed description of the nature of the defect. Upon receipt of notice of any defect or non-delivery, Celgene, at its option, shall (a) replace any defective Product, (b) issue Pharmacy a credit in the amount of the purchase price paid for any defective Product, or (c) replace, or issue Pharmacy a credit in the amount of purchase price paid for, any undelivered Product. Except as set forth in Section 14, the preceding sentence sets forth Celgene’s sole liability with respect to non-delivery of a portion of a shipment and Product defects reasonably discoverable upon visual inspection of the Product without unloading individual shipping units. Section 7.1 sets forth Celgene’s sole liability with respect to other Product returns, and except as set forth in this Section 2.4, and Sections 7.1 and 14, Celgene shall not be otherwise liable to Pharmacy for any Product delivery failures or Product defects. In the absence of written notice from Pharmacy to Celgene in accordance with the terms of this Section 2.4, a shipment of Product shall be deemed to have been delivered and accepted by Pharmacy as complete and in satisfactory condition. Pharmacy shall, at Celgene’s request and expense, follow Celgene’s instructions to return to Celgene or Celgene’s third party disposal company any Product delivered to Pharmacy, which are not in compliance with the documentation provided by Celgene. Pharmacy shall cooperate with Celgene in investigating the cause of any defect in Product.

2.5 Title and Risk of Loss. Title to Product and risk of loss of Product shall transfer to Pharmacy upon delivery of Product to the Pharmacy or Dispensing Site.

2.6 Shortages. Notwithstanding anything in this Agreement to the contrary, in the event of a shortage of the Product, Celgene reserves the right to allocate available supplies of the Product in its sole discretion, however, Celgene shall not allocate available supplies in a manner which intentionally disadvantages Pharmacy.

3. PHARMACY ORDERS AND DELIVERY

3.1 Acceptance of Prescriptions. Pharmacy shall only accept prescriptions with an authorization number generated by Celgene’s REMS system and patient risk category documented on the prescription. The authorization number on prescriptions for Females
of Reproductive Potential (FRP) are only valid for seven (7) days from the date of the last pregnancy test, the authorization number on prescriptions for all other Customers are valid for thirty (30) days, from the date the authorization number is obtained. Pharmacy shall not accept or otherwise fill any prescription for Product over the telephone or without a valid authorization number. Each unique authorization number on every prescription will require that a confirmation number must be obtained from Celgene Customer Care Center by way of: telephone; automated IVR system; or Celgene Web portal, prior to dispensing Product.

3.2 Counseling. Prior to obtaining a confirmation number related to each unique authorization number on each prescription, Pharmacy will contact Customers. Only Certified Counselors and/or Certified Pharmacists shall contact Customers and provide counseling, which contact shall be in accordance with the instructions set forth in this Section 3.1, and the Requirements Document. Pharmacy shall ensure there is a Certified Counselor available during normal business hours. Pharmacy shall educate Customers on the risks associated with the use of the Product, in accordance with the Requirements Document. Pharmacy must ensure that the Certified Counselors and/or Certified Pharmacists who will perform the counseling have been properly identified upon Pharmacy’s registration of the Pharmacy/Dispensing Site and upon staffing changes. Certified Counselors and/or Certified Pharmacists will be required to be recertified annually, or more frequently, as may be required by Celgene. Pharmacy shall inform Celgene of Certified Counselors and/or Certified Pharmacists who will no longer be counseling or dispensing for Celgene REMS products (example: employee no longer works there or has changed roles) when it occurs, and as directed on monthly or annual basis by Account Executive or Celgene Customer Care team. In the event that there are no Certified Counselors/Certified Pharmacists at a Pharmacy that have met their annual recertification obligation, the Pharmacy will be suspended from dispensing until such time as they have met their recertification obligations. Each pharmacy must have at least one Certified Counselor/Certified Pharmacist who is certified to dispense/counsel for REVLIMID®, POMALYST®, and/or THALOMID®. Pharmacy will not ship the Product to a Customer unless it has contacted Celgene to obtain a confirmation number and received a completed prescription from the Certified Prescriber (by facsimile or e-prescribed, or otherwise), which must indicate the authorization number and patient risk category, and has completed the additional Customer counseling, as outlined in the Requirements Document. Pharmacy shall fill valid prescriptions for Product in accordance with all applicable laws and regulations. For each subsequent Customer prescription, Pharmacy shall repeat counseling for such Customer upon receipt of additional Product prescriptions. Subsequent Customer prescriptions will only be allowed if fewer than seven (7) days of Product dosage remains on the previous prescription with respect to such Customer. In addition to those Customers that have not previously been prescribed Product, any Customer who has not received Product in the prior twelve (12) months will also be considered a “new Customer” and will have to re-enroll in POMALYST REMS®, REVLIMID REMS® and THALOMID REMS® program(s).

3.3 Filling Prescriptions. When filling prescriptions for Females of Reproductive Potential, Pharmacy/Dispensing Site shall ship Product to Customer on the same day of obtaining.
the confirmation number by United Parcel Service or Federal Express, standard overnight delivery, or another similar carrier as agreed by the parties in writing, and in any case, such delivery shall require signature for delivery. For all other prescriptions Pharmacy/Dispensing Site shall ship Product to Customer within twenty four (24) hours of receipt of the confirmation number. Pharmacy/Dispensing Site shall package Products for shipment in accordance with its applicable SOP. Pharmacy/Dispensing Site shall use its best efforts to ship Product having the earliest expiration date first from available inventory. Each shipment of the Product shall be tracked and Pharmacy will maintain records of the disposition of all shipments, whether sent by Pharmacy or its Dispensing Site. Pharmacy/Dispensing Sites will require its shippers to receive written confirmation of delivery of Product, or to provide written notice of the non-delivery of a shipment of the Product within twenty four (24) hours of shipping. If the intended Customer does not receive a shipment of the Product, Pharmacy shall use reasonable efforts to track and retrieve the missing shipment, and shall inform Celgene of the missing shipment if it is not retrieved. In the event Customer will pick up the Product directly from Pharmacy/Dispensing Site, such pickup must occur within twenty four (24) hours of obtaining the confirmation number.

3.4 New Customers. In addition to Pharmacy meeting all of its obligations under this Agreement and POMALYST REMS®, REVLIMID REMS®, and THALOMID REMS® program(s) for “new Customers” (for purposes of this Section 3.4 and for greater clarity, the term “new Customers” shall mean those customers that have not received Product in the prior twelve (12) months and/or those Customers that have not previously been prescribed Product), Pharmacy shall: (A) upon receipt of a prescription for Product immediately time-stamp such prescription, (B) fulfill obligations under the REVLIMID REMS®, POMALYST REMS®, and THALOMID REMS® Program requirements and dispense Product to such new Customers as quickly as possible and consistent with good clinical practice.

4. CORE SERVICES

4.1 Core Services. Pharmacy typically provides a wide array of services to patients and their caregivers for which Pharmacy does not receive any payment from manufacturers or vendors. Specifically, depending on the particular disease state, these core pharmacy activities include, but are not limited to, the following:

(a) Patient Intake: Initial patient processing, insurance eligibility and benefits verification, and scheduling of initial specialty medication order;

(b) Pharmacy Dispensing: Standard dispensing of specialty medications pursuant to a prescription in accordance with applicable law, the deposit of such specialty medications with a third party carrier (e.g., Federal Express) to facilitate the delivery of same as per the patient’s or prescribing physician’s instructions, and the provision of certain nominal ancillary supplies (e.g., syringes, needles, and alcohol swabs) and certain related items in connection with the specialty medication that may be necessary or useful to the patient in connection with the administration of the specialty medication; and
(c) **Ongoing Clinical and Specialty Pharmacy Support**: Standard patient education (no product marketing), patient assessment, and related clinical patient management activities and programs all of which are clinically objective; physician consultations; provision of information to prescribing physicians to facilitate patient coverage appeals; standard refill reminder follow-up calls; managing ongoing medication orders and shipment scheduling, and insurance follow-up and related ongoing delivery coordination.

4.2 **No Payment for Core Services**. Pharmacy represents and warrants that it intends to make the core pharmacy activities described in this Section available to all Customers that are accepted by Pharmacy, and Pharmacy is not seeking any compensation from Celgene for these core pharmacy activities. Celgene shall not pay Pharmacy any fees for these core pharmacy activities.

5. **ENHANCED SERVICES**

5.1 **Enhanced Services**. Pharmacy agrees to provide, and Celgene agrees to purchase from Pharmacy, the enhanced pharmacy and data reporting services performed under the REVLIMID REMS®, POMALYST REMS®, and THALOMID REMS™, as further detailed in Section 3 and the Requirements Document (Schedule 1.17); and the services described in Sections 5.2, 5.3, and 5.4 (collectively, the “Enhanced Services”).

5.2 **Data**. Pharmacy shall maintain a Celgene-specific data management system (the “Database”) from which reports can be generated and provided to Celgene and that contains information as required herein. In addition, and subject to Pharmacy obtaining appropriate Customer consent, Pharmacy shall maintain in the Database Customer-specific information as set forth herein. Pharmacy shall regularly update the Database with Product and Customer information set forth in Schedule 5.1, attached hereto. Celgene and Pharmacy may amend the information requested in Schedule 5.1, upon request by Celgene and mutual agreement of the parties. Celgene shall be the sole owner of the information compiled in the data reports, provided, however, that Pharmacy shall have full access to the Database in order to fulfill its obligations under this Agreement and to comply with all applicable laws and regulations. Celgene must authorize any release of the data to third parties, including but not limited to, sales data, or prescriptions filled.

5.3 **Reports**. Pharmacy shall generate and furnish data listed herein and in the format outlined in Schedule 5.1, for Vidaza®, Abraxane® and Istodax®. Pharmacy shall continue to provide this report on a monthly, basis, and periodic reporting as Celgene may reasonably request. Reports will include, but not be limited to the following information:

(a) Pharmacy site address

(b) Pharmacy site city

(c) Pharmacy site state

(d) Pharmacy site zip
(e) Date Dispensed
(f) Customer ID (specific to this customer)
(g) Prescriber First Name
(h) Prescriber Last Name
(i) Prescriber Address ID (if available)
(j) Prescriber Address
(k) Prescriber City
(l) (1) Prescriber State
(m) Prescriber Zip
(n) DEA (prescriber)
(o) NPI (prescriber)
p NDC
(q) Product
(r) QTY in vials

Report should be generated and received by Celgene no later than ten (10) business days following the close of each month. If no products were dispensed, report should reflect this. Report should be sent to salesoperations@celgene.com

Data Reports may be further defined or amended by Schedule 5.1. At Celgene’s request, Pharmacy will deliver the reports specified under this Section electronically through a secure connection in the format identified in Schedule 5.1.

5.4 Materials. Pharmacy shall maintain an inventory of current educational materials developed and provided by Celgene. Pharmacy shall include in shipments of Product any required material supplied and designated by Celgene for inclusion in Product shipments.

6. PAYMENT

6.1 Service Fee. Celgene shall pay Pharmacy a service fee for the Enhanced Services, based on the achievement of performance metrics set forth in Schedule 6.1 ("Service Fee"). The performance metrics are intended to encourage prompt compliance with the REMS and timely patient access to the Products. Celgene shall have the right to withhold or deny payment of the Service Fee in the event Pharmacy does not provide the Enhanced Services, or is in any way in breach of any of its obligations under this Agreement.
6.2 **Service Fee Calculation.** The Service Fee will be calculated and paid quarterly based on Celgene’s evaluation of Pharmacy’s achievement of performance metrics, as specified above.

6.3 **Payment Due for Product Orders; Late Fee.**

(a) All amounts due hereunder to Celgene for Product orders shall be payable by check or EFT to Celgene. Celgene shall invoice Pharmacy for all amounts due to Celgene hereunder, as adjusted to take into account credits due to Pharmacy, and Pharmacy shall pay all invoiced amounts when due. Any amounts remaining unpaid for more than thirty-five (35) days after date of invoice shall be subject to interest thereon equal to one and one half percent (1.5%) per month.

(b) Without limiting the generality of Section 6.3(a) and subject to Pharmacy being at all times in full compliance with all of the terms and conditions of this Agreement, Pharmacy shall be entitled to a two percent (2.0%) prompt payment cash discount off the invoice price if Celgene receives payment within thirty (30) days of the invoice date, net thirty one (31) (the “Prompt Pay Discount”).

(c) The parties agree that they have structured Prompt Pay Discount in a manner consistent with the statutory discount exception (42 U.S.C. § 1320a-7b(b)(3)(A)) and the discount safe harbor (42 C.F.R. § 1001.952(h)). The terms pursuant to which the Prompt Pay Discount is paid are fixed and set forth in this Agreement. This discount is not dependent on, and does not operate in conjunction with, (either explicitly or implicitly) any other arrangement or agreement between Celgene and Pharmacy. To the extent required under applicable law, Pharmacy will report the discounts to appropriate Federal health care programs, and will, upon the request of a governmental agency, (including the Secretary of Health and Human Services or a state healthcare agency), disclose information regarding the discounts to the requesting agency. Without limitation of the foregoing, all Prompt Pay Discounts and any other information that must be disclosed under applicable law, shall be disclosed to the Centers for Medicare and Medicaid Services (“CMS”) in accordance with: (1) CMS guidance (as it may be revised from time to time); (2) any contractual obligations with third parties; and (3) any other disclosure or reporting obligations or requirements imposed by federal or state laws, regulations, or guidance. Confidential treatment shall be requested for any disclosures made to CMS and Medicare Part D Plans to the extent permitted by law.

6.4 **Costs and Expenses.** Except as otherwise expressly set forth herein, Pharmacy shall be responsible for all costs and expenses associated with fulfilling its obligations under this Agreement.

6.5 **Taxes.** All prices are exclusive of federal, state and local excise, sales, use and other taxes levied or imposed on the sale, shipment, delivery, ownership, possession or resale of Product or any other activities contemplated under this Agreement. Except for taxes on Celgene’s income, Pharmacy shall be liable for and pay all taxes imposed in connection with the activities contemplated hereunder.
6.6 **Financial Condition.** At any time, when in Celgene’s reasonable opinion, the financial condition of Pharmacy or its parent company so warrants, or if Pharmacy consistently fails to make payments when due or otherwise defaults under this Agreement, Celgene may alter terms of payment (including but not limited to requiring full or partial payment in advance of delivery, eliminating the Prompt Pay Discount), suspend credit, delay or cancel shipping, request quarterly financial statements or other financial information on an ongoing basis, or pursue any remedies available at law or under this Agreement.

7. **RETURN GOODS POLICY**

7.1 **Return Goods Policy.** The current form of Celgene’s return goods policy is attached as Schedule 7.1 (the “Return Goods Policy”). Celgene may, if it deems necessary or desirable, update the Return Goods Policy from time to time. In the event Celgene updates the Return Goods Policy, Celgene shall provide Pharmacy with advance written notice of any changes to its Return Goods Policy.

7.2 **Returns by Pharmacy.** In the event Pharmacy returns or requests to return a Product, for any reason, Pharmacy shall promptly notify Celgene, and Celgene shall, upon receipt of Product, give Pharmacy a credit amount in accordance with the current Celgene Return Goods Policy, provided that the reason for the return of the Product does not arise from (i) the negligence or intentional misconduct of Pharmacy or any of its agents or employees, (ii) failure of Pharmacy to follow applicable SOPs or to otherwise comply with the terms of this Agreement or (iii) mis-delivery or loss of Product by a carrier used by Pharmacy. For any return of Product authorized by Celgene, Pharmacy shall send the Product, or shall instruct Customer to send the Product, to Celgene or Celgene’s designated disposal company as specified and in the manner described in the then current Return Goods Policy.

8. **ADVERSE DRUG EXPERIENCE AND CUSTOMER COMPLAINTS**

8.1 **Adverse Drug Experience.** Consistent with its internal SOPs, Pharmacy will promptly inform Celgene’s Drug Safety Group of any information regarding adverse drug experiences suspected to be associated with the use of Product and all cases of special situations it receives, with the appropriate information, as set forth in more detail on Schedule 8.1, to the address set forth therein.

8.2 **Other Customer Complaints.** Pharmacy shall give notice by email or phone to Celgene’s Customer Service Department at orderprocessing@celgene.com or 888-423-5436 within ten (10) business days of receipt of any Customer complaint related to Product and/or services, other than Adverse Drug Events, and any labeling and package insert issues, specifying in detail the nature of the complaint or issue. Pharmacy shall provide Customer Complaints in a form substantially similar to the form attached as Schedule 8.2.

8.3 **Cooperation.** Pharmacy shall cooperate with Celgene in responding to or investigating any Customer complaints and Adverse Drug Events.
9. SUSPENSION OF DISTRIBUTION AND RECALLS

9.1 Suspension of Distribution. Pharmacy shall suspend distribution of Product if: (a) requested by Celgene as the result of a problem with Product quality or a directive from the FDA; (b) Celgene has determined, in Celgene’s sole and absolute discretion, Pharmacy to have deviated from, or otherwise be in non-compliance with, the requirements of REVLIMID REMS®, POMALYST REMS®, and THALOMID REMS® program(s); or (c) Pharmacy has engaged in High Risk Deviations. If multiple instances of deviations or non-compliance are uncovered, Celgene reserves the right to immediately and permanently suspend Pharmacy from dispensing any Product under a risk management program. Without otherwise limiting or waiving any other right or remedy available to Celgene under law or equity, certain specific consequences of Pharmacy deviations or non-compliance are as set forth in detail in the Requirements Documents. Any deviation from, or noncompliance with, REVLIMID REMS®, POMALYST REMS®, and THALOMID REMS® program(s), as determined by Celgene in Celgene’s sole and absolute discretion, shall be considered a breach of the terms and conditions herein. Any occurrence of a High Risk Deviation shall be considered a material breach of the terms of this Agreement.

9.2 Recalls. Celgene shall promptly notify Pharmacy of any recalls initiated by Celgene or requested by the FDA. Upon receipt of notice of a recall from Celgene, Pharmacy shall immediately notify the affected Customers. Celgene shall provide Pharmacy with the form of letter to be used in connection with notice of any recall which shall contain the appropriate instructions as to whether Customers should return or dispose of the affected Product. Celgene shall be responsible for the mailing, shipping and reasonable administrative expenses incurred by Pharmacy in connection with the recall as well as the cost of replacement Product for Customers, provided that the reason for the recall does not arise from (i) the negligence or intentional misconduct of Pharmacy or any of its agents or employees or (ii) failure of Pharmacy to follow applicable SOPs or to otherwise comply with the terms of this Agreement. Pharmacy shall cooperate in any recalls by providing relevant Product tracking information to Celgene.

9.3 Records. Pharmacy shall maintain during the Term and for three (3) years thereafter such information as may be reasonably required by Celgene to effect a Product recall, and shall make such information available to Celgene, at Celgene’s request, in the event of such a recall.

9.4 Cooperation. Pharmacy shall cooperate with Celgene in investigating any Product failure which resulted in the need for a recall.

10. REPRESENTATIONS, WARRANTIES AND COVENANTS OF PHARMACY

10.1 Compliance. In performing its obligations under this Agreement, Pharmacy represents and warrants that it shall comply with all applicable federal, state and local laws, regulations and ordinances, including without limitation (a) the Social Security Act; (b) the Health Insurance Portability and Accountability Act, (c) federal and state health care anti-fraud and abuse laws; (d) state drug product selection, dispensing, pharmacy
practice, biohazard disposal, privacy, and consumer protection laws; and (e) rules and regulations of the FDA, the Center for Medicare and Medicaid Services and any other Regulatory Authority by which Pharmacy may be governed. Pharmacy also shall comply with all applicable professional and industry standards and good business practices.

10.2 **Services.**

(a) Pharmacy represents and warrants: (1) Celgene has engaged Pharmacy to perform bona fide, legitimate, reasonable, and necessary Enhanced Services; (2) the Enhanced Services are not intended to serve, either directly or indirectly, as a means of marketing the Product; (3) the Enhanced Services are not intended to diminish the objectivity or professional judgment of Pharmacy or to interfere with the objectivity or professional discretion of any prescriber; (4) the Enhanced Services do not provide the counseling or promotion of any off-label use of the Products or a business arrangement or other activity that violates any state or federal law; (5) the Service Fees do not constitute a discount off the purchase price of the Product; (6) the Service Fees are not intended in any way as remuneration for referrals or for other business generated; (7) the Service Fees represent fair market value for the compensated services based on arms-length negotiations; and (8) the Service Fees are not intended in any way as a payment related to a drug formulary or drug formulary activities and have not been negotiated or discussed between the parties in connection with any such drug formulary or formulary activities.

(b) Pharmacy further represents and warrants: (1) no Enhanced Services shall be provided with respect to any Customer unless Pharmacy has received a prescription from the Customer’s prescribing physician; (2) Enhanced Services for which any Service Fees are to be paid hereunder are in addition to the services that Pharmacy typically performs for patients; (3) Pharmacy does not perform the Enhanced Services on behalf of any pharmaceutical manufacturer or other third party without being paid fair market value service fees for each such service; (4) the clinical judgment of the Customer’s treating physician (or other healthcare provider) shall not be undermined or otherwise usurped in the performance of the Enhanced Services; (5) Pharmacy shall not offer physicians or any other healthcare professionals any financial inducement to prescribe or switch patients to any Product; and (6) Pharmacy will not bill, and is not obligated by law or contract with, any third party for the performance of the Enhanced Services to be performed under this Agreement.

10.3 **Federal Programs.** Pharmacy represents and warrants that neither it nor any director, officer, employee, independent contractor, agent or other representative of Pharmacy (referred to collectively in this section as “Representative”) has been debarred pursuant to the Federal Food, Drug and Cosmetic Act or is currently excluded, debarred, suspended, or otherwise ineligible to participate in any Federal health care program (as defined in Section 1128B(f) of the Social Security Act (“Government Program”) or in Federal procurement or non-procurement programs. Pharmacy shall notify Celgene immediately if Pharmacy or any of its Representatives who are concerned with the performance of this...
Agreement becomes debarred, excluded, suspended or ineligible, or is convicted of a criminal offense that falls within the ambit of the Federal statute providing for mandatory exclusion from participation in any Government Program, but has not yet been excluded, debarred, suspended, or otherwise declared ineligible to participate in those programs.

10.4 Quality of Employees and Monitoring. Pharmacy represents and warrants that it shall use a well-trained, knowledgeable team of employees to handle Product and to perform the services to be performed by Pharmacy under this Agreement. Pharmacy employees who will be providing the services will be required to be certified by Celgene in REVLIMID REMS®, POMALYST REMS®, and THALOMID REMS® program(s) and any other training required by Celgene. Pharmacy’s ability to maintain its certification, and its right to dispense Product is contingent upon completion of any such training required by Celgene, including compliance with recertification. Subject to applicable privacy laws, Celgene shall have the right, from time to time, to have a Celgene employee monitor Pharmacy’s responses during telephone calls transferred from Celgene’s customer support line, and Pharmacy shall cooperate with Celgene to enable such monitoring activities. Customer shall be notified at the beginning of a call to be monitored that monitoring for quality assurance purposes is to occur.

10.5 Medicaid Provider Status. Pharmacy represents and warrants that it is currently eligible to participate as a provider in the Medicaid program in each state in the Territory except those states listed on Schedule 10.3 (for avoidance of doubt, the list of those states to be provided by Pharmacy) attached hereto, and agrees to maintain such eligibility during the Term. Upon notice to Celgene, Pharmacy may amend Schedule 10.3 in its sole discretion to add additional states and shall provide Celgene with prompt notice of any such amendment, provided that Pharmacy shall not add any state to Schedule 10.3 unless the state has changed its laws to require an in-state pharmacy presence for eligibility in its Medicaid program. Pharmacy shall remove a state from Schedule 10.3 (and shall provide notice to Celgene of such removal) when the state no longer requires an in-state pharmacy presence for eligibility in the state’s Medicaid program.

10.6 Actions. Pharmacy shall not take any action which would materially adversely affect its standing or that of Celgene in the industry or with respect to Product customer base or which would undermine the image of Product.

10.7 Quality Reviews. Pharmacy shall periodically, but not less frequently than once per year, perform written quality reviews of Pharmacy’s performance in fulfilling its obligations under this Agreement, and shall provide Celgene with copies of such reviews. Pharmacy shall administer a validation checklist to each employee performing services related to Product upon completion of such employee’s initial training and annually thereafter, and shall provide Celgene with copies of such checklists. Pharmacy shall fully cooperate with Celgene in fulfilling all of its obligations under this Agreement, including, but not limited to, quality reviews.

10.8 Licenses. Pharmacy represents and warrants that it now has and shall maintain in full force during the Term all federal and state pharmacy, wholesaler and other licenses or approvals required by Pharmacy to fulfill its obligations under this Agreement.
Pharmacy shall provide Celgene with notice of any communications with pharmacy licensing boards or the FDA which relate to potential problems with facilities, operations or procedures used by Pharmacy in its distribution of Product that may affect Pharmacy’s performance of its obligations under this Agreement, including notices of inquiries, investigations or inspections and resulting findings.

10.9 **Limitation on Promotion.** Pharmacy shall not make any performance claims or engage in any promotional activities with respect to Product except for the distribution of required Product literature prepared by Celgene and any other activities directly related to the services to be provided by Pharmacy hereunder, in each case as expressly approved in writing by Celgene.

10.10 **Use of Trademarks.** Pharmacy shall not use the trademarks, trade names, trade dress or logos of Celgene except to the extent contained in Product literature provided by Celgene, on Product labels or as otherwise approved by Celgene in writing.

10.11 **Authority.** Pharmacy represents and warrants that (a) it has all requisite corporate power and authority to execute, deliver and perform this Agreement and any other agreements contemplated hereby and (b) it is not currently obligated nor will it assume any future obligation under any contract (including without limitation any commitment of any nature) or other agreement, instrument or arrangement that conflicts with its obligations under this Agreement.

10.12 **Limitation of Liability.** Except for its obligations of indemnification, or breach of its obligations of confidentiality, in no event shall Pharmacy be liable for any consequential, exemplary, punitive, incidental, indirect or special damages or costs, including without limitation, lost profits, of Celgene, whether or not Pharmacy has been advised of the possibility of such damages or costs.

10.13 **Celgene Information.** Pharmacy shall use information about Customers to whom Product has been dispensed, including any list of such Customers, and other Celgene Information (as defined below) solely to perform its obligations under this Agreement and to dispense Product to such Customers. Pharmacy shall not make such information (or any portion thereof) available to, or use such information for the benefit of, any third party other than an insurance provider and/or other third party payor (with respect to its covered persons). Notwithstanding the foregoing, Pharmacy may disclose information on or about Customers to whom Product has been dispensed, including any list of such Customers, as authorized under the Health Insurance Portability and Accountability Act and to Regulatory Authority(ies) and Pharmacy’s auditors, legal counsel and lenders, provided that each such party to whom such information is disclosed is obligated to preserve the confidentiality of such information.

11. **REPRESENTATIONS, WARRANTIES AND COVENANTS OF CELGENE**

11.1 **Compliance with Law.** Celgene shall be responsible for testing Product and ensuring that Product complies, when shipped to Pharmacy, with all applicable laws, regulations, directives and requirements of the FDA, including without limitation, packaging and
labeling requirements, product warning requirements, product design and safety requirements and advertising requirements.

11.2 Services. Celgene represents and warrants: (1) Celgene has engaged Pharmacy to perform bona fide, legitimate, reasonable, and necessary Enhanced Services; (2) the Enhanced Services are not intended to serve, either directly or indirectly, as a means of marketing the Product; (3) the Enhanced Services are not intended to diminish the objectivity or professional judgment of Pharmacy or to interfere with the objectivity or professional discretion of any prescriber; (4) the Enhanced Services do not involve the counseling or promotion of any off-label use of the Products or a business arrangement or other activity that violates any state or federal law; (5) the Service Fees do not constitute a discount off the purchase price of the Product; (6) the Service Fees are not intended in any way as remuneration for referrals or for other business generated; (7) the Service Fees represent fair market value for the Enhanced Services based on arms-length negotiations; and (8) the Service Fees are not intended in any way as a payment related to a drug formulary or drug formulary activities and have not been negotiated or discussed between the parties in connection with any such drug formulary or formulary activities.

11.3 Federal Programs. Celgene represents and warrants that neither it nor any director, officer, employee, independent contractor, agent or other representative of Celgene (referred to collectively in this section as “Representative”) has been debarred pursuant to the Federal Food, Drug and Cosmetic Act or is currently excluded, debarred, suspended, or otherwise ineligible to participate in any Government Program or in Federal procurement or non-procurement programs. Celgene shall notify Pharmacy immediately if Celgene or any of its Representatives who are concerned with the performance of this Agreement becomes debarred, excluded, suspended or ineligible, or is convicted of a criminal offense that falls within the ambit of the Federal statute providing for mandatory exclusion from participation in any Government Program, but has not yet been excluded, debarred, suspended, or otherwise declared ineligible to participate in those programs.

11.4 Use of Trademarks. Celgene shall not use the trademarks, trade names, trade dress or logos of Pharmacy except to the extent necessary for activities contemplated under this Agreement.

11.5 Warranty. Celgene represents and warrants that, upon the date of shipment to Pharmacy, Product will not be adulterated or misbranded within the meaning of the Federal Food, Drug and Cosmetic Act (the “Act”) and will not be articles which may not, under the provisions of the Act, be introduced into interstate commerce. THE EXPRESS WARRANTIES CONTAINED IN THIS SECTION 11 ARE IN LIEU OF ALL OTHER REPRESENTATIONS AND WARRANTIES WITH RESPECT TO PRODUCT. CELGENE DISCLAIMS ALL OTHER WARRANTIES, EXPRESS OR IMPLIED, INCLUDING WITHOUT LIMITATION ALL WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE. Except as otherwise set forth in Section 14, Celgene’s sole liability and Pharmacy’s sole remedy for breach of warranty under this Agreement shall be for Celgene to replace the defective Product or to credit Pharmacy’s account in accordance with Section 2.4 and Section 7.1. Except for its obligations of indemnification, or breach of its obligations of
confidentiality, in no event shall Celgene be liable for any consequential, exemplary, punitive, incidental, indirect or special damages or costs, including without limitation, lost profits, of Pharmacy, whether or not Celgene has been advised of the possibility of such damages or costs.

11.6 **License.** Celgene represents and warrants to Pharmacy that Celgene has a valid and existing license from the FDA to market and sell Product in the Territory.

11.7 **Authority.** Celgene represents and warrants that (i) it has all requisite corporate power and authority to execute, deliver and perform this Agreement and any other agreements contemplated hereby and (ii) it is not currently obligated nor will it assume any future obligation under any contract (including without limitation any commitment of any nature) or other agreement, instrument or arrangement that conflicts with its obligations under this Agreement.

11.8 **No Adverse Actions.** Celgene shall not take any action which would adversely affect its standing or that of Pharmacy in the pharmaceutical and/or health care industry; provided that nothing in this Section 11.8 shall prevent Celgene from entering into agreements with other specialty distributors of Product within the Territory, terminating this Agreement pursuant to Section 12.2 or 12.3 or enforcing its rights under this Agreement.

12. **TERM AND TERMINATION**

12.1 **Term.** This Agreement shall become effective on the Effective Date and, unless earlier terminated in accordance with this Section 12, shall continue in effect for an initial term ending on June 30, 2019.

12.2 **Voluntary Termination.** Either party may terminate this Agreement for convenience at any time upon at least ninety (90) days’ prior written notice to the other party.

12.3 **Termination for Breach.** Either party may terminate this Agreement (i) for a material breach by the other party upon fifteen (15) days’ prior written notice unless the breaching party cures the breach within such fifteen (15) day period or (ii) in the event of any proceedings, voluntary or involuntary, in bankruptcy or insolvency, by or against the other party, or the appointment, with or without such other party’s consent, of a receiver for such other party.

12.4 **Transition.** Upon the expiration or earlier termination of this Agreement, as applicable, the parties shall begin to transition distribution of Product for Pharmacy’s Customers to a party to be designated by Celgene. Transition of distribution under this Section 12.4 shall mean the following:

(a) Celgene shall as soon as practicable begin referring Pharmacy Customers who contact Celgene’s Customer Service Department to a new designated distributor.

(b) At Celgene’s request, Pharmacy shall provide notice to all of Pharmacy Customers of the change in distributors.
Pharmacy shall complete any Product shipments then underway, but otherwise shall refer Customers to the Celgene-designated distributor.

Pharmacy shall transfer a copy of the Database and Customer information, including prescription files, to the Celgene-designated distributor, provided that if applicable patient confidentiality laws prohibit transfer of Customers’ names to such distributor, Pharmacy shall transfer the Database and Customer information using Customer numbers instead of names, and shall notify Customers of their respective numbers.

Pharmacy’s obligation to order additional Product when its inventory falls to a one (1) week supply shall cease and Celgene shall repurchase any Product held in inventory by Pharmacy on the date of termination at the price paid for the Product by Pharmacy.

After (a) expiration of this Agreement or (b) upon the sending or receiving of any termination notice by Pharmacy in accordance with the terms hereof and (c) for a period of six (6) months after the event described in (a) or (b), as applicable, Pharmacy shall use commercially reasonable efforts to cooperate with Celgene in ensuring the smooth transition of the services provided by Pharmacy under this Agreement to any other distributor(s) designated by Celgene, provided that after the expiration or the effective date of any termination of this Agreement, as applicable, Celgene shall reimburse Pharmacy for its reasonable out-of-pocket, non-personnel-related expenses associated with such cooperation.

12.5 **Survival.** Sections 6, 7, 8, 9, 10.3, 10.8, 10.9, 10.10, 10.12, 10.13, 11.1, 11.4, 11.5, 11.8, 12.4, 12.5, 13, 14, 15 and 17 shall survive termination or expiration of this Agreement for as long as necessary to permit their full discharge.

13. **REGULATORY INSPECTIONS, INVESTIGATIONS, AUDITS**

13.1 **Regulatory Inspections.** Pharmacy shall provide to the applicable Regulatory Authority or, at Celgene’s request, shall provide to Celgene all available documents and information requested by any Regulatory Authority or by Celgene in support of its regulatory filings. Copies of all documents to be provided to the applicable Regulatory Authority shall be provided to Celgene in advance, if practicable, or otherwise within two (2) business days of delivery to Regulatory Authority. Pharmacy shall notify Celgene immediately upon receipt of notice of any inspection by any Regulatory Authority directed specifically toward Product, and Celgene shall have the right to have an employee(s) and/or agent(s) present at any such inspection, if allowed by law. Pharmacy shall notify Celgene immediately of any notices, requests for information or other communications related to Product from the U.S. Department of Health and Human Services or any other Regulatory Authority or any state healthcare program or other state agency and, to the extent permitted under applicable law, shall promptly give Celgene copies of such communications.
13.2 **Recalls, Returns or Investigations.** Pharmacy shall provide Celgene, at Celgene’s request, any information reasonably required in connection with Celgene investigations relating to recalled or returned Product or any requests or investigations by or filings with any applicable Regulatory Authority, including without limitation the FDA, or in support of Celgene’s applications to the FDA. Pharmacy shall respond within two (2) business days to any reasonable request for information by Celgene.

13.3 **Celgene Right to Audit.** Throughout the Term and for a period of three (3) years following expiration or earlier termination of this Agreement, Pharmacy shall maintain complete and accurate records consistent with requirements of the REVLIMID REMS®, POMALYST REMS®, and THALOMID REMS® program(s) and sales of Product. First audits will occur within 3 months of a Pharmacy’s first dispense of REVLIMID®, POMALYST®, and THALOMID®, then an annual risk-based audit thereafter.

13.4 **Inspection.** Applicable records shall be made available for inspection at Pharmacy for three (3) years from the date of the initial Product receipt. Celgene and its representatives will not be required to sign additional non-disclosure or confidentiality agreements. Celgene and its representatives shall have the right to periodically visit Pharmacy and its Dispensing Sites during regular business hours, during the Term and for a period of three (3) years thereafter, upon reasonable prior notice to Pharmacy/Dispensing Site. During any such visit, Celgene and its representatives will have the right to (i) examine the books, ledgers and records, including inventory levels, of Pharmacy related to Celgene Product sales, (ii) audit quality control/assurance procedures, registrations, shipping records, supplements and regulatory correspondence to ensure that Pharmacy/Dispensing Site is in compliance with the SOPs and with applicable regulations, the Requirements Document or other procedures required by Celgene. The audit shall also include Celgene’s ability to interview Pharmacy’s Certified Counselors/Certified Pharmacists, monitor the Enhanced Services being provided, as well as access Pharmacy’s computer systems used to provide Enhanced Services for Celgene pursuant to this Agreement; provided that such access to Pharmacy’s computer systems used to provide Enhanced Service shall be limited in a manner to prevent the auditor from accessing Protected Health Information (as defined under the Health Insurance Portability and Accountability Act). Pharmacy shall take a course of action and resolution acceptable to Celgene in the event that Celgene finds any contractual or regulatory deficiencies during such audits. Each party shall bear its own costs of such examinations.

14. **INDEMNIFICATION**

14.1 **Celgene Indemnification of Pharmacy.** Celgene shall at all times during the Term and thereafter defend, indemnify and hold Pharmacy and its officers, directors, agents and employees harmless from and against any and all claims, suits, damages, liabilities, costs and expenses, including but not limited to court costs and reasonable attorneys’ fees (collectively, “Claims”), incurred in connection with any third-party claim arising out of the use of any Product by a Customer, except to the extent caused by (i) the negligence or intentional misconduct of Pharmacy or any of its officers, directors, agents or employees or (ii) breach by Pharmacy of any of the terms of this Agreement or (iii) acts of Pharmacy.
or any of its officers, directors, agents or employees which are outside the scope of this Agreement.

14.2 **Pharmacy Indemnification of Celgene.** Pharmacy shall at all times during the Term and thereafter defend, indemnify and hold Celgene and its officers, directors, agents and employees harmless from and against any and all Claims incurred in connection with any third-party claim arising out of (i) the negligence or intentional misconduct of Pharmacy or any of its officers, directors, agents or employees, (ii) breach by Pharmacy of any of the terms of this Agreement, or (iii) acts of Pharmacy or any of its officers, directors, agents or employees which are outside the scope of this Agreement.

14.3 **Procedures.** A party that intends to seek indemnification under this Section 14 (the “**indemnitee**”) shall notify the other party (the “**indemnitor**”) promptly in writing of any Claim in respect of which the indemnitee believes it is entitled to claim indemnification, provided that the failure to give timely notice to the indemnitor shall not release the indemnitor from any liability to the indemnitee, except to the extent the indemnitor is prejudiced thereby. The indemnitor shall have the right, by notice to the indemnitee, to assume the defense of any such Claim within ten (10) days after the indemnitor’s receipt of notice of any Claim with counsel of the indemnitor’s choice and at the sole cost of the indemnitor. If the indemnitor so assumes such defense, the indemnitee may participate therein through counsel of its choice, but at the sole cost of the indemnitee; provided, however, that the indemnitor shall be obligated to pay fees and expenses of such indemnitee’s counsel if representation of the indemnitee by the counsel retained by the indemnitor would be inappropriate due to actual or potential conflicting interests between the indemnitee and any other party represented by such counsel in the investigation and defense of any such Claim. The party not assuming the defense of any such Claim shall render all reasonable assistance to the party assuming such defense, and all reasonable out-of-pocket costs of such assistance shall be for the account of the indemnitor. No such Claim shall be settled other than by the party defending the same, and then only with the consent of the other party which shall not be unreasonably withheld; provided that the indemnitee shall have no obligation to consent to any settlement of any such Claim which imposes on the indemnitee any liability or obligation which cannot be assumed and performed in full by the indemnitor, and the indemnitee shall have no right to withhold its consent to any settlement of any such Claim if the settlement involves only the payment of money by the indemnitor or its insurer.

15. **CONFIDENTIALITY**

15.1 **Pharmacy Obligation.** Pharmacy agrees to treat any confidential or proprietary information obtained from Celgene and any confidential or proprietary information generated by Pharmacy in performing its obligations under this Agreement, including Customer lists, information regarding Celgene’s pricing policies, information regarding reimbursement for the Product, information regarding the cost of providing services to Celgene and the information in the Database, and anything derived therefrom, (collectively, the “**Celgene Information**”) as the confidential and exclusive property of Celgene, and agrees not to disclose any of the Celgene Information to any third party without first obtaining the written consent of Celgene. Pharmacy agrees that it will use the Celgene Information
only for purposes of performing its obligations hereunder and for no other purpose without the prior written consent of Celgene. Pharmacy further agrees to take all practicable steps necessary to ensure that the Celgene Information (i) will be maintained in strict confidence, (ii) will not be disclosed to any third party except as expressly permitted herein, and (iii) will not be disclosed to or used by its directors, officers, employees or agents except pursuant to a written agreement with terms no less strict than those terms of confidentiality as aforesaid, set forth in this Section 15 and will be kept confidential by them.

The above provisions of confidentiality shall not apply to that part of the Celgene Information which Pharmacy is able to demonstrate by competent documentary evidence:

(a) was in Pharmacy’s possession prior to receipt from Celgene and prior to being generated under this Agreement;

(b) was in the public domain at the time of receipt from Celgene;

(c) became part of the public domain through no fault of Pharmacy, its directors, officers, employees or agents;

(d) was lawfully received by Pharmacy from a third party not disclosing the information on behalf of Celgene and having a right of further disclosure; or

(e) is required to be disclosed by law or regulation applicable to Pharmacy, provided that Pharmacy gives prompt notice to Celgene that it is required to make such disclosure so that Celgene can take steps to limit the scope of the Celgene Information disclosed or otherwise to protect the Celgene Information, and provided further that Pharmacy limits such disclosure of the Celgene Information to the maximum extent practicable.

Specific aspects or details of the Celgene Information shall not be deemed to be within the public domain or in the possession of Pharmacy merely because the Celgene Information is embraced by general disclosures in the public domain or in the possession of Pharmacy. In addition, any combination of Celgene Information shall not be considered in the public domain or in the possession of Pharmacy merely because individual elements thereof are in the public domain or in the possession of Pharmacy unless the combination and its principles are in the public domain or in the possession of Pharmacy.

Pharmacy agrees that, at Celgene’s request, it shall return to Celgene all parts of the Celgene Information existing in documentary form, not including Pharmacy records, and will, at Celgene’s request, return or destroy any copies thereof made by Pharmacy, its directors, officers, employees or agents, except that Pharmacy shall retain a copy of the Database subject to the ongoing obligations of confidentiality set forth in this Section 15. Pharmacy shall not dispose of the information in the Database without first offering in writing, given at least five (5) business days prior to such disposal, to deliver such information to Celgene, at Celgene’s expense, without additional consideration.
15.2 **Celgene Obligation.** Celgene agrees to treat any confidential or proprietary information obtained from Pharmacy, (not including the Database and information about insurers’ reimbursement policies with respect to Product) and anything derived therefrom, (collectively, the “Pharmacy Information”) as the confidential and exclusive property of Pharmacy, and Celgene agrees not to disclose any of the Pharmacy Information to any third party without first obtaining the written consent of Pharmacy, provided that Celgene may disclose Pharmacy Information to any third party providing reimbursement-related services to Celgene as long as the third party is obligated to Pharmacy to keep such information confidential. Celgene agrees that it will use any Pharmacy Information only for purposes of activities contemplated hereunder and for no other purpose without the prior written consent of Pharmacy. Celgene further agrees to take all practicable steps necessary to ensure that the Pharmacy Information (i) will be maintained in strict confidence, (ii) will not be disclosed to any third party except as expressly permitted herein, and (iii) will not be disclosed to or used by its directors, officers, employees or agents except pursuant to a written agreement with terms no less strict than those set forth in this Section 15.

The above provisions of confidentiality shall not apply to that part of the Pharmacy Information which Celgene is able to demonstrate by competent documentary evidence:

(a) was in Celgene’s possession prior to receipt from Pharmacy;
(b) was in the public domain at the time of receipt from Pharmacy;
(c) became part of the public domain through no fault of Celgene, its directors, officers, employees or agents;
(d) was lawfully received by Celgene from a third party not disclosing the information on behalf of Pharmacy and having a right of further disclosure; or
(e) is required to be disclosed by law or regulation applicable to Celgene provided that Celgene gives prompt notice to Pharmacy that it is required to make such disclosure so that Pharmacy can take steps to limit the scope of the Pharmacy Information disclosed or otherwise to protect the Pharmacy Information, and provided further that Celgene limits such disclosure of the Pharmacy Information to the maximum extent practicable.

Specific aspects or details of the Pharmacy Information shall not be deemed to be within the public domain or in the possession of Celgene merely because the Pharmacy Information is embraced by general disclosures in the public domain or in the possession of Celgene. In addition, any combination of Pharmacy Information shall not be considered in the public domain or in the possession of Celgene merely because individual elements thereof are in the public domain or in the possession of Celgene unless the combination and its principles are in the public domain or in the possession of Celgene.

Celgene agrees that, at Pharmacy’s request, it shall return to Pharmacy all parts of the Pharmacy Information existing in documentary form and will, at Pharmacy’s request,
return or destroy any copies thereof made by Celgene, its directors, officers or employees.

15.3 **No Implied Licenses.** Nothing contained herein shall be deemed to grant to either party any rights or licenses under any patent applications or patents or to any know-how, technology, inventions or other intellectual property rights of the other party.

15.4 **Publicity.** Each party shall be permitted to make such public statements regarding its relationship with the other party as may be required by law or regulation or by obligations pursuant to any listing agreement with any securities exchange. Pharmacy shall not disclose the terms of this Agreement to any third party or, except as expressly set forth in this Section 15, make any public announcement of the existence of its relationship with Celgene without the prior written consent of Celgene except to its auditors and lawyers or as required by law.

15.5 **Length of Obligation.** The obligations of the parties under this Section 15 shall continue during the Term and for a period ending five (5) years after the expiration or earlier termination thereof.

16. **INSURANCE**

Pharmacy agrees (i) to obtain and maintain, while this Agreement is in effect, (a) commercial general liability insurance, including product liability insurance, and Pharmacists professional liability insurance, each with coverage limits of not less than $1,000,000 per occurrence and $3,000,000 in the aggregate, and (ii) not to cancel the insurance or reduce the coverage without giving at least thirty (30) days’ prior written notice to Celgene. Pharmacy shall cause Celgene to be provided notice on each insurance policy such that Celgene shall receive notice of any cancellation or change in the policy. At the request of Celgene, Pharmacy shall provide Celgene with a copy of a certificate of insurance to verify that insurance with the required coverage is in effect. All policies should be placed with an insurer with financial ratings of at least A- or better.

17. **MISCELLANEOUS**

17.1 **Notices.** Any notice required by this Agreement shall be given by prepaid, first class, certified mail, return receipt requested, or by air or other overnight courier, hand delivery or facsimile, or email provided that an original printed copy is also transmitted by any one of the methods prescribed in this sentence, to the parties at the addresses set forth below (or at such other address as either party may from time to time notify the other party in writing), provided, however, that updates and/or notice of updates to the Requirements Document or REMS may be communicated by Celgene to Pharmacy by email without requiring any subsequent provision of a printed notice. Notices:

if to Celgene: Celgene Corporation
68 Morris Avenue
Summit, NJ 07901
Attention: Greg Walls
Any notice sent under this Section shall be deemed delivered within five (5) days if sent by mail and within twenty-four (24) hours if sent by fax, courier or hand delivery. In the event that any Section or subsection of this Agreement requires the notice contemplated therein to be sent to a different notice party and/or address, then that notice and/or address shall apply in lieu of the notice party and/or address in this Section, but the remainder of this Section shall apply.

17.2 Force Majeure. In the event a party (the “Affected Party”) shall be delayed or hindered in or prevented from the performance of any act required under this Agreement by reasons of fires, flood, earthquakes, accidents, explosions, sabotage, strikes, or other labor disturbances (regardless of the reasonableness of the demands of labor), civil commotions, riots, invasions, wars, acts, restraints, requisitions, regulations, or directions of governmental authorities, shortages of labor, fuel, power, or raw material, inability to obtain equipment or supplies, inability to obtain or delays in transportation, acts of God, or any other cause beyond its reasonable control ("Force Majeure"), then upon notice to the other party (the “Other Party”) performance of such act shall be excused for the period of such delay. Notice of the start and stop of any such Force Majeure and the nature and expected duration thereof shall be provided to the other party promptly following the occurrence thereof. The Affected Party shall use all commercially reasonable efforts to perform its obligations under this Agreement. In the event Force Majeure renders the Affected Party unable to perform its obligations under this Agreement for a period of ten (10) consecutive days or the aggregate of thirty (30) days in any twelve (12) month period, the Other Party may terminate this Agreement without penalty immediately upon written notice of termination to the Affected Party.

17.3 Binding Effect / No Amendments Unless in Writing. This Agreement shall be binding upon and shall inure to the benefit of the parties hereto and their permitted successors and permitted assigns. No agreements amending, altering or supplementing the terms hereof may be made except by means of a written document signed by the duly authorized representatives of both parties.
17.4 **No Assignment/No Transfer Without Celgene’s Consent.** This Agreement shall be personal to Pharmacy. Pharmacy shall not assign, sell, or otherwise transfer any of its rights and obligations (including, but not limited to, by operation-of-law, mergers, transfer of assets, change-of-ownership, or change-of-control) under this Agreement without the prior written consent of Celgene, which Celgene may grant or deny in its sole and absolute discretion. In the event Pharmacy attempts or otherwise enters into any agreement to assign, sell, or otherwise transfer this Agreement or any of its rights or obligations under this Agreement by way of any agreement or transaction which may involve any merger, transfer of assets, change-of-ownership, change-of-control or the like, Celgene shall have the right to immediately terminate this Agreement.

17.5 **No Deemed Waiver.** Failure of either party to enforce a right under this Agreement shall not act as a waiver of that right or the ability to later assert that right relative to the particular situation involved or to terminate this Agreement as a result of any subsequent default or breach.

17.6 **No Publicity.** Except as required by law, neither party shall use the name, logos, marks or trade names of the other party (or its affiliates) of the other party or of any employee of the other party in connection with any press release, public announcement or publicity without the prior written approval of the other party. The obligations in this section shall survive expiration or termination of the Agreement.

17.7 **Severability.** If any provision of this Agreement shall be found by a court to be void, invalid or unenforceable, the same shall either be reformed to comply with applicable law or stricken if not so conformable, so as not to affect the validity or enforceability of this Agreement, except if the principal intent of the Agreement is frustrated by such reformation or deletion in which case this Agreement shall terminate.

17.8 **Independent Parties.** The parties are, and shall be deemed to be, independent contractors and not agents or employees of the other party. Neither party shall have authority to make any statements, representations or commitments of any kind, or to take any action, which shall be binding on the other party.

17.9 **Counterparts.** This Agreement may be executed in one or more counterparts, which taken together will constitute the one and the same Agreement, between the parties hereto.

17.10 **Headings.** Headings and section numbers included herein are for convenience only, and shall not be used to construe this Agreement.

17.11 **Governing Law.** This Agreement shall be construed and enforced in accordance with the laws of the state of New Jersey, without giving effect to its conflicts of law principles.

17.12 **Schedules/Attachments.** As of the Effective Date of this Agreement the following schedules, exhibits and/or attachments are attached to this Agreement:

- Schedule 1.8 — Pharmacy Dispensing Site List
- Schedule 1.17 — Requirements Document
17.13 **Entire Agreement.** This Agreement, together with the attached schedules, exhibits and/or other attachments, constitutes the entire and only agreement between the parties relating to the subject matter hereof. Any and all other prior or contemporaneous negotiations, discussions, understandings, documents or agreements, are no longer of any force or effect, and are superseded by this Agreement. In the event of any conflict or inconsistency between the terms and conditions of this Agreement and any other document agreement concerning the subject matter hereof, the terms and conditions of this Agreement shall control.

*[REMAINDER OF THIS PAGE LEFT BLANK, EXECUTION PAGE FOLLOWS]*

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THIS AGREEMENT WILL NOT BE CONSIDERED ACCEPTED, APPROVED, OR OTHERWISE EFFECTIVE UNTIL THE SIGNATURE OF EACH PARTY IS AFFIXED IN THE SPACE PROVIDED BELOW.

A FULLY EXECUTED AGREEMENT MUST BE RETURNED TO, AND RECEIVED BY, CELGENE BY NO LATER THAN MAY 31, 2017 OTHERWISE CELGENE RESERVES THE RIGHT TO RE-EVALUATE THE TERMS AND CONDITIONS OF THE AGREEMENT, INCLUDING BUT NOT LIMITED TO DECLARING THIS AGREEMENT NULL AND VOID.

IN WITNESS WHEREOF, the parties have executed and entered into this Agreement as of the Effective Date first above written.

CELGENE CORPORATION

By: /s/ James Kilgallon

Name: James Kilgallon

Title: Exec. Dir. Pricing & Contracting

Date: 3/31/2017

Legal: rorlitta@celgene.com
2017.03.10 13:45:02 -05'00'

DIPLOMAT PHARMACY, INC.
d/b/a DIPLOMAT SPECIALTY PHARMACY

By: /s/ Gary Rice

Name: Gary Rice

Title: EVP, Operations

Date: 3/8/2017

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Diplomat Specialty Pharmacy- Michigan
NPI: 1427250448 NCPDP: 2369797 DEA: FD0286244
4100 South Saginaw Street, Suite D
Flint, MI 48507-2683
P: 810-768-9000 F: 810-281-0158

Diplomat Specialty Pharmacy- Michigan
NPI: 1558307462 NCPDP: 2321052 DEA: AD6448446
G-3320 Beecher Road,
Flint, MI 48532-3614
P: 810-732-8720 F: 810-732-2580

Diplomat Specialty Pharmacy- Florida
NPI: 1548375181 NCPDP: 1093929 DEA: FD0417825
500 SE 15th Street, Suite 102
Ft. Lauderdale, FL 33316-1952
P: 954-527-0440 F: 954-527-0940

Diplomat Specialty Pharmacy- Illinois
NPI: 1780605741 NCPDP: 1478189 DEA: BD9628542
1370 Busch Parkway,
Buffalo Grove, IL 60089-4505
P: 847-229-4141 F: 866-700-6500

Diplomat Specialty Pharmacy- California
NPI: 1659479632 NCPDP: 0574764 DEA: FD1746835
1809 Excise Ave. Suite 205-208
Ontario, CA 91761-8559
P: 909-881-1728 F: 877-336-7052
1. BACKGROUND

1.1. REVLIMID ®

REVLIMID ® is approved by the United States Food and Drug Administration (FDA).

REVLIMID ® is a thalidomide analogue, a known teratogen that causes severe birth defects or embryo-fetal death.

REVLIMID ® is indicated for the treatment of patients with:

- Multiple myeloma (MM), in combination with dexamethasone.
- Transfusion-dependent anemia due to low- or intermediate-1-risk myelodysplastic syndromes (MDS) associated with a deletion 5q abnormality with or without additional cytogenetic abnormalities.
- Mantle cell lymphoma (MCL) whose disease has relapsed or progressed after two prior therapies, one of which included bortezomib.

Limitations of Use:
REVLIMID ® is not indicated and is not recommended for the treatment of patients with chronic lymphocytic leukemia (CLL) outside of controlled clinical trials.

MM: The recommended starting dose of REVLIMID ® is 25 mg orally once daily on Days 1-21 of repeated 28-day cycles in combination with dexamethasone.

MDS: The recommended starting dose is 10 mg daily.

MCL: The recommended starting dose of REVLIMID ® is 25 mg/day orally on Days 1-21 of repeated 28-day cycles.

REVLIMID ® is available in 2.5 mg (white and blue-green opaque), 5 mg (white opaque), 10 mg (blue/green and pale yellow opaque), 15 mg (powder blue and white opaque), 20 mg (powder blue and blue-green opaque), and 25 mg (white opaque) capsules.
2. **BACKGROUND**

2.1. **POMALYST**

POMALYST is approved by the United States Food and Drug Administration (FDA).

POMALYST is a thalidomide analogue, a known teratogen that causes severe birth defects or embryo-fetal death.

POMALYST is a thalidomide analogue indicated, in combination with dexamethasone, for patients with multiple myeloma who have received at least two prior therapies including lenalidomide and a proteasome inhibitor and have demonstrated disease progression on or within 60 days of completion of the last therapy.

The recommended starting dose of POMALYST is 4 mg per day taken orally on Days 1-21 of repeated 28-day cycles until disease progression. POMALYST should be given in combination with dexamethasone.

POMALYST is available in 1 mg (dark blue and yellow opaque), 2 mg (dark blue and orange opaque), 3 mg (dark blue and green opaque), and 4 mg (dark blue and blue opaque) capsules.

3. **BACKGROUND**

3.1. **THALOMID**

THALOMID is approved by the United States Food and Drug Administration (FDA).

THALOMID is a known teratogen that causes severe birth defects or embryo-fetal death.

THALOMID is indicated for the treatment of patients with:

- THALOMID in combination with dexamethasone is indicated for the treatment of patients with newly diagnosed multiple myeloma (MM).
- THALOMID is indicated for the acute treatment of the cutaneous manifestations of moderate to severe erythema nodosum leprosum (ENL).
- THALOMID is not indicated as monotherapy for such ENL treatment in the presence of moderate to severe neuritis.
- THALOMID is also indicated as maintenance therapy for prevention and suppression of the cutaneous manifestations of ENL recurrence.

MM: 200 mg orally once daily. The recommended dose of dexamethasone is 40 mg/day on days 1-4, 9-12, and 17-20 every 28 days.

ENL: 100 to 300 mg/day for an episode of cutaneous ENL. Up to 400 mg/day for severe cutaneous ENL.

THALOMID is available in 50 mg (white opaque), 100 mg (tan), 150 mg capsules (tan and blue), and 200 mg (blue) capsules.
4. RISK EVALUATION AND MITIGATION STRATEGY

4.1. OVERVIEW

REVLIMID®, POMALYST®, AND THALOMID® are contraindicated in pregnancy. Thalidomide is a known teratogen that causes severe birth defects or embryo-fetal death. REVLIMID® and POMALYST® are analogues of thalidomide.

Celgene addresses the risks of REVLIMID®, POMALYST®, AND THALOMID® therapy not only through normal pharmacovigilance, but also through FDA-mandated Risk Evaluation and Mitigation Strategies, which include, among other things, the restricted distribution programs REVLIMID REMS®, POMALYST REMS®, and THALOMID REMS®.

The REVLIMID REMS®, POMALYST REMS®, and THALOMID REMS® programs controls distribution of REVLIMID®, POMALYST®, AND THALOMID® through certified pharmacies. The REVLIMID REMS®, POMALYST REMS®, AND THALOMID REMS® programs require education by telephone or in-person by trained, Certified Counselors who are licensed healthcare professionals, such as Nurses (“RNs”), Nurse Practitioners (“NPs”), Licensed Practical Nurses (“LPNs”), Pharmacists (“R.Ph.”), Pharmacy Interns, Physicians (“M.D.”), Doctors of Osteopathy (“D.O.”), and Physician Assistants (“P.A.”), before a prescription of REVLIMID®, POMALYST®, and/or THALOMID® can be dispensed by direct-shipment to a patient or the product is picked-up at the pharmacy. Education is the key component of the REVLIMID REMS®, POMALYST REMS®, AND THALOMID REMS® programs.

4.2. DEFINITION

A Risk Evaluation and Mitigation Strategy (“REMS”) is a strategy to manage a known or potential serious risk associated with a drug or biological product. A REMS program can include a Medication Guide, Patient Package Insert, a communication plan, elements to assure safe use, and an implementation system, and must include a timetable for assessment of the REMS.

4.3. CURRENT GOALS

Consistent with Title IX of Subtitle A of the Food and Drug Administration Amendments Act (“FDAAA”) Celgene Corporation has proposed the following REMS goals for REVLIMID®, POMALYST®, AND THALOMID® in each of the REVLIMID REMS®, POMALYST REMS®, AND THALOMID REMS® programs.

The goals of each of the REVLIMID®, POMALYST®, AND THALOMID® risk evaluation and mitigation strategies are as follows:
To prevent the risk of embryo-fetal exposure to REVLIMID®, POMALYST®, and/or THALOMID®

To inform prescribers, patients, and pharmacists on the serious risks and safe-use conditions for REVLIMID®, POMALYST®, and/or THALOMID®

4.4. REVLIMID REMS®, POMALYST REMS®, AND THALOMID REMS® PROGRAMS PATIENT RISK CATEGORIES

The REVLIMID REMS®, POMALYST REMS®, AND THALOMID REMS® programs categorize patients into six patient risk categories:

Female (4); and Male (2)

- Adult female of reproductive potential
- Adult female not of reproductive potential
- Female child of reproductive potential
- Female child not of reproductive potential
- Adult Male
- Male Child

What is a Female of Reproductive Potential (“FRP”)? An FRP is a female that:

- Is menstruating
- Is amenorrheic from previous medical treatments
- Is under 50 years of age
- Is perimenopausal
- Does not qualify for the adult female or female child not of reproductive potential category

4.5. REVLIMID REMS®, POMALYST REMS®, AND THALOMID REMS® PROGRAMS PHARMACY BUSINESS REQUIREMENTS

4.5.1 Pharmacy Certification

Pharmacies must have executed a Pharmacy Distribution and Services Agreement (“Agreement”) with Celgene; completed a REVLIMID REMS®, POMALYST REMS®, AND THALOMID REMS® program Pharmacy Inclusion Form; and successfully completed the REVLIMID REMS®, POMALYST REMS®, AND THALOMID REMS® program training and certification, in order to be certified with REVLIMID REMS®, POMALYST REMS®, AND THALOMID REMS® programs.

All pharmacy distribution sites must be certified with the REVLIMID REMS®, POMALYST REMS®, AND THALOMID REMS® programs.
4.5.2 Training/Certification for Counselors and Staff

Pharmacy manager responsibilities

- Educate all staff regarding dispensing guidelines, including floater pharmacists, pharmacy technicians, or anyone else handling the product
- Make sure counselors are registered and certified in Compliance Wire and advise Celgene of inactive counselors
- Complete and return all documentation that pertains to non-compliance

Certified Counselors and Certified Pharmacists involved in dispensing REVLIMID®, POMALYST®, and THALOMID®

- For counselors to be certified they are required to be licensed healthcare professionals (See section 3.1). Counselors must complete Adverse Drug Reaction Reporting training modules, and REVLIMID REMS®, POMALYST REMS®, AND THALOMID REMS® program training via onsite training (for newly certified sites), along with web based training modules, as may be required, to receive certification (Certified Counselor/Certified Pharmacist). Additional personnel added to the program by a certified pharmacy must perform the web based training to receive certification prior to counseling patients. All Pharmacists involved in dispensing REVLIMID®, POMALYST®, and THALOMID® must complete the same training as a Certified Counselor.

- All Certified Counselors are required to take the Adverse Drug Reaction Reporting training modules and the REVLIMID REMS®, POMALYST REMS®, and THALOMID REMS® programs Certification Exam on an annual basis in order to maintain their certification status as counselors. Additionally, revised training or additional training, based upon enhanced REVLIMID REMS®, POMALYST REMS®, and THALOMID REMS® training requirements, or in response to identified regulatory issues, may be deployed using web based training and all Certified Counselors must complete the training by its scheduled due date in order to maintain their Certified Counselor status.

- A score of one hundred percent (100%) is required to pass the REVLIMID REMS®, POMALYST REMS®, AND THALOMID REMS® programs exam. If a Counselor fails the REVLIMID REMS®, POMALYST REMS®, AND THALOMID REMS® programs exam 4 times they will be locked out and be required to contact Celgene Customer Care and speak to a Risk & Compliance Specialist to request one additional attempt. The 5® attempt resulting in failure, will be reported to the Account Executive to provide additional training as needed.

The following table (Table 1: Certified Counselor Objectives and Tools) provides an overview of the objectives and tools for the Certified Counselor.

[REMAINDER OF PAGE BLANK, TABLE 1 FOLLOWS]
<table>
<thead>
<tr>
<th>Certified Counselor Objective</th>
<th>Tools</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Completion of Celgene-sponsored training on REVLIMID®, POMALYST®, and THALOMID® programs</td>
<td>• Specific training provided by Celgene to certified pharmacy</td>
</tr>
<tr>
<td>to be able to counsel on the safe and effective use of REVLIMID®, POMALYST®, and THALOMID®́</td>
<td>• Pharmacy Guides to REVLIMID REMS®, POMALYST REM®, and THALOMID REMS programs</td>
</tr>
<tr>
<td>annually</td>
<td>• REVLIMID®, POMALYST®, and THALOMID® Prescribing Information</td>
</tr>
<tr>
<td>• Warn and educate Females of Reproductive Potential and males that REVLIMID®, POMALYST®, and/or THALOMID® programs can cause severe human birth defects and embryo-fetal death. Females of Reproductive Potential must use 2 forms of effective birth control at the same time or 4 weeks before, during, during dose interruptions and 4 weeks after discontinuation of therapy. Male patients must use a latex or synthetic condom as required in the REVLIMID REMS®, POMALYST REM®, and/or THALOMID REMS® programs</td>
<td>• REVLIMID REMS®, POMALYST REM®, and THALOMID REMS® programs Education and Counseling Checklists for Pharmacies</td>
</tr>
<tr>
<td>• Educate Females of Reproductive Potential of the requirements for pregnancy testing as scheduled during therapy</td>
<td>• Adverse Drug Experience Reporting Procedure</td>
</tr>
<tr>
<td>• Complete phone or in-person counseling with each patient, and complete the REVLIMID REMS®, POMALYST REM®, and/or THALOMID REMS® programs Education and Counseling Checklist prior to fulfillment of each prescription</td>
<td>• Celgene Medical Information Services</td>
</tr>
<tr>
<td>• Understand and counsel on the risks of deep venous thrombosis (“DVT”) and pulmonary embolism (“PE”) with REVLIMID®, POMALYST®, and THALOMID® treatment and myocardial infarction (“MI”) and stroke risk for REVLIMID® and POMALYST®</td>
<td></td>
</tr>
<tr>
<td>• Understand and counsel on the risk of neutropenia and thrombocytopenia with REVLIMID® treatment</td>
<td></td>
</tr>
</tbody>
</table>
The physician and/or nurse and Certified Counselor/Certified Pharmacist will work as a team to ensure that the patient is properly educated about the potential risks associated with REVLIMID®, POMALYST®, and/or THALOMID® treatment.

Training for pharmacy staff involved in dispensing REVLIMID®, POMALYST®, and THALOMID®

- Other Pharmacy staff involved in dispensing REVLIMID®, POMALYST®, and THALOMID® under the REVLIMID REMS®, POMALYST REMS®, AND THALOMID REMS® programs that are not Counselors or Pharmacists must be educated on the dispensing guidelines and adverse event reporting, and may be required to complete web based training as may be deemed necessary by Celgene. These staff members must read the REVLIMID REMS®, POMALYST REMS®, AND THALOMID REMS® programs pharmacy training and Adverse Drug Reaction Reporting, and must sign and date the acknowledgment form (Please see: Figure 1) indicating that they have read and understand the trainings. A Certified Counselor/Pharmacist or Diplomat training representative must also record and either sign or have an electronic system to verify and acknowledge that they reviewed the training staff member’s submitted training material to ensure the staff member’s understanding and completion. Additionally, revised training or additional training requirements, based on enhancements to training requirements or in response to identified regulatory issues, may be required to read and acknowledge.

4.5.3 Guidelines for Dispensing REVLIMID®, POMALYST®, AND THALOMID® (Please see Figure 2: Workflow for Dispensing REVLIMID®, POMALYST®, and THALOMID®)

(1) Fill valid prescriptions for REVLIMID®, POMALYST®, and THALOMID® in accordance with REVLIMID REMS®, POMALYST REMS®, AND THALOMID REMS® programs and all applicable laws and regulations. Accept only prescriptions with an authorization number and patient risk category. The authorization number is a number issued by Celgene Customer Care to the prescriber after the completion of patient counseling by the prescriber and the prescriber survey.

(2) Prescriptions with corresponding authorization numbers are only valid for: (a) seven (7) days from the date of the last pregnancy test for FRP; and, (b) thirty (30) days from the date issued for all other patients. Prescriptions must be faxed, electronically transmitted (state law permitting), or written prescriptions presented in person. Faxed and written prescriptions must be signed and dated by the prescriber using ink. Stamped signatures are not permitted. Telephone prescriptions are not permitted. If a prescription does not have an authorization number and/or patient risk category, the pharmacy can contact the prescriber or Celgene Customer Care, obtain the authorization number and/or patient risk
category over the phone and write it on the prescription or include in electronic pharmacy records that can be linked to the original prescription, and is easily retrievable during a Celgene audit or as requested by Celgene. If the authorization number is available, but the patient risk category is missing, the Celgene web portal (if available) can provide the patient risk category. The pharmacist or designee will need to sign, date, and obtain name and title of person who provided the information, document on the hard copy of the prescription or in electronic pharmacy records that can be linked to the original prescription.

(3) Contact the patient through a Certified Counselor to provide the required counseling and to verify the shipping address. Before dispensing REVLIMID®, POMALYST®, or THALOMID®, a Certified Counselor will be required to complete the REVLIMID REMS®, POMALYST REMS®, or THALOMID REMS® programs Education and Counseling Checklist for Pharmacies (ECCP). (Please see: Figure 3) Certified Counselors/Certified Pharmacists are expected to use the most recently approved version of the ECCP when updates occur. Celgene will communicate these updates to Certified Pharmacies.

(4) Obtain confirmation number from Celgene by calling Celgene Customer Care Center at 1-888-423-5436 to use the IVR system 24 hours a day, 7 days a week, or speak to a live representative during business hours. Confirmation numbers can also be obtained through the Celgene web portal (if available.) Provide the following information to obtain a confirmation number:

(a) NCPDP# or DEA#
(b) Authorization number written on prescription
(c) Milligram strength and number of capsules being dispensed

(5) Celgene Customer Care Center will provide a confirmation number once the authorization number has been verified. Write the confirmation number on the prescription and date it, or include in pharmacy electronic records that can be linked to the original prescription. The confirmation number is valid for 24-hours once it is obtained from Celgene.

(6) Dispense no more than a 4-week (28-day) supply with no refills, along with the FDA approved MEDICATION GUIDE. A new prescription is required for subsequent dispenses.

(7) Dispense subsequent prescriptions only if 7 days or less of therapy remaining on the current prescription.
In the event that the patient cannot be contacted or does not have access to a phone:

(a) Contact the Certified Prescriber; and

(b) Call and counsel patient in Certified Prescriber’s office after prescription has been faxed.

Do not transfer REVLIMID®, POMALYST®, or THALOMID® inventory to another Pharmacy without prior permission from Celgene. Prescription transfers are allowed to be faxed to another pharmacy in the REVLIMID REMS®, POMALYST REMS®, AND THALOMID REMS® programs network (state law permitting) if the original pharmacy is not in the patient’s insurance network.

Educate ALL STAFF involved in filling REVLIMID®, POMALYST®, and THALOMID® prescriptions about the dispensing procedures and document as per training requirements listed in Section 4.5.2 above.

Keep a record of the prescription and REVLIMID REMS®, POMALYST REMS®, and THALOMID REMS® programs Education and Counseling Checklist with each REVLIMID®, POMALYST®, and THALOMID® prescription. Alternatively, the checklist and prescription can be linked to each other electronically in Pharmacy’s computer system. If Pharmacy uses an electronic Education and Counseling Checklist, it must be identical to the paper version (including all required elements from the paper form) provided by Celgene.

The FDA approved MEDICATION GUIDE must be included with EACH filled prescription.

4.5.4 Shipping Requirements

- To avoid delays in the start of therapy, Product must be provided to patients as follows:
  
  Females of Reproductive Potential (High Risk) — Product must be shipped the same day the confirmation number is obtained or picked-up within twenty four (24) hours of obtaining the confirmation number.

  All other risk categories — Product must be shipped within twenty four (24) hours of obtaining the confirmation number or picked-up within twenty four (24) hours of obtaining the confirmation number.

- Use appropriate packing materials to protect the Product in transit.
• Track each shipment to ensure on-time delivery

• Ship all packages for all patient risk categories Monday through Friday utilizing next calendar day delivery SIGNATURE REQUIRED.

• All shipments for FRP are required to ship for next calendar day delivery on the first attempt. For all FRP, all shipments on Fridays must be shipped for Saturday delivery with SIGNATURE REQUIRED.

• For all Male patients and all non-FRP female patients, all shipments on Fridays may be shipped for either Saturday delivery with SIGNATURE REQUIRED or Monday delivery with SIGNATURE REQUIRED.

IN ADDITION TO THE FOREGOING, PHARMACY MUST CANCEL THE CONFIRMATION NUMBER IF THE SHIPMENT IS “UNDELIVERABLE.” FOR PURPOSES OF THIS PARAGRAPH “UNDELIVERABLE” SHALL MEAN DELIVERY HAS BEEN ATTEMPTED BY THE CARRIER (UPS, FEDEX, ETC.) AND CARRIER WAS UNABLE TO DELIVER THE SHIPMENT AFTER 3 ATTEMPTS AT DELIVERY. THE SHIPMENT SHALL BE RETURNED TO THE PHARMACY AS “UNDELIVERABLE”. ONCE THE SHIPMENT IS RETURNED TO THE PHARMACY AS “UNDELIVERABLE”, PHARMACY MUST CONTACT CELGENE TO CANCEL THE CONFIRMATION NUMBER.

By way of example only: A shipment (for any patient risk category) is shipped to a patient on Friday, May 20, 2016 for Saturday delivery signature required. The patient is not home when the carrier arrives to deliver the package. The carrier’s next attempt to deliver is Monday, May 23, 2016. The patient is not home again to receive the package. The carrier reattempts the delivery on Tuesday, May 24, 2016 and the patient is not home once again. The carrier now returns the package to the Pharmacy as undeliverable. At this point, the Pharmacy must call Celgene the day they receive the undeliverable package to cancel the confirmation number. If the package is returned to the pharmacy on a Saturday or Sunday, the Pharmacy must call Celgene Customer Care first thing Monday morning to obtain a cancellation number.

• As a reminder, each prescription requires a new confirmation number when ready to ship again (after the shipment had been returned due to being undeliverable.). Record the confirmation number and the date that the confirmation number was received from Celgene Customer Care after you have counseled the patient, and prior to shipping product.

YOU MUST NOT DISPENSE OR SHIP REV'LIMID ®, POMALYST ®, AND THALOMID ® WITHOUT A VALID AND CURRENT CONFIRMATION NUMBER.
• The Pharmacy shall not ship or dispense REVLIMID®, POMALYST®, or THALOMID® to a patient until:
  • The authorization numbers and patient risk category are recorded on the prescription, or REVLIMID®, POMALYST®, or THALOMID® Patient Prescription form (Please see: Figure 4), by the Prescriber or designee, or Pharmacy Certified Counselor or designee.
  • The Certified Counselor has counseled the patient.
  • The Pharmacy, through the Certified Counselor confirms by completing the Education and Counseling Checklist, that the patient understands the risks of REVLIMID®, POMALYST®, and/or THALOMID® therapy.
  • NOTE: Any patient who has not received REVLIMID®, POMALYST®, or THALOMID® in the prior twelve (12) months will be considered a “new” patient and will have to be re-enroll into the REVLIMID REMS®, POMALYST REMS®, or THALOMID REMS® program.
  • Celgene Customer Care provides the confirmation number to the Pharmacist or designee when the Pharmacist or designee calls to verify the authorization number. The Pharmacist or designee must write the confirmation number and date on the hard copy of the prescription or document in the Pharmacy’s electronic records linked to that prescription. The confirmation number obtained is valid for twenty four (24) hours. For prescriptions filled for Females of Reproductive Potential (FRP), the Pharmacy must ship the Product the same day that they receive the confirmation number or provide the Product directly to the patient within twenty four (24) hours of receipt of the confirmation number. For prescriptions for all other risk categories, Pharmacy shall ship within twenty-four (24) hours of obtaining the confirmation number.
  • If the prescription is not shipped or provided to the patient in the proper timeframe, please call Celgene Customer Care to cancel the confirmation number. Document the cancellation number and date obtained on the prescription for auditing purposes.

DO NOT DISPENSE OR SHIP REVLIMID®, POMALYST®, OR THALOMID® IF:

(a) THE PATIENT IS PREGNANT;
A FEMALE OF REPRODUCTIVE POTENTIAL STATES PREGNANCY TESTS WERE NOT CONDUCTED; OR
THE PATIENT STATED THAT THEY DID NOT USE RECOMMENDED EFFECTIVE BIRTH CONTROL
(UNLESS PRACTICING CONTINUOUS ABSTINENCE). See Education and Counseling Checklist for Pharmacies
(see Figure 3) for acceptable birth control methods.

IF A, B, OR C OCCUR, CONTACT THE CERTIFIED PRESCRIBER AND CELGENE AT 1-888-423-5436, TO REPORT
INDIVIDUAL INCIDENT(S).

4.5.5 Pharmacy Deviations:

The Pharmacy will be required to investigate and correct conditions that lead to deviations from the REVLIMID REMS ®, POMALYST REMS *
® and THALOMID REMS ® programs. Celgene is committed to work with the Pharmacy to assist in implementing appropriate corrective actions, and establishing a timeframe for those actions.

These corrective action measures may include:

- Re-education of the pharmacy manager and staff by Celgene U.S. REMS and/or Account Executive
- Documentation of investigation of root cause and corrective action plan to prevent a future occurrence within the requested timeframe.
- Other risk mitigation measures or other actions if deemed suitable.

High Risk Deviations:

- In the event that Celgene deems any dispensing situation to be High Risk, Celgene shall have the right in its sole discretion to apply this provision and will contact the Pharmacy to advise that the subject dispense is deemed High Risk. See definition of “High Risk Deviation” on page 3 (1.12).
- Next steps may include correction action measures listed above, and will be considered for other risk mitigation options including deactivation, implementation of risk mitigation measures, or other actions as deemed suitable by Celgene.
- For any additional occurrence of a High Risk Deviation beyond 2 High Risk Deviations, the pharmacy may be deactivated and no longer permitted to dispense product.
- If the Pharmacy is deactivated, it will be informed of the decision and will not be permitted to order or dispense any Celgene Products.

Notwithstanding the foregoing, or anything to the contrary, if any corrective action measures or other actions deemed suitable by Celgene are not undertaken to Celgene’s satisfaction, Celgene has the right in its sole and absolute discretion to immediately deactivate the Pharmacy.
Request for reinstatement, following deactivation

- The Pharmacy must submit a letter of appeal directly to the CMO requesting reinstatement.
- The letter must document how circumstances have changed to ensure future compliance in the REMS Program(s).
- The CMO shall evaluate the appeal and determine whether the Pharmacy should be reactivated or remain deactivated.
- The pharmacy will be contacted by Celgene with the decision.

4.6. **ADVERSE DRUG EXPERIENCE REPORTING**

- All Adverse Drug Experiences suspected to be associated with the use of REVLIMID®, POMALYST®, or THALOMID® and all cases of special situations received by the Pharmacy from Prescribers or patients associated with the dispensing of REVLIMID®, POMALYST®, or THALOMID® must be reported within twenty four (24) hours to Celgene so that Celgene can meet all current health authority regulations and guidelines for reporting of Adverse Drug Experiences relating to REVLIMID®, POMALYST®, and THALOMID®.
- All reports of suspected pregnancy exposure must be reported immediately.

4.7. **AUDIT**

First audits will occur within 3 months of a Pharmacy’s first dispense of REVLIMID®, POMALYST®, and/or THALOMID®, then an annual risk-based audit thereafter.
I intend to assist in the dispensing of Celgene REMS products. I certify that I have read and understand the above listed REVLIMID REMS®, POMALYST REMS®, and THALOMID REMS® training and Adverse Event Reporting training, instructions, and reporting form. I understand that if there is revised training or additional training, based upon enhanced REVLIMID REMS®, POMALYST REMS®, or THALOMID REMS® training requirements or in response to identified regulatory issues, I will be required to complete additional training to ensure understanding, and I will sign another training form at that time.

PRINTED NAME OF PHARMACY STAFF MEMBER

SIGNATURE OF PHARMACY STAFF MEMBER

DATE

I certify that I have assisted in training above pharmacy staff member on the CELGENE REMS requirements.

PRINTED NAME OF CERTIFIED COUNSELOR/CERTIFIED PHARMACIST WITH CELGENE REMS/CELGENE STAFF

SIGNATURE OF CERTIFIED COUNSELOR/CERTIFIED PHARMACIST WITH CELGENE REMS/CELGENE STAFF

DATE
FIGURE 2: WORKFLOW FOR DISPENSING REVLIMID®, POMALYST®, AND THALOMID®

1. Prescriber certifies with Celgene REMS program.
2. Prescriber counsels patient on benefits and risks of therapy. For all female patients of reproductive potential, the prescriber verifies negative pregnancy test results.
3. Prescriber and patient complete a Patient Physician Agreement Form and send to Celgene.
4. Patient completes mandatory confidential survey. For male patients, the Patient Physician Agreement Form is the initial survey.
5. Prescriber completes mandatory confidential survey and obtains authorization number.
6. Prescriber writes prescription including the patient risk category and authorization number.
7. Prescriber sends prescription to certified pharmacy.
8. Pharmacy contacts patient and counsels patient.
9. Pharmacy obtains confirmation number and enters the number and date acquired on the prescription.
10. Pharmacy dispenses drug to patient along with a Medication Guide.
FIGURE 3: REVLMID REMS® EDUCATION AND COUNSELING CHECKLIST FOR PHARMACIES; POMALYST REMS® EDUCATION AND COUNSELING CHECKLIST FOR PHARMACIES; THALOMID REMS® EDUCATION AND COUNSELING CHECKLIST FOR PHARMACIES
Checklist for male patients:

I will make sure that patients are aware that they will receive the Medication Guide along with their prescription

1. Counseled Adults and Children:

- Female partners of men taking REVLIMID® (lenalidomide) must call the healthcare provider right away if they get pregnant.
- Possible side effects include neuropathy, thrombocytopenia, deep vein thrombosis, and pulmonary embolism as well as risk of myocardial infarction and stroke.
- Have the patient do urine tests 2-5 days after the start of treatment.
- Have the patient do a blood test every week for the first 3 weeks and monthly thereafter to monitor blood counts while taking REVLIMID.

2. Children (12 YEARS OF AGE):

- Parent or legal guardian must have read the REVLIMID REMS® education material and agreed to ensure compliance.
- All boxes and spaces must be marked or filled in during counseling with the patient for every prescription.

Counselor Signature: ___________________________ Date: ___________________________

For more information about REVLIMID and the REVLIMID REMS® program, please visit www.RevlimidRems.com

Celgene Corporation
36 Morris Ave
Summit, NJ 07901

REVLIMID is only available under a restricted distribution program, REVLIMID REMS®.

Please see full Prescribing Information, including Boxed WARNINGS, CONTRAINDICATIONS, WARNINGS AND PRECAUTIONS, and ADVERSE REACTIONS, enclosed.
Checklist for male patients

☐ I will make sure that patients are aware that they will receive the Medication Guide along with their prescription

1. COUNSELED ADULT AND CHILDREN ON

☐ Potential embryo-fetal toxicity and contraception (wearing a latex or synthetic condom every time when engaging in sexual intercourse with a female who can get pregnant, even if the patient has had a successful abortion)

☐ Female partners of males taking POMALYST® (pomalidomide) must call their healthcare provider right away if they get pregnant

☐ Possible side effects include deep vein thrombosis, pulmonary embolism, myocardial infarction and stroke

☐ Not sharing POMALYST capsules with anyone—especially with females who can get pregnant

☐ Not donating blood or plasma while taking POMALYST (including dose interruptions) and for 4 weeks after stopping POMALYST

☐ Not breaking, chewing, or opening POMALYST capsules

☐ Instructions on POMALYST dose and administration

Milligram (mg) Strength: ______________________ Number of Capsules Dispensed: ______________________

2. SMALL CHILDREN (<12 YEARS OF AGE)

☐ Parent or legal guardian must have read the POMALYST REMS® education material and agreed to ensure compliance

All boxes and spaces must be marked or filled in during counseling with the patient for every prescription.

Counselor Signature: ___________________________ Date: ___________________________

For more information about POMALYST and the POMALYST REMS® program, please visit www CelgeneRiskManagement.com or call the Celgene Customer Care Center at 1-888-423-5436

Celgene Corporation
86 Morris Ave
Summit, NJ 07901

POMALYST is only available under a restricted distribution program, POMALYST REMS®.

Please see full Prescribing Information, including Boxed WARNINGS, CONTRAINDICATIONS, WARNINGS AND PRECAUTIONS, and ADVERSE REACTIONS, enclosed.

POMALYST® and POMALYST REMS® are registered trademarks of Celgene Corporation.
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REMS-POM18740
THALOMID® REMS®
Education and Counseling Checklist for Pharmacies

THALOMID Risk Evaluation and Mitigation Strategy (REMS) program (formerly known as the S.T.E.P.S.® program) education and prescribing safety

Authorization No.: _____________________________ 
Confirmation No.: _____________________________ 
Confirmation Date: _____________________________ 
Pharmacy Name: 
Pharmacy Address: 
Counselor Name: _____________________________ 
Work Phone: _____________________________ 
Ext: _____________________________ 
Patient Name: _____________________________ 
Date of Birth: _____________________________ 
Risk Category: _____________________________ 

Checklist for female patients of reproductive potential

☐ I will make sure that patients are aware that they will receive the Medication Guide along with their prescription.

☐ I covered the topic and the Medication Guide

☐ Potential embryo-fetal toxicity

☐ Not taking THALOMID® (pamidronate) if pregnant or breastfeeding

☐ Using at the same time at least 1 highly effective method—fetal surgery, IVF, hormonal birth control pills, hormonal patches, injections, vaginal rings, or implants, or partners vasectomy—and at least 1 additional effective method of birth control—male latex or synthetic condom, diaphragm, or cervical cap—every time they have sex with a male, or abstaining from sex with a male

☐ Unacceptable methods of birth control are progestin-only “mini-pills,” IUD, progestins-only implants, and natural family planning (rhythm method, or breastfeeding). If pregnancy occurs, notification, withdrawal, and medical advice should be obtained if cervical cap should not be confused with a cervical cap, which is an effective secondary form of contraception.

☐ Continuing use at the same time at least 1 highly effective method and at least 1 additional effective method of birth control beginning at least 4 weeks before taking THALOMID® while taking THALOMID® during dose interruptions, and for at least 4 weeks after stopping THALOMID®

☐ Obtaining a pregnancy test—performed by their healthcare provider—weekly during the first 4 weeks of use. TheraTec pregnancy testing should be repeated every 4 weeks during the rest of their treatment in females with regular menstrual cycles or no cycle at all.

☐ The need to stop taking THALOMID® right away in the event of becoming pregnant, or if they think for any reason they may be pregnant, and to call their healthcare provider immediately.

☐ Possible side effects include deep vein thrombosis and pulmonary embolism.

☐ Not sharing THALOMID® capsules with anyone—especially with females who can get pregnant.

☐ Not donating blood while taking THALOMID® (including dose interruptions) and for 4 weeks after stopping THALOMID®

☐ Not breaking, chewing, or opening THALOMID® capsules

☐ Other instructions for THALOMID® dose and administration

Mg (mg) Strength: _____________________________ 
Number of Capsules Dispensed: _____________________________

HUMA CHILDREN (18 YEARS OF AGE)

☐ Parent or legal guardian must have read the THALOMID® REMS® education material and agreed to ensure compliance.

Checklist for female patients not of reproductive potential (natural menopause for at least 24 consecutive months, or hysterectomy, or bilateral oophorectomy)

☐ I will make sure that patients are aware that they will receive the Medication Guide along with their prescription.

☐ Other instructions for THALOMID® dose and administration

Mg (mg) Strength: _____________________________ 
Number of Capsules Dispensed: _____________________________

(continued on next page)

1 of 2
Checklist for male patients

☐ I will make sure that patients are aware that they will receive the Medication Guide along with their prescription.

Potential embryo-fetal toxicity and contraception (wearing a latex or synthetic condom every time when engaging in sexual intercourse with a female who can get pregnant, even if the patient has had a successful vasectomy)

☐ Female partners of males taking THALOMID® must call their healthcare provider right away if they get pregnant

☐ Possible side effects include deep vein thrombosis and pulmonary embolism

☐ Not sharing THALOMID capsules with anyone—especially with females who can get pregnant

☐ Not donating blood or sperm while taking THALOMID (including dose interruptions) and for 4 weeks after stopping THALOMID

☐ Not breaking, chewing, or opening THALOMID capsules

☐ Instructions on THALOMID use and administration

[Table]

<table>
<thead>
<tr>
<th>Milligram (mg) Strength</th>
<th>Number of Capsules Dispensed</th>
</tr>
</thead>
</table>

☐ Parent or legal guardian must have read the THALOMID REMS® education material and agreed to ensure compliance

All boxes and spaces must be marked or filled in during counseling with the patient for every prescription.

Counselor signature: ____________________________ Date: ____________________________

For more information about THALOMID and the THALOMID REMS® program, please visit www.CelgeneRiskManagement.com or call the Celgene Customer Care Center at 1-888-623-5436.

Celgene Corporation
80 Morris Ave
Summit, NJ 07901

THALOMID is only available under a restricted distribution program, THALOMID REMS®. Please see full Prescribing Information, including boxed WARNING, CONTRAINDICATIONS, WARNINGS AND PRECAUTIONS, and ADVERSE REACTIONS, enclosed.

Thalomid® and THALOMID REMS® are registered trademarks of Celgene Corporation.

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REMS-THALOMID-REMSTM-012
REVLIMID * (lenalidomide) Patient Prescription Form

Today’s Date Date Rx Needed
Patient Last Name Patient First Name
Phone Number ( )
Shipping Address
City State Zip
Date of Birth Patient ID#
Language Preference: ☐ English ☐ Spanish ☐ Other
Best Time to Call Patient: ☐ AM ☐ PM
Patient Diagnosis
Patient Allergies
Other Current Medications

PRESCRIPTION INSURANCE INFORMATION
(Fill out entirely and fax a copy of patient’s insurance card, both sides)

Primary Insurance
Insured
Policy #
Group #
Phone #
Rx Drug Card #

Secondary Insurance
Insured
Policy #
Group #
Phone #
Rx Drug Card #

Recommended Starting Dose: See below for dosage

Myelodysplastic Syndromes. The recommended starting dose of REVLIMID is 10 mg/day with water. Dosing is continued or modified based upon clinical and laboratory findings.

Multiple Myeloma and Mantle Cell Lymphoma: The recommended starting dose of REVLIMID is 25 mg/day orally for Days 1 – 21 of repeated 28-day cycles. Dosing is continued or modified based upon clinical and laboratory findings.

REVLIMID

Dose Quantity Directions
☐ 2.5 mg ☐ 10 mg ☐ 20 mg ☐ 25 mg ☐ Dispense as Written ☐ Substitution Permitted
☐ 5 mg ☐ 15 mg
☐ 10 mg

NO REFILLS ALLOWED (Maximum Quantity = 28 days)

Prescriber Signature ______________________ Date ____________

Authorization # ______________________ Date ____________
(To be filled in by healthcare provider)

Pharmacy Confirmation # ______________________ Date ____________
(To be filled in by pharmacy)

For further information on REVLIMID, please refer to the full Prescribing Information
How to Fill a REVLIMID® (lenalidomide) Prescription

1. Healthcare Provider (HCP) instructs female patients to complete initial patient survey
2. HCP completes survey
3. HCP completes patient prescription form
4. HCP obtains REVLIMID REMS® (formerly known as the RevAssist® program) authorization number
5. HCP provides authorization number on patient prescription form
6. **HCP faxes form, including prescription, to one of the Celgene Certified Pharmacy Network participants (see below)**
7. HCP advises patient that a representative from the certified pharmacy will contact them
8. Certified pharmacy conducts patient education
9. Certified pharmacy obtains confirmation number
10. Certified pharmacy ships REVLIMID to patient with MEDICATION GUIDE

*Please see www.Celgene.com/PharmacyNetwork for the list of pharmacy participants*

Information about REVLIMID and the REVLIMID REMS® program can be obtained by calling the Celgene Customer Care Center toll-free at 1-888-423-5436, or at www.CelgeneRiskManagement.com.
POMALYST® (pomalidomide) Patient Prescription Form

Today’s Date Date Rx Needed
Patient Last Name Patient First Name
Phone Number ( )
Shipping Address
City State Zip
Date of Birth Patient ID#
Language Preference: ☐ English ☐ Spanish ☐ Other
Best Time to Call Patient: ☐ AM ☐ PM
Patient Diagnosis
Patient Allergies
Other Current Medications

PRESCRIPTION INSURANCE INFORMATION
(Fill out entirely and fax a copy of patient’s insurance card, both sides)

Primary Insurance
Insured
Policy #
Group #
Phone #
Rx Drug Card #

Secondary Insurance
Insured
Policy #
Group #
Phone #
Rx Drug Card #

Prescriber Name
State License Number
Prescriber Phone Number ( ) Ext
Fax Number ( )
Prescriber Address
City State Zip

Patient Type From PPAF (Check one)
☐ Adult Female — NOT of Reproductive Potential
☐ Adult Female — Reproductive Potential
☐ Adult Male
☐ Female Child — Not of Reproductive Potential
☐ Female Child — Reproductive Potential
☐ Male Child

Recommended Starting Dose: See below for dosage

Multiple Myeloma: The recommended starting dose of POMALYST is 4 mg/day orally for Days 1 — 21 of repeated 28-day cycles. POMALYST should be given in combination with dexamethasone. Dosing is continued or modified based upon clinical and laboratory findings.

POMALYST

<table>
<thead>
<tr>
<th>Dose</th>
<th>Quantity</th>
<th>Directions</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 mg</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2 mg</td>
<td></td>
<td></td>
</tr>
<tr>
<td>3 mg</td>
<td></td>
<td></td>
</tr>
<tr>
<td>4 mg</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>Dispense as Written</td>
</tr>
<tr>
<td></td>
<td></td>
<td>☐ Substitution Permitted</td>
</tr>
</tbody>
</table>

NO REFILLS ALLOWED (Maximum Quantity = 28 days)

Prescriber Signature ___________________________ Date ____________
Authorization # ___________________________ Date ____________
(To be filled in by healthcare provider)
Pharmacy Confirmation # ___________________________ Date ____________
(To be filled in by pharmacy)

For further information on POMALYST, please refer to the full Prescribing Information

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How to Fill a POMALYST® (pomalidomide) Prescription

1. Healthcare Provider (HCP) instructs female patients to complete initial patient survey
2. HCP completes survey
3. HCP completes patient prescription form
4. HCP obtains POMALYST REMS® authorization number
5. HCP provides authorization number on patient prescription form
6. HCP faxes form, including prescription, to one of the Celgene Certified Pharmacy Network participants (see below)
7. HCP advises patient that a representative from the certified pharmacy will contact them
8. Certified pharmacy conducts patient education
9. Certified pharmacy obtains confirmation number
10. Certified pharmacy ships POMALYST to patient with MEDICATION GUIDE

Please see www.Celgene.com/PharmacyNetwork for the list of pharmacy participants

Information about POMALYST and the POMALYST REMS® program can be obtained by calling the Celgene Customer Care Center toll-free at 1-888-423-5436, or at www.CelgeneRiskManagement.com.

POMALYST® and POMALYST REMS® are registered trademarks of Celgene Corporation.
© 2016 Celgene Corporation.
**THALOMID * (thalidomide) Patient Prescription Form**

Today’s Date Date Rx Needed

Patient Last Name Patient First Name

Phone Number ( )

Shipping Address

City State Zip

Date of Birth Patient ID#

Language Preference:  □ English □ Spanish □ Other

Best Time to Call Patient:  □ AM □ PM

Patient Diagnosis

Patient Allergies

Other Current Medications

---

**PRESCRIPTION INSURANCE INFORMATION**

(Fill out entirely and fax a copy of patient’s insurance card, both sides)

**Primary Insurance**

Insured Policy # Group # Phone # Rx Drug Card #

**Secondary Insurance**

Insured Policy # Group # Phone # Rx Drug Card #

---

**Recommended Starting Dose:** See below for dosage

**Multiple Myeloma**: The recommended starting dose of THALOMID is 200 mg/day orally with water for a 28-day treatment cycle. Dosing is continued or modified based upon clinical and laboratory findings.

**Erythema Nodosum Leprosum**: The recommended starting dose of THALOMID is 100 to 300 mg/day with water for an episode of cutaneous ENL. Up to 400 mg/day for severe cutaneous ENL. Dosing is continued or modified based upon clinical and laboratory findings.

**THALOMID**

<table>
<thead>
<tr>
<th>Dose</th>
<th>Quantity</th>
<th>Directions</th>
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</thead>
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<td></td>
</tr>
<tr>
<td>100 mg</td>
<td></td>
<td></td>
</tr>
<tr>
<td>150 mg</td>
<td></td>
<td></td>
</tr>
<tr>
<td>200 mg</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>□ Dispense as Written</td>
</tr>
<tr>
<td></td>
<td></td>
<td>□ Substitution Permitted</td>
</tr>
</tbody>
</table>

NO REFILLS ALLOWED (Maximum Quantity = 28 days)

Prescriber Signature _____________ Date _____________

Authorization # _____________ Date _____________

(To be filled in by healthcare provider)

Pharmacy Confirmation # ____________ Date ____________

(To be filled in by pharmacy)

---

For further information on THALOMID, please refer to the full Prescribing Information
How to Fill a THALOMID® (thalidomide) Prescription

1. Healthcare Provider (HCP) instructs female patients to complete initial patient survey
2. HCP completes survey
3. HCP completes patient prescription form
4. HCP obtains THALOMID REMS® (formerly known as the S.T.E.P.S.® program) authorization number
5. HCP provides authorization number on patient prescription form
6. HCP faxes form, including prescription, to one of the Celgene Certified Pharmacy Network participants (see below)
7. HCP advises patient that a representative from the certified pharmacy will contact them
8. Certified pharmacy conducts patient education
9. Certified pharmacy obtains confirmation number
10. Certified pharmacy ships THALOMID to patient with MEDICATION GUIDE

Please see www.Celgene.com/PharmacyNetwork for the list of pharmacy participants

Information about THALOMID and the THALOMID REMS® program can be obtained by calling the Celgene Customer Care Center toll-free at 1-888-423-5436, or at www.CelgeneRiskManagement.com.
SAMPLE INVENTORY REPORT

Quarterly Inventory Reporting Template

Required for all products pharmacy is actively enrolled in REMS to dispense (Revlimid, Pomalyst, or Thalomid)

Date of inventory count will be the last business day of the quarter (4x per year).

Electronic inventory count will be conducted at the end of Q1 and Q3, physical inventory count will be conducted at the end of Q2 and Q4.

All inventory reports must be submitted within 5 business days of count.

Submit Reports via e-mail to: CelgenelInventory@celgene.com
The table below outlines the fields, which are required for a report to be considered “complete”.

Celgene Sample File Format — Microsoft Excel.

<table>
<thead>
<tr>
<th>Field Name</th>
<th>Type</th>
<th>Format</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pharmacy site address</td>
<td>VARCHAR</td>
<td></td>
</tr>
<tr>
<td>Pharmacy site city</td>
<td>ALPHA</td>
<td></td>
</tr>
<tr>
<td>Pharmacy site state</td>
<td>ALPHA</td>
<td></td>
</tr>
<tr>
<td>Pharmacy site zip</td>
<td>NUMERIC</td>
<td></td>
</tr>
<tr>
<td>Date Dispensed</td>
<td>DATE</td>
<td>MM/DD/YYYY</td>
</tr>
<tr>
<td>Customer ID (specific to this prescriber)</td>
<td>VARCHAR</td>
<td></td>
</tr>
<tr>
<td>Prescriber First Name</td>
<td>ALPHA</td>
<td></td>
</tr>
<tr>
<td>Prescriber First Name</td>
<td>ALPHA</td>
<td></td>
</tr>
<tr>
<td>Prescriber Address ID (if available)</td>
<td>VARCHAR</td>
<td></td>
</tr>
<tr>
<td>Prescriber Address</td>
<td>VARCHAR</td>
<td></td>
</tr>
<tr>
<td>Prescriber City</td>
<td>ALPHA</td>
<td></td>
</tr>
<tr>
<td>Prescriber State</td>
<td>ALPHA</td>
<td></td>
</tr>
<tr>
<td>Prescriber Zip</td>
<td>NUMERIC</td>
<td></td>
</tr>
<tr>
<td>DEA (prescriber)</td>
<td>VARCHAR</td>
<td></td>
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<tr>
<td>NPI (prescriber)</td>
<td>NUMERIC</td>
<td>XXXXX-XXXX-XX</td>
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<tr>
<td>NDC</td>
<td>NUMERIC</td>
<td>XXXXX-XXXX-XX</td>
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<tr>
<td>Product</td>
<td>ALPHA</td>
<td></td>
</tr>
<tr>
<td>QTY in vials</td>
<td>NUMERIC</td>
<td></td>
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</table>

Submit Reports via e-mail to: salesoperations@celgene.com
Pharmacy shall receive a Service Fee to pay for its performance of the Enhanced Services in connection with the first dispense of a Product to a Customer, based on the range in days between Pharmacy’s receipt of a prescription with a valid authorization from a Certified Prescriber and the dispensing of the Product, in an amount listed in the Time to First Dispense table for the Product. The Service Fee paid for Enhanced Services performed in connection with each subsequent dispense shall equal the applicable sum of the Time to Repeat Dispense and Subsequent Dispense Count amounts for the Product. All payments are subject to Section 6.2 of the Agreement.

### Time to First Dispense

<table>
<thead>
<tr>
<th>Range in Days</th>
<th>Payout in $ per Rx</th>
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### Time to Repeat Dispense

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<th>Range in Days</th>
<th>Payout in $ per Rx</th>
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### Subsequent Dispense Count

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<thead>
<tr>
<th>Disp. Count</th>
<th>Payout in $ per Rx</th>
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* Information redacted pursuant to a confidential treatment request by Diplomat Pharmacy, Inc. under 5 U.S.C. §522(b)(4) and Rule 24b-2 under the Securities Exchange Act of 1934 and submitted separately with the Securities and Exchange Commission.
### Revlimid Specialty Pharmacy Scorecard

#### Time to First Dispense

<table>
<thead>
<tr>
<th>Range in Days</th>
<th>Payout in $ per Rx</th>
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#### Time to Repeat Dispense

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#### Subsequent Dispense Count

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* Information redacted pursuant to a confidential treatment request by Diplomat Pharmacy, Inc. under 5 U.S.C. §522(b)(4) and Rule 24b-2 under the Securities Exchange Act of 1934 and submitted separately with the Securities and Exchange Commission.
SCHEDULE 7.1

RETURN GOODS POLICY

Return Goods Policy

Unless otherwise required by law, return of Celgene products will be handled in accordance with this Return Policy effective July 1, 2013.

Return Authorization Requests

1. ALL returns require prior authorization from Celgene Corporation by calling 1-888-423-5436 for All Celgene products

2. The customer must provide the following information for the products being returned in order to be considered for authorization
   - Contact name
   - NABP number or DEA number
   - Lot number and quantity of each item to be returned
   - Reason for return
   - Advise if the product has been previously dispensed to a pattern (for Risk Managed Products)

3. Celgene Corporation reserves the right to deny credit for product returned without the accompanying return authorization documentation, or any product returned that falls outside of the guidelines stated in this policy

4. All products should be returned within five (5) business days of receiving authorization from Celgene Corporation

Products Eligible for Credit

- Products returned in ORIGINAL, UNOPENED, INTACT, FULL trade cartons, blister packs, bottles or vials maybe returned for credit unless Otib21,15, stated in the (-)Not Eligible for Credit(-) section below

- Products that are recalled or damaged during original shipment from Celgene are eligible for credit only if the customer reports any damages to the product within ten (10) business days of receipt of product shipment

- Products that are shipped in error by Celgene are eligible for credit only if the customer reports any errors or discrepancies in the order within ten (10) business days of receipt of product shipment

- All authorized products must be received within 3 months prior to expiration or up to 6 months after expiration date of the product to be eligible for credit

Celgene Corporation 86 Morris Avenue Summit, NJ 07901 phone (888) 423-5436 fax (888) 432-9325
• Handling fees apply
  • 20% for products returned prior to 3 months expiration date
  • 5% for products returned within 3 months prior expiration date or up to 6 months after expiration date

• Celgene (NDC # 59572), Pharmion (NDC # 67211) and Gloucester (NDC # 46026) Abraxis (NDC # 68817) trade dress product

**Products NOT Eligible for Credit**

• Product for professional sample, professional package, free goods, or with similar markings or special label
• Merchandise obtained other than through a Celgene authorized distributor of record or Celgene Corporation directly
• Product that has been used or dispensed to a patient
• Product obtained illegally or that has been diverted or resold by an account pursuant to a special price
• Product where the lot number or expiration date is missing, covered or unreadable
• When the intent of the customer is to temporarily reduce inventory
• Products involved in a bankruptcy sale or proceeding
• Product destroyed by the customer or a third party without prior written authorization from Celgene
• Product not manufactured by or on behalf of Celgene for distribution in the United States
• Expired product received by Celgene more than 6 (six) months past its expiration date
• Partial blister packs, bottles or vials
• Opened or unsealed commercial packages

**Products NOT Eligible for Credit (continued)**

• Products damaged by insurable catastrophes such as fire, smoke, acts of terrorism, flood, etc.
• Products sold, purchased or distributed contrary to federal, state or local law
• Product that is sold, purchased or distributed contrary to Celgene’s REMS programs
• BMS/Dupont trade dress product (NDC # 00056)

**Terms of Return Policy**

1. Credit for returned product will be determined by the return receipt date and upon review and inspection for compliance with all aspects of Celgene’s Product Return Policy.

2. A handling fee will be assessed on the original gross purchase price of the product as follows:

   Celgene Corporation    86 Morris Avenue    Summit, NJ    07901    phone (888) 423-5436    fax (888) 432-9325

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a) 20% on in-date product returns, prior to 3 months before expiration unless otherwise agreed.

b) 5% on product returns up to 3 months before expiration and up to 6 months past expiration

*This fee does not apply to any product recalled, shipped damaged or shipped in error by Celgene or that which is ineligible for credit

3. Returns made in accordance with this policy will be credited, to the direct purchaser from Celgene, for the actual net price paid after any applicable handling fees, discounts, allowances or adjustments (including but not limited to, prompt payment discounts, government discounts, chargebacks or rebates)

4. Deductions from payables may not be taken until the credit memo is issued by Celgene Corporation. Unauthorized deductions from payables for returns may result in held orders

5. Credits will be processed through the account directly invoiced by Celgene Corporation. Customers who have been invoiced through a wholesaler or distributor should seek return credit from such wholesaler or distributor

6. No credit will be given for destroyed merchandise. A Returned Goods Authorization Form must accompany all returned product

7. Celgene Corporation reserves the right to destroy, without recourse, any returned product not eligible for credit

Shipping Information and Return Goods Addresses

1. All Authorized returns must be sent to:

   Celgene Product Returns
   7339 Industrial Road
   Allentown, PA 18106

2. Shipping charges are the responsibility of the customer, unless the return is of products shipped in error by Celgene Corporation

3. Shipping labels will be provided when a pharmacy is returning product on behalf of a patient (returned product is ineligible for credit)

4. The return authorization number must be referenced on the shipping label to be considered as valid proof of delivery

   Celgene reserves the right to destroy, without notification, credit, exchange or return to the customer, any merchandise that does not conform to the policy.

   Celgene reserves the right to modify this policy in its discretion without advance notice.

   Celgene Corporation 86 Morris Avenue Summit, NJ 07901 phone (888) 423-5436 fax (888) 432-9325
SCHEDULE 8.1

ADVERSE DRUG REACTION REPORTING

ADVERSE DRUG EXPERIENCES THAT ARE SUSPECTED TO BE ASSOCIATED WITH THE USE OF REVLIMID®, POMALYST®, OR THALOMID®, ANY SUSPECTED PREGNANCY OCCURRING DURING THE TREATMENT WITH REVLIMID®, POMALYST®, OR THALOMID®, AND ALL CASES OF SPECIAL SITUATIONS MUST BE REPORTED TO CELGENE WITHIN 24 HOURS. ANY REPORTS OF PREGNANCY EXPOSURE MUST BE REPORTED IMMEDIATELY.

Reporting to Celgene

Fill out Adverse Drug Reaction (ADR) Report Form as completely as possible (be sure to include reporter’s name on each page), then:

- Fax: 1-908-673-9115
- E-mail: drugsafety@celgene.com
- Toll Free: 1-800-640-7854 (Global Drug Safety & Risk Management) 24 hours a day/7 days a week OR 1-888-423-5436 (Customer Care Center)
- Other electronic exchange as agreed upon by both parties.

If the report is of a possible exposure of a PREGNANT WOMAN, CALL Celgene Drug Safety IMMEDIATELY then follow-up with the ADR report form.

Reporting Procedures: Essential Information

- Reporter information
  - Full Name/Title
  - Address & Phone #
- Patient information (Sufficient information to enable Celgene to correspond with the treating physician)
  - Initials
  - Date of Birth, Age, Gender
- Adverse Drug Reaction (ADR) including causality assessment
  - As complete a description as possible —Provide diagnosis and/or symptoms
• Key details — date started, date resolved and outcome
• Hospitalization or drug discontinued .... Ask why?

• Drug
• Did patient receive drug?
• If so, dose, frequency, dates of therapy, indication
• Lot # and expiration date

• Physician’s full name, address, phone number

Definitions: Cases of Special Situations

Market Authorization Holder (MAH) is responsible to report “Cases of Special Situations” which may include, but not be limited to:

• Outcomes of use of a medicinal product during pregnancy
• Adverse reactions during breastfeeding
• Use of product in pediatric or elderly population
• Reports of lack of therapeutic efficacy
• Reports in relation to overdose, abuse, off-label use, misuse; medication errors or occupational exposure

• Examples of Special Situations include but are not limited to:
  • ADR in infant following exposure to product from breastfeeding
  • Contamination of starting materials, or during product manufacturing
  • Promotion of opportunist infections due to contamination
  • Drug prescribed to a patient, accidentally taken by their child
  • Patient took expired product or incorrect prescription given whether or not an adverse reaction occurred
# Adverse Drug Reaction Report

## For Colgene use only

**Received by:**

**Date of receipt**

<table>
<thead>
<tr>
<th>Day</th>
<th>Month</th>
<th>Year</th>
</tr>
</thead>
</table>

**Source:**
- [ ] Spontaneous
- [ ] Comp. Use
- [ ] Lit
- [ ] Other, Specify [ ]

**Suspect Drug**

- **Drug, Formulation, Strength, Route**
- **Dosage Frequency**
- **Unit/dose No**
- **Lot/Batch No**
- **Therapy Start Date**
  - **MM/DD/YYYY**
- **Therapy Stop Date**
  - **MM/DD/YYYY**
- **Indication for use of drug**
- [ ] Unknown
- [ ] Not applicable
- [ ] Reassessed, specify:
- [ ] Permanently discontinued
- [ ] Temporarily interrupted

### Action Taken, Suspect Drug

- [ ] None
- [ ] Dose decreased, specify:
- [ ] Dose increased, specify:

## Patient Data

<table>
<thead>
<tr>
<th>Initials</th>
<th>Date of Birth</th>
<th>Age</th>
<th>Weight</th>
<th>Height</th>
</tr>
</thead>
<tbody>
<tr>
<td>[ ]</td>
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</tbody>
</table>

<table>
<thead>
<tr>
<th>Gender</th>
</tr>
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</table>
| [ ] Male
| [ ] Female |

## Adverse Event

**Overall diagnosis of the event**

**Event onset date:**

<table>
<thead>
<tr>
<th>Day</th>
<th>Month</th>
<th>Year</th>
</tr>
</thead>
</table>

**Event stop date:**

<table>
<thead>
<tr>
<th>Day</th>
<th>Month</th>
<th>Year</th>
</tr>
</thead>
</table>

## Outcome of Adverse Event

- [ ] Recovered
- [ ] Recovered with sequelae:
- [ ] Not recovered
- [ ] Unknown
- [ ] Death
  - **Date of death:**
    - [ ] Day
    - [ ] Month
    - [ ] Year

**Possible cause(s) of death:**

If autopsy is performed, please forward report. Please attach relevant clinical laboratory assessments to confirm the event.

## Seriousness of the Event (tick all that apply)

- [ ] Death
- [ ] Life-threatening
- [ ] Hospitalization or prolonged hospitalization
- [ ] Persistent or significant disability or incapacity
- [ ] Congenital anomaly/birth defect
- [ ] Other medically important condition or event
- [ ] Non-serious

*An event not meeting the other serious criteria, but based on medical judgment may jeopardize the patient and require medical or surgical intervention to prevent one of the other serious outcomes.*

---

**Colgene Corporation**

556 Morris Avenue, Building S12

Summit, New Jersey 07901

Telephone (908) 673-9667

Toll Free 1-800-540-7854

Fax: (908) 673-9115

Email: drugsafety@colgene.com

**Version 6.0 March 2016**
**Medical History**

Current or past relevant medical history (including concurrent illness, allergy, smoking, alcohol abuse)

- [ ] Yes
- [ ] Yes, please specify
- [ ] None
- [ ] Unknown

**Other Medication**
(Medication taken during the past 3 months prior to the event)

<table>
<thead>
<tr>
<th>Drug, Formulation, Strength, Route (e.g. Capsule 300 mg, oral)</th>
<th>Start &amp; Frequency</th>
<th>Therapy Start date dd/mm/yy</th>
<th>Pharmacy Ship date dd/mm/yy</th>
<th>Cause relating 1 = Not related, 2 = Related</th>
<th>Indication for use of drug</th>
</tr>
</thead>
<tbody>
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</tbody>
</table>

**Prescriber Information**

Name: __________________________  Country: __________________________  Fax: __________________________

Address: __________________________  Phone: __________________________

Email: __________________________

**Reporter**

Name: __________________________  Country: __________________________  Fax: __________________________

Address: __________________________  Phone: __________________________

Email: __________________________

**Notification**

- [ ] Initial report
- [ ] Follow-up report
- [ ] Final report

Name (PAINT): __________________________  Title: __________________________

Signature: __________________________  Date of AE Awareness: __________________________

---

Version 6.0 March 2016
SCHEDULE 8.2

COMPLAINT FORM

To: Celgene Customer Care Center

Fax: 1-888-432-9325

Specialty Pharmacy Name:

Phone:

From:

Title:

Date of Call:

Complainant Name:

Address:

Home Phone:

Work Phone:

Product:

Gender:

Lot Number:

Language:

Expiration Date:

Address:

Best Day to Call:

Best Time to Call:

Description of Problem:

68
Diplomat Pharmacy, Inc.  
Non-Employee Director Compensation Program  
(effective April 4, 2017)

<table>
<thead>
<tr>
<th>Annual cash retainer:</th>
</tr>
</thead>
<tbody>
<tr>
<td>Board</td>
</tr>
<tr>
<td>Additional annual cash retainer:</td>
</tr>
<tr>
<td>Lead Director</td>
</tr>
<tr>
<td>Audit Committee-Chair</td>
</tr>
<tr>
<td>Compensation Committee-Chair</td>
</tr>
<tr>
<td>Nominating and Corporate Governance Committee-Chair</td>
</tr>
<tr>
<td>Annual grant of restricted stock (grant date fair value):</td>
</tr>
<tr>
<td>Board</td>
</tr>
<tr>
<td>Special grant of restricted stock (grant date fair value):</td>
</tr>
<tr>
<td>Lead Director</td>
</tr>
</tbody>
</table>

In addition, the Company reimburses expenses associated with attendance at Board meetings for all directors.

**Restricted Stock - Board.** Each non-employee director will be paid the annual grant of restricted stock as of the earlier of (a) June 1 and (b) the date of the annual meeting of shareholders. Notwithstanding the foregoing, the initial restricted stock grant for a new non-employee director appointed other than at the annual meeting of shareholders shall be made as of the date of initial appointment, having a pro rata grant date fair value as determined by the Board or the Compensation Committee.

The restricted stock vests in full on the first anniversary of the grant date or earlier upon a change of control of the Company, subject to the director’s continued service to the Company through such vesting date. Except as set forth in the prior sentence, the restricted stock will be forfeited in the event of termination of service prior to the vesting date. During the restricted period, the restricted stock entitles the participant to all of the rights of a shareholder, including the right to vote the shares and the right to receive any dividends thereon. Prior to the end of the restricted period, restricted stock generally may not be sold, assigned, pledged, or otherwise disposed of or hypothecated by participants.

**Restricted Stock — Lead Director.** In connection with Mr. Wolin’s appointment as the initial Lead Director of the Board, he received a grant of restricted stock. The restricted stock vests 50% on the first anniversary of the initial appointment and 50% on the second anniversary (or earlier upon a change of control of the Company), subject to Mr. Wolin’s continued service to the Company as Lead Director through such vesting dates. Except as set forth in the prior sentence, the restricted stock will be forfeited in the event of termination of service as Lead Director prior to the vesting date. During the restricted period, the restricted stock entitles Mr. Wolin to all of the rights of a shareholder, including the right to vote the shares and the right to receive any dividends thereon. Prior to the end of the restricted period, the restricted stock generally may not be sold, assigned, pledged, or otherwise disposed of or hypothecated.
I, Philip R. Hagerman, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Diplomat Pharmacy, Inc. (the “Company”) for the quarter ended March 31, 2017;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the Company as of, and for, the periods presented in this report;

4. The Company’s other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the Company and have:
   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
   b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
   c) Evaluated the effectiveness of the Company’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures as of the end of the period covered by this report based on such evaluation; and
   d) Disclosed in this report any change in the Company’s internal control over financial reporting that occurred during the Company’s most recent fiscal quarter (the Company’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the Company’s internal control over financial reporting; and

5. The Company’s other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Company’s auditors and the audit committee of the Company’s board of directors (or persons performing the equivalent functions):
   a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Company’s ability to record, process, summarize and report financial information; and
   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the Company’s internal control over financial reporting.

Date: May 9, 2017

By: /s/ PHILIP R. HAGERMAN
Philip R. Hagerman
Chief Executive Officer
(Principal Executive Officer)
I, Robin Johnson, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Diplomat Pharmacy, Inc. (the “Company”) for the quarter ended March 31, 2017;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the Company as of, and for, the periods presented in this report;

4. The Company’s other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the Company and have:
   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
   b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
   c) Evaluated the effectiveness of the Company’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures as of the end of the period covered by this report based on such evaluation; and
   d) Disclosed in this report any change in the Company’s internal control over financial reporting that occurred during the Company’s most recent fiscal quarter (the Company’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the Company’s internal control over financial reporting; and

5. The Company’s other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Company’s auditors and the audit committee of the Company’s board of directors (or persons performing the equivalent functions):
   a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Company’s ability to record, process, summarize and report financial information; and
   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the Company’s internal control over financial reporting.

Date: May 9, 2017

By: /s/ ROBIN JOHNSON
Robin Johnson
Vice President, Finance
(Principal Financial Officer)
CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBAanes-OXLEY ACT OF 2002

In connection with the Quarterly Report of Diplomat Pharmacy, Inc. (the “Company”) on Form 10-Q for the quarterly period ended March 31, 2017, as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Philip R. Hagerman, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: May 9, 2017

By: /s/ PHILIP R. HAGERMAN

Philip R. Hagerman
Chief Executive Officer
In connection with the Quarterly Report of Diplomat Pharmacy, Inc. (the “Company”) on Form 10-Q for the quarterly period ended March 31, 2017, as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Robin Johnson, Vice President — Finance of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: May 9, 2017

By: /s/ ROBIN JOHNSON
Robin Johnson
Vice President, Finance
(Principal Financial Officer)