RAYMOND JAMES FINANCIAL INC
Form 10-Q
February 09, 2009

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

FORM 10-Q

(Mark one)

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

For the quarterly period ended December 31, 2008

or

o 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: 1-9109

RAYMOND JAMES FINANCIAL, INC.
(Exact name of registrant as specified in its charter)

Florida	No. 59-1517485
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

880 Carillon Parkway, St. Petersburg, Florida 33716
(Address of principal executive offices) (Zip Code)

(727) 567-1000
(Registrant's telephone number, including area code)

None
(Former name, former address and former fiscal year, if changed since last report)

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 x No o

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

Large accelerated filer x	Accelerated filer o
Non-accelerated filer o	Smaller reporting company o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
Yes o No x

Indicate the number of shares outstanding of each of the registrant's classes of common stock, as of the latest practicable date.

122,352,787 shares of Common Stock as of February 4, 2009

RAYMOND JAMES FINANCIAL, INC. AND SUBSIDIARIES

Form 10-Q for the Quarter Ended December 31, 2008

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PART I FINANCIAL INFORMATION

Item 1. FINANCIAL STATEMENTS

RAYMOND JAMES FINANCIAL, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION
(Unaudited)

	December 31, 2008	September 30, 2008
	(in 000's)	
Assets		
Cash and Cash Equivalents	$ 480,982	$ 3,207,493
Assets Segregated Pursuant to Regulations and Other Segregated Assets	4,654,266	4,311,933
Securities Purchased under Agreements to Resell and Other Collateralized Financings	1,302,588	950,546
Financial Instruments, at Fair Value:		
Trading Instruments	259,674	314,008
Available for Sale Securities	467,844	577,933
Private Equity and Other Investments	212,814	209,915
Receivables:		
Brokerage Clients, Net	1,309,054	1,850,464
Stock Borrowed	557,536	675,080
Bank Loans, Net	7,676,791	7,095,227
Brokers-Dealers and Clearing Organizations	73,191	186,841
Other	358,018	344,594
Investments in Real Estate Partnerships - Held by Variable Interest Entities	264,475	239,714
Property and Equipment, Net	190,743	192,450
Deferred Income Taxes, Net	156,400	108,765
Deposits With Clearing Organizations	88,374	94,242
Goodwill	62,575	62,575
Prepaid Expenses and Other Assets	166,991	287,836
	$ 18,282,316	$ 20,709,616
Liabilities And Shareholders' Equity		
Loans Payable	$ 161,278	$ 2,212,224
Loans Payable Related to Investments by Variable Interest Entities in Real Estate Partnerships	94,694	102,564
Payables:		
Brokerage Clients	5,934,448	5,789,952
Stock Loaned	549,054	695,739
Bank Deposits	8,792,982	8,774,457
Brokers-Dealers and Clearing Organizations	68,229	266,272
Trade and Other	149,589	154,915

Trading Instruments Sold but Not Yet Purchased, at Fair Value	82,665	123,756
Securities Sold Under Agreements to Repurchase	60,817	122,728
Accrued Compensation, Commissions and Benefits	229,909	345,782
Income Taxes Payable	48,416	-
	16,172,081	18,588,389
Minority Interests	244,816	237,322
Shareholders' Equity:		
Preferred Stock; $.10 Par Value; Authorized 10,000,000 Shares; Issued and Outstanding -0- Shares	-	-
Common Stock; $.01 Par Value; Authorized 350,000,000 Shares; Issued 125,217,461 at December 31, 2008 and 124,078,129 at September 30, 2008	1,210	1,202
Shares Exchangeable into Common Stock; 260,937 at December 31, 2008 and 273,042 at September 30, 2008	3,349	3,504
Additional Paid-In Capital	367,695	355,274
Retained Earnings	1,687,390	1,639,662
Accumulated Other Comprehensive Income	(107,173)	(33,976)
	1,952,471	1,965,666
Less: 4,103,946 and 3,825,619 Common Shares in Treasury, at Cost	(87,052)	(81,761)
	1,865,419	1,883,905
	$ 18,282,316	$ 20,709,616

See accompanying Notes to Condensed Consolidated Financial Statements.

RAYMOND JAMES FINANCIAL, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME
(Unaudited)
(in 000's, except per share amounts)

	Three Months Ended	
	December 31, 2008	December 31, 2007
Revenues:		
Securities Commissions and Fees	$ 418,225	$ 472,605
Investment Banking	20,733	23,855
Investment Advisory Fees	44,435	56,605
Interest	143,612	212,950
Net Trading Profits	9,175	1,102
Financial Service Fees	33,135	32,975
Other	26,518	29,099
Total Revenues	695,833	829,191
Interest Expense	31,891	143,364
Net Revenues	663,942	685,827
Non-Interest Expenses:		
Compensation, Commissions and Benefits	419,254	470,604
Communications and Information Processing	35,223	31,011
Occupancy and Equipment Costs	26,435	21,397
Clearance and Floor Brokerage	8,588	8,586
Business Development	24,724	23,859
Investment Advisory Fees	9,722	12,930
Bank Loan Loss Provision	24,870	12,820
Other	18,469	13,318
Total Non-Interest Expenses	567,285	594,525
Minority Interest in (Losses) Earnings of Subsidiaries	(5,007)	545
Income Before Provision for Income Taxes	101,664	90,757
Provision for Income Taxes	40,571	34,515
Net Income	$ 61,093	$ 56,242
Net Income per Share-Basic	$ 0.52	$ 0.48
Net Income per Share-Diluted	$ 0.52	$ 0.47
Weighted Average Common Shares Outstanding-Basic	116,575	116,881

Weighted Average Common and Common Equivalent Shares Outstanding-Diluted	118,087	120,241
Dividends Paid per Common Share	$ 0.11	$ 0.11
Net Income	$ 61,093	$ 56,242
Other Comprehensive Income:		
Change in Unrealized Loss on Available for Sale Securities, Net of Tax	(53,387)	(2,893)
Change in Currency Translations	(19,810)	2,066
Total Comprehensive (Loss) Income	$ (12,104)	$ 55,415

See accompanying Notes to Condensed Consolidated Financial Statements.

RAYMOND JAMES FINANCIAL, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)
(in 000's)
(continued on next page)

	Three Months Ended	
	December 31, 2008	December 31, 2007
Cash Flows From Operating Activities:		
Net Income	$ 61,093	$ 56,242
Adjustments to Reconcile Net Income to Net		
Cash Provided by (Used in) Operating Activities:		
Depreciation and Amortization	8,345	6,993
Excess Tax Benefits from Stock-Based Payment Arrangements	(3,754)	(360)
Deferred Income Taxes	(16,423)	(1,808)
Premium and Discount Amortization on Available for Sale Securities and Unrealized/Realized Gain on Other Investments	(1,192)	(2,128)
Other-than-Temporary Impairment on Available for Sale Securities	571	-
Impairment of and Loss on Sale of Property and Equipment	6,197	19
Gain on Sale of Loans Available for Sale	(49)	(97)
Provision for Loan Loss, Legal Proceedings, Bad	30,153	14,077

Debts and Other Accruals				
Stock-Based Compensation Expense	2,769	12,504		
Loss on Company-Owned Life Insurance	13,505	876		
(Increase) Decrease in Operating Assets:				
Assets Segregated Pursuant to Regulations and Other Segregated Assets	(342,333)	(413,202)		
Receivables:				
Brokerage Clients, Net	539,995	(115,516)		
Stock Borrowed	117,544	342,730		
Brokers-Dealers and Clearing Organizations	113,650	21,118		
Other	(16,320)	3,243		
Securities Purchased Under Agreements to Resell and Other Collateralized Financings, Net of Securities Sold Under Agreements to Repurchase	(68,953)	152,359		
Trading Instruments, Net	13,243	(119,022)		
Proceeds from Sale of Loans Available for Sale	3,540	9,640		
Origination of Loans Available for Sale	(3,217)	(10,545)		
Prepaid Expenses and Other Assets	95,798	(26,954)		
Minority Interest	(5,007)	545		
$140.5 million				
Payout Level		80% of Award Target	100% of Award Target	120% of Award Target

For the Named Executives, the performance and payout levels for the Company adjusted Diluted EPS goals were as follows; with actual bonus amounts interpolated between the percentages set forth in the chart based on actual results if performance was above the threshold:

Company Adjusted Diluted EPS Level	**Threshold: $1.18**	**Target: $1.39**	**Maximum: $1.60**
Payout Level	85% of Award Target	100% of Award Target	115% of Award Target

Individual goals were established at the beginning of 2014 and were tailored to reflect priorities for each executive for 2014. Individual goals related to factors such as completing acquisitions, increasing sales and client retention, achieving annualized restructuring and savings objectives, implementing inventory management processes, lowering costs for procuring drug inventory, meeting departmental budgets, increasing cash flows, and other strategic initiatives.

For 2014, the Company achieved adjusted EBITDA of $122.6 million, which resulted in a 117.6% payout for the adjusted EBITDA financial component and adjusted Diluted EPS of $1.50, which resulted in a 126.4% payout for the adjusted Diluted EPS financial component of the award opportunities. Payouts for the individual components for the Named Executives ranged from 84% to 130% of target, resulting in total bonus payments of 101% to 123% of target.

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

For more information on the 2014 annual incentive opportunities for our Named Executives, please refer to the Grants of Plan-Based Awards section of this proxy statement on page 29.

Long-Term Incentives

The Company s 2014 Long-Term Incentive Grants

Long-term target incentive opportunities are expressed as a percentage of base salary and vary among our Named Executives. Fiscal year 2014, long-term incentive opportunities for Messrs Weishar, Froesel, Vishnubhatla, McKay and Caneris were set to generally bring each executive s total direct compensation at the 40th percentile compared to equivalent positions in peer companies and are shown above. The long-term incentive opportunities are in the median to above median range when compared to the peer group:

Named Executive	**2014 Long-Term Incentive Award Opportunity (% of Base Salary)**
Mr. Weishar	299%
Mr. Froesel	175%
Mr. Vishnubhatla	150%
Mr. McKay	115%
Mr. Caneris	138%

In fiscal year 2014, the long-term component of our executive compensation program for the Named Executives consisted of a combination of restricted stock units and performance share units. The Compensation Committee used

performance share units to focus executives on longer-term operating performance expected to drive long-term stockholder value creation. Restricted stock units were granted to bolster the retention features of the executive compensation plan and further the goals of the Company s stock ownership guidelines. These restricted stock units, and all prior restricted stock awards granted to the Named Executives vest in three equal annual installments. All restricted stock units which have been granted to the Named Executives under the Omnibus Incentive Plan have had a requirement that no restricted stock units may vest sooner than one year from the date of the grant. The performance shares vest at the end of a three year performance period subject to achievement of pre-established goals. The long-term incentive awards were granted in the following amounts as

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a percentage of each of the Named Executive s long-term incentive target award: 50% restricted stock units and 50% performance share units to balance executive retention with a focus on long-term stock price and operating performance.

The performance share units granted to our Named Executives are based 70% on the achievement of an adjusted EBITDA target and 30% on the achievement of an Adjusted Diluted EPS target. Adjusted Diluted EPS is the net income for the applicable full year period and adding to net income the net of tax effect of certain amounts as reported in the Corporation s disclosures in its Form 10-K as of and for the year ended December 31, 2014, divided by the weighted average of outstanding common stock shares and diluted equivalents on the last day of the applicable year. Adjusted EBITDA was selected as the performance measure for the 2014 performance share units to reinforce the importance of achievement of cost savings and earnings in the creation of long-term stockholder value. Adjusted Diluted EPS is used because we believe that in addition to EBITDA, our stockholders use EPS to assess the Company s performance. We believe the combination of adjusted EBITDA and Adjusted Diluted EPS ensures that executives consider the impact on margins in executing strategies to fuel the Company s profitable growth. For the 2014 performance share unit grants, performance will be measured based on 2016 adjusted EBITDA and Adjusted Diluted EPS performance. The adjusted EBITDA and Adjusted Diluted EPS performance objectives were set based on the Company s longer-range plan, and at the time of grant were viewed to be challenging, but achievable. The actual number of performance share units earned can range from 50% at threshold performance to 150% of the target award at maximum performance, depending upon performance relative to the predetermined adjusted EBITDA and/or Adjusted Diluted EPS goals.

The 2012-2014 Performance Share Units

In fiscal year 2012, the long-term component of our executive compensation program for Messrs. Weishar, Vishnubhatla, Caneris and McKay consisted of a combination of restricted stock units and performance share units, with performance share units consisting of the 50% of the grant date fair value at target performance. Mr. Froesel was not employed with the Company in 2012. The Compensation Committee used Adjusted EBITDA for the Named Officers, other than Mr. Weishar, and Adjusted EBITDA and Adjusted Diluted EPS (70%/30% split) for Mr. Weishar as of December 31, 2014 as the performance measurement for the 2012-2014 long-term performance incentive.

	Threshold:	**Target:**	**Maximum:**
Adjusted EBITDA Performance Level	**$95.2 million**	**$119 million**	**$142.8 million**
Payout Level	80% of Award Target	100% of Award Target	120% of Award Target

	Threshold:	**Target:**	**Maximum:**
Adjusted Diluted EPS	**$1.18**	**$1.48**	**$1.78**
Payout Level	80% of Award Target	100% of Award Target	120% of Award Target

As the Company s 2014 adjusted EBITDA was $122.6 million, and Adjusted Diluted EPS was $1.50 per share, payouts under the 2012-2014 Long-term Incentive Program were made at 111.3% of the target for adjusted EBITDA and 105.1% for Adjusted Diluted EPS.

Treatment of Equity Incentives in the Event of Change in Control

As provided in the Company s Omnibus Incentive Plan or the award agreements related thereto, unvested equity awards granted to our Named Executives (with the exception of equity awards held by Mr. McKay, Senior Vice President of Purchasing and Trade Relations) may automatically vest upon certain terminations of a Named Executive s employment following a change in control. We believe that such a double trigger provision will encourage our executive officers to assess takeover bids objectively without regard to the potential impact on their job security while maintaining the retention power of the compensation program following a change in control. Unvested equity awards granted to our Senior Vice President of Purchasing and Trade Relations automatically vest upon a change in control as provided under terms of his employment agreement, which was entered into in 2007 prior to the development of our overall executive compensation program and the decision to provide for double trigger vesting with respect to our executive officers generally.

Benefits and Perquisites

Our Named Executives are eligible to participate in our 401(k) plan and certain payments are made on their behalf in connection with life insurance premiums. Otherwise, they receive the same health, life and disability benefits available to our employees generally. We do not offer a defined benefit pension plan or a supplemental executive retirement plan.

Voluntary Deferred Compensation Plan

Commencing in 2008, the Company offers certain management and highly compensated employees , including our Named Executives the ability to elect to defer up to 50% of their base salary and up to 100% of such participant s annual short-term incentive program cash bonus into a non-qualified deferred compensation plan. We believe the deferred compensation plan will serve to motivate and retain our executive officers by providing a tax-effective opportunity to save for their retirement and enable them to take a more active role in structuring the timing of certain compensation payments. Participant account balances are unsecured and the participants would be unsecured creditors of the Company if the Company became insolvent or was otherwise unable to pay the balances to the participants.

Stock Ownership Guidelines

We encourage our executive officers and other key employees to own stock in the Company. The Nominating and Governance Committee adopted stock ownership guidelines to align long-term interests of management with those of our stockholders and provide a continuing incentive to foster the Company s success. The stock ownership guidelines became effective December 1, 2012 for certain key executive officers, including our Named Executives. Under the stock ownership guidelines, the CEO, Executive Vice Presidents, and Senior Vice Presidents are expected to own Company stock in the amount of 400%, 200%, and 100% of their annual base salary, respectively. Company Executives are expected to retain 50% of after-tax profit shares earned from the equity compensation program until the guidelines are achieved. Shares owned outright, held in a trust or other estate planning, and credited as deferred stock units or held in 401(k), and vested stock options count towards meeting the guidelines.

Each of the Named Executives except Mr. Froesel and Mr. Vishnubhatla, exceed the ownership levels, as established under the guidelines. As of April 21, 2015, the value of the Named Executives ownership in the Company is as follows: Gregory Weishar - $26,239,741 (771% of target); David Froesel - $457,268 (46% of target); Suresh Vishnubhatla - $1,105,658 (161%); Robert McKay - $1,910,132 (637% of target); and Thomas Caneris - $1,719,454 (527% of target). While the ownership of Mr. Froesel and Mr. Vishnubhatla do not meet the multiple for their position, they do meet the requirements applicable them in light of their length of service with the Company and the size and vesting of the equity grants made to date.

Policies with Respect to Speculation in the Company s Securities

The Company, since its inception, has maintained a policy applicable to all directors, Company s officers who file reports under Section 16 of the Securities Exchange Act of 1934 and other employees with access to material non-public information which prohibits speculative trading in the Company s stock and the trading of derivative securities of the Company. Additionally, short sales and buying stock on margin or placing stock in margin accounts are also prohibited.

The Company also maintains an anti-pledging policy and an anti-hedging policy, each of which is applicable to all of Company s officers who file reports under Section 16 of the Securities Exchange Act of 1934. The anti-pledging policy prohibits such persons from making any pledges of Company securities as collateral for a loan, or otherwise

holding Company securities in a margin account. The anti-hedging policy encourages such persons from speculating in the Company s securities, prohibits such persons from engaging in short sales of the Company s securities, and prohibits such persons from trading in derivative securities relating to the Company s securities.

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Clawback Policy

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

The Prior Say On Pay Vote

The Company conducted its third advisory vote on executive compensation last year at its 2014 Annual Meeting. While this vote was not binding on the Company, its Board of Directors or its Compensation Committee, the Company believes that it is important for its stockholders to have an opportunity to vote on this proposal on an annual basis as a means to express their views regarding the Company s executive compensation philosophy, the Company s compensation policies and programs, and the Company s decisions regarding executive compensation, all as disclosed in this proxy statement. The Company s Board of Directors and its Compensation Committee value the opinions of its stockholders and, to the extent there is any significant vote against the compensation of the Named Executives as disclosed in the proxy statement, the Company will consider its stockholders concerns and the Compensation Committee will evaluate whether any actions are necessary to address those concerns. In addition to the annual advisory vote on executive compensation, the Company discusses with its stockholders executive compensation and corporate governance issues, from time to time, through meetings and telephone calls.

At the 2014 Annual Meeting, more than 93% of the votes cast on the advisory vote on executive compensation proposal (Proposal 3) were in favor of the named executive compensation as disclosed in the proxy statement, and as a result our named executive compensation was approved. The Board of Directors and Compensation Committee reviewed these final vote results and determined that, given the significant level of support, no changes to our executive compensation policies and decisions were necessary at this time based on the vote results.

The Company has determined that its stockholders should vote on a say-on-pay proposal each year, consistent with the preference expressed by its stockholders at the 2012 Annual Meeting. Accordingly, the Company s Board of Directors recommends that you vote FOR Proposal 3 at the Annual Meeting. For more information, see Proposal 3 Advisory Vote to Approve the Compensation of the Company s Named Executives (Say On Pay) in this proxy statement.

Employment Agreements

The Company amended Mr. Weishar s employment agreement in February, 2014 to extend the agreement for three years and provide for continued vesting of his post-2013 incentive awards for other than for cause terminations occurring on or after December 31, 2016, subject to compliance with restrictive covenants. The Company also amended and restated Mr. Froesel s employment agreement in May, 2014 to provide for continued vesting of his post-2013 incentive awards for other than for cause terminations occurring on or after August 1, 2016, subject to compliance with restrictive covenants.

Our Board, based upon the recommendation of our Compensation Committee, approved the Company entering into employment agreements with Messrs Froesel, Vishnubhatla, Caneris and McKay at the time of hire. The purpose of these agreements is to attract and retain each of these individuals given their experience and qualifications to serve the Company in their respective capacities. In addition to providing for compensation opportunities described above and in the following tables and narratives, the employment agreements provide our Named Executives with benefits upon certain terminations of employment. The employment agreements also contain change in control benefits for our Named Executives to encourage them to remain focused on their work responsibilities during the uncertainty that

accompanies a change in control and to provide benefits for a period of time after termination of employment following a change in control. The employment agreements contain post-employment non-competition and non-solicitation agreements for a period of twenty-four months for

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Mr. Weishar and Mr. McKay, eighteen months for Messrs Froesel and Caneris and twelve months for Mr. Vishnubhatla, following the date of termination. The Company believes these agreements are an appropriate method of protecting the Company s business and investment in human capital. The severance levels and benefits were determined through negotiations with the executives. For a description of the material terms of the employment agreements with each of our Named Executives, see Narrative Disclosure to Summary Compensation Table and Grants of Plan Based Awards Table below. Compensation that could potentially be paid to our Named Executives pursuant to the employment agreements upon a change in control is described below in Potential Payments upon Termination or Change in Control.

Tax Deductibility of Compensation

Section 162(m) of the Code restricts deductibility for federal income tax purposes of annual individual compensation in excess of $1.0 million to the CEO and the other Named Executives, other than the Principal Financial Officer, if certain conditions are not fully satisfied. To the extent practicable, we have preserved deductibility of compensation paid to our executive officers. However, the Compensation Committee believes that maintaining flexible compensation programs that attract highly-qualified executives is important, and may, if appropriate, award compensation that is not fully deductible under Section 162(m).

COMPENSATION COMMITTEE REPORT

The Compensation Committee of the Board of Directors hereby reports as follows:

1. The Compensation Committee has reviewed and discussed the Company s Compensation Discussion and Analysis (CD&A) required by Item 402(b) of Regulation S-K with management.

2. Based on the review and discussions referred to in paragraph 1 above, the Compensation Committee recommended to the Board that the CD&A be included in the Company s Proxy Statement for its 2015 Annual Meeting of Stockholders filed with the Securities and Exchange Commission.

The Compensation Committee

Thomas P. Mac Mahon, Chairman

Thomas P. Gerrity, Ph.D.

Patrick G. LePore

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EXECUTIVE COMPENSATION

Summary Compensation Table for 2012 2014

Name and Principal Position	Year	Salary	Bonus	Stock Awards (1)	Option Awards	Non-Equity Incentive Plan Compensation (2)	All Other Compensation (3)	Total
Gregory Weishar	2014	$ 855,021	$	$ 2,515,517	$	$ 1,316,250	$ 22,280	$ 4,709,068
Chief Executive Officer	2013	$ 837,699	$	$ 1,922,278	$	$ 1,218,936	$ 17,940	$ 3,996,853
	2012	$ 807,702	$	$ 1,922,285	$	$ 1,170,691	$ 13,324	$ 3,914,002
David Froesel	2014	$ 494,482	$	$ 857,488	$	$ 466,063	$ 154,497	$ 1,972,530
Executive Vice President and Chief Financial Officer and Treasurer	2013	$ 192,233	$	$ 887,400	$	$ 202,688	$ 17,287	$ 1,299,608
Suresh Vishnubhatla	2014	$ 343,269	$	$ 487,524	$	$ 321,547	$ 11,639	$ 1,163,980
Executive Vice President of	2013	$ 258,928	$	$ 229,508	$	$ 234,700	$ 8,052	$ 731,187
Long-term Care Pharmacy Operations	2012	$ 253,856	$	$ 225,019	$	$ 150,257	$ 8,042	$ 637,174
Thomas Caneris	2014	$ 326,268	$	$ 443,748	$	$ 230,343	$ 12,204	$ 1,012,563
Senior Vice President, General	2013	$ 320,114	$	$ 435,066	$	$ 257,259	$ 11,968	$ 1,024,407
Counsel, Chief Compliance Officer and Secretary	2012	$ 308,651	$	$ 435,061	$	$ 250,810	$ 11,646	$ 1,006,168
Robert McKay	2014	$ 299,892	$	$ 339,856	$	$ 221,954	$ 12,059	$ 873,760
Senior Vice President of	2013	$ 294,187	$	$ 330,288	$	$ 210,544	$ 11,826	$ 846,845
Purchasing and Trade Relations	2012	$ 283,646	$	$ 330,292	$	$ 210,561	$ 10,807	$ 835,306

(1) These amounts represent the aggregate grant date fair value computed in accordance with FASB ASC Topic 718. The assumptions used in calculating the amounts are discussed in Note 10 of the Company s audited financial statements for the year ended December 31, 2014 included in the Company s Annual Report on Form 10-K filed with the SEC on March 2, 2015.

For 2014, 2013 and 2012, stock awards to the Named Executives are made up of restricted stock unit awards and performance share unit awards as follows:

Name	Year	Restricted Stock Units	Performance Share Units
Gregory Weishar	2014	$ 1,257,758	$ 1,257,759
	2013	$ 961,139	$ 961,139
	2012	$ 1,153,371	$ 768,914(4)

David Froesel	2014	$ 428,744	$ 428,744
	2013	$ 887,400	$
Suresh Vishnubhatla	2014	$ 243,762	$ 243,762
	2013	$ 114,754	$ 114,754
	2012	$ 135,009	$ 90,010(4)
Thomas Caneris	2014	$ 221,874	$ 221,874
	2013	$ 217,533	$ 217,533
	2012	$ 261,042	$ 174,019(4)
Robert McKay	2014	$ 169,928	$ 169,928
	2013	$ 165,144	$ 165,144
	2012	$ 198,175	$ 132,117(4)

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

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(2) These amounts represent amounts earned under the Company s short-term incentive program for the fiscal years ended December 31, 2014, 2013 and 2012. The Named Executives had to be employed with the Company on the date of payout to earn the bonuses under the short-term incentive program.

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

Name	Year	401(k) Matching	Life Insurance Premiums	Perquisites	Total
Gregory Weishar	2014	$ 10,400	$ 11,880	$	$ 22,280
	2013	$ 10,200	$ 7,740	$	$ 17,940
	2012	$ 5,517	$ 7,807	$	$ 13,324
David Froesel	2014	$ 6,849	$ 7,888	$ 139,759(5)	$ 154,497
	2013	$	$ 2,590	$ 14,697	$ 17,287
Suresh Vishnubhatla	2014	$ 10,400	$ 1,239	$	$ 11,639
	2013	$ 7,416	$ 635	$	$ 8,052
	2012	$ 7,462	$ 580	$	$ 8,042
Thomas Caneris	2014	$ 10,400	$ 1,804	$	$ 12,204
	2013	$ 10,200	$ 1,768	$	$ 11,968
	2012	$ 10,000	$ 1,646	$	$ 11,646
Robert McKay	2014	$ 10,400	$ 1,659	$	$ 12,059
	2013	$ 10,200	$ 1,626	$	$ 11,826
	2012	$ 9,312	$ 1,495	$	$ 10,807

(4) Under the 2012 long-term incentive award, the company performance criteria for the Chief Executive Officer and Executive Vice Presidents is based 85% on adjusted EBITDA and 15% on an Adjusted Diluted EPS target. For the other Named Executives, the company performance criteria is based on adjusted EBITDA performance. The Company surpassed both the adjusted EBITDA and Adjusted EPS targets under the 2012 Long Term Incentive Program, resulting in payouts of 111.3% of the target amount for both performance metrics. For the Chief Executive Officer and Executive Vice Presidents, the Adjusted EPS target was also surpassed resulting in a payout of 110.4% of the target amount on that portion of the award. Mr. Froesel was not employed by the Company in 2012 and thus was not a participant in the 2012 Long Term Incentive Program. Therefore, for the remaining Named Executives, a payout of performance share units was earned in the following amounts:

	Grant Year	Performance Period Measurement Date	Performance Share Units Granted at Target	Market Value at Grant Date of Target Awards	Performance Share Units Earned	Market Value at Vest Date of Earned Awards
Gregory Weishar	2012	12/31/2014	56,372	$ 768,914	62,236	$ 1,733,273
David Froesel	2012	12/31/2014		$		$

Suresh Vishnubhatla	2012	12/31/2014	6,599	$ 90,010	7,345	$ 204,558
Thomas Caneris	2012	12/31/2014	12,758	$ 174,019	14,200	$ 395,470
Robert McKay	2012	12/31/2014	9,686	$ 132,117	10,781	$ 300,251

(5) The perquisite relates to $84,951 of relocation expenses, plus the $54,808 of the tax gross-up, that was reimbursed by the Company.

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Grants of Plan-Based Awards in 2014

The following table sets forth certain information concerning grants of awards to the Named Executives in the fiscal year ended December 31, 2014.

Name	Grant Date	Estimated Future Payouts Under Non-Equity Incentive Plan Awards (1)			Estimated Future Payouts Under Equity Incentive Plan Awards (2)			All Other Stock Awards: Number of Shares of Stock or Units (3)	Grant Date Fair Value of Stock Awards (4)
		Threshold	Target	Maximum	Threshold	Target	Maximum		
Gregory Weishar									
Short-term Incentive	3/11/2014	$ 459,854	$ 1,069,429	$ 1,633,553					
Long-term Incentive	3/11/2014				25,399	50,798	76,197		$ 1,257,758
Long-term Incentive	3/11/2014							50,798	$ 1,257,759
David Froesel									
Short-term Incentive	3/11/2014	$ 195,055	$ 398,072	$ 584,171					
Long-term Incentive	3/11/2014				8,658	17,316	25,974		$ 428,744
Long-term Incentive	3/11/2014							17,316	$ 428,744
Suresh Vishnubhatla									
Short-term Incentive	3/11/2014	$ 132,870	$ 271,164	$ 397,933					
Long-term Incentive	3/11/2014				4,923	9,845	14,768		$ 243,762
Long-term Incentive	3/11/2014							9,845	$ 243,762
Thomas Caneris									
Short-term Incentive	3/11/2014	$ 148,534	$ 228,514	$ 325,632					
Long-term Incentive	3/11/2014				4,481	8,961	13,441		$ 221,874

Long-term Incentive	3/11/2014							8,961	$ 221,874
Robert McKay									
Short-term Incentive	3/11/2014	$ 126,775	$ 195,039	$ 277,931					
Long-term Incentive	3/11/2014				3,432	6,863	10,295		$ 169,928
Long-term Incentive	3/11/2014							6,863	$ 169,928

(1) With respect to the Named Executives, the amounts in the table represent the estimated possible payouts of cash awards under the formula-based and individual-based component of the Company s 2014 short-term incentive program which is tied to the Company s financial performance and group/individual performance. The Company performance cycle for the 2014 short-term incentive program began on January 1, 2014 and ended on December 31, 2014.

(2) The amounts in the table represent the estimated possible payouts of performance share unit awards under the Company s 2014 long-term incentive program which is tied to the Company s financial performance. The Company s 2014 long-term incentive program is more fully described in the Narrative Disclosure to Summary Compensation Table and Grants of Plan-Based Awards Table section below. The performance cycle for the performance share unit awards granted March 11, 2014 commenced on January 1, 2014 and ends on December 31, 2016.

(3) These restricted stock units were granted under the Company s 2014 long-term incentive program. Restricted stock units granted to Named Executives will vest in three equal annual installments beginning on the first anniversary of the grant date.

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

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

Employment Agreements

During 2012, 2013 and 2014, all of our Named Executives were employed pursuant to employment agreements with the Company. Additional provisions of the employment agreements are set forth in the Compensation Discussion and Analysis.

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Employment Agreement with Mr. Weishar

On February 27, 2014, the Company amended and restated, in a letter agreement (the Employment Agreement) effective as of the same date, Mr. Weishar, our Chief Executive Officer s, employment terms, superseding the previous employment agreements setting forth the terms and conditions of Mr. Weishar s employment, dated September 29, 2010 and January 14, 2007, as amended. The original term of the Employment Agreement ends on December 31, 2016. The Employment Agreement will automatically be extended for successive one-year periods, unless either Mr. Weishar or the Company gives notice of non-renewal to the other at least 120 days before the then-scheduled expiration of the term. The Employment Agreement provides that Mr. Weishar receives a minimum annual base salary of at least $842,000. The Employment Agreement also provides that, for each year during the term, Mr. Weishar, to the extent that the quantitative performance objectives established annually by the Board or the Compensation Committee are met (i) will be eligible to receive a performance-based annual cash bonus with a target payment opportunity equal to at least 125% of his annual base salary , and (ii) will receive long-term incentive grants with an aggregate fair value equal to at least 230% of his annual base salary,

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

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

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

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

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

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

In addition to the foregoing cash payments:

with respect to compensatory stock options, compensatory restricted stock awards, performance-based equity awards and other equity based awards granted prior to January 1, 2011, such awards shall vest and have their restrictions lapse in connection with Mr. Weishar s termination of employment as of the

termination date (except with respect to performance-based equity awards which shall vest as of the end of the applicable performance period). Performance-based equity awards will only vest to the extent applicable performance goals are achieved (disregarding any exercise of negative discretion that is not similarly applied to all senior executive participants). Compensatory stock options shall remain exercisable until the earliest of a Change in Control upon which all other compensatory stock options or similar awards cease to be exercisable, the second anniversary of the termination date or the expiration of their maximum stated term; and

with respect to compensatory stock options, compensatory restricted stock awards, performance-based equity awards and other equity based awards received on or after January 1, 2011 and prior to January 1, 2014, such awards shall vest and have their restrictions lapse in connection with Mr. Weishar s termination of employment as of the termination date (except with respect to performance-based equity awards which shall vest as of the end of the applicable performance period). Performance-based equity awards will only vest to the extent applicable performance goals are achieved (disregarding any exercise of negative discretion that is not similarly applied to all senior executive participants). Compensatory stock options shall remain exercisable until the earliest of a Change in Control upon which all other compensatory stock options or similar awards cease to be exercisable, the second anniversary of the termination date or the expiration of their maximum stated term; and

with respect to compensatory stock options, compensatory restricted stock awards, performance-based equity awards and other equity based awards received on or after January 1, 2014, such awards shall be treated as follows: (i) if the termination date occurs prior to December 31, 2016, each compensatory stock option shall vest before the first anniversary of the termination and remain, exercisable until the earliest of a Change in Control, the ninetieth (90th) day after the termination date, or the expiration of their maximum stated term; (ii) if the Termination Date occurs on or after December 31, 2016, each such compensatory stock option vest and become exercisable in accordance with the employment vesting schedule as if employment hereunder had continued, and shall remain, exercisable until the earliest of a Change in Control, the third anniversary of the termination date, or the expiration of its maximum stated term; (iii) if the termination date occurs prior to December 31, 2016, each such compensatory restricted stock award shall, to the extent that it would have become vested on or before the first anniversary of the termination date if your employment had continued, become fully vested, and its restrictions shall lapse, as of the termination date; (iv) if the termination date occurs on or after December 31, 2016, each such compensatory restricted stock award shall continue to vest in accordance with its original vesting schedule; (v) if the Termination Date occurs prior to December 31, 2016, a pro-rata portion of each such performance-based equity award shall vest and not be forfeitable to the extent applicable performance goals are achieved; (vi) if the termination date occurs on or after December 31, 2016, each such performance-based equity award shall vest and not be forfeitable as of the end of the applicable performance period (in full and without pro-ration) to the extent applicable performance goals are achieved; and

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

Cause is defined as Mr. Weishar s conviction of, or plea of guilty or nolo contendere to, a felony; his commission of intentional acts of gross misconduct (including, without limitation, theft, fraud, embezzlement or dishonesty) that significantly impair the business of the Company or cause significant damage to its property, reputation or business;

his willful refusal to perform, or willful failure to use good faith efforts to perform, material duties that remain uncured for 14 days following written request from the Board for cure; his willful and material breach of any material provision of the Company s code of ethics, or of any other material policy governing the conduct of its employees generally, that remains uncured for 14 days following written request from the Board for cure; or his willful and material breach of the employment agreement that remains uncured for 14 days following written request from the Board for cure.

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

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

with respect to compensatory stock options, compensatory restricted stock awards, performance-based equity awards and other equity based awards granted prior to January 1, 2014, to the extent such awards would have vested, had their restrictions lapse or become exercisable prior to the first anniversary of the termination date, such awards shall vest and have their restrictions lapse in connection with Mr. Weishar s termination of employment as of the termination date. Compensatory stock options shall remain exercisable until the earliest of a Change in Control upon which all other compensatory stock options or similar awards cease to be exercisable, the first anniversary of the termination date or the expiration of their maximum stated term;

each equity compensatory stock option and compensatory restricted stock award granted after January 1, 2014 shall immediately vest. Compensatory stock options shall be exercisable until the expiration of one year from the date of death or disability. Performance-based equity awards granted after January 1, 2014 shall vest based on actual performance with no pro-ration for service; and

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

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

in the case Mr. Weishar s employment is terminated in connection with of the expiration of the agreement s term due to notice of non-renewal by the Company, compensatory stock options, compensatory restricted

stock awards, performance-based equity awards shall be treated as if Mr. Weishar was terminated by the Company without Cause and as explained above;

in the case of Mr. Weishar s employment is terminated in connection with of the expiration of the agreement s term due to his notice of non-renewal, with respect to compensatory stock options (i) received prior to January 1, 2014, shall be, and remain, fully vested as of the termination date and shall be, and remain, fully exercisable until the earliest of a Change in Control, the first anniversary of the termination date, or the expiration of its maximum stated term; and

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In the case Mr. Weishar resigns on or after December 31, 2016, and without Good Reason (whether due by your delivery of written notice of non-renewal or otherwise), each compensatory stock option, compensatory restricted stock award, and each performance-based equity award received on or after January 1, 2014, shall be treated as if Mr. Weishar had resigned with Good Reason, and as explained above.

Change in Control In the event of the termination of Mr. Weishar s employment (a) after the Company has entered into a definitive agreement that would result in a Change in Control (as defined below) and such Change in Control occurs within six (6) months after termination, (b) at the request of a third party who has taken steps reasonably calculated to effect a Change in Control and such Change in Control occurs within six (6) months after termination of employment, or (c) within twenty-four (24) months after a Change in Control, in each case either by the Company without Cause or due Mr. Weishar s resignation with Good Reason then (i) each compensatory stock option received shall become fully vested, and shall be exercisable until the earlier of the second anniversary of the termination date or its maximum stated term; (ii) each compensatory restricted stock award received shall become fully vested, and all contractual restrictions on it shall lapse as of the termination date; (iii) each unvested performance-based equity award received shall also become fully vested, and non-forfeitable to the extent of the target number of shares subject to the award; and (iv) any other equity-based award shall become fully vested and non-forfeitable. Notwithstanding the foregoing, a termination of employment described in clause (a) or (b) above shall have no effect on the vesting of exercisability of any equity-based award granted prior to January 1, 2014.

Change in control is defined as:

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

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

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

during any twelve (12) month period a majority of the individuals who were members of the Board at the beginning of such period (the Incumbent Directors) are replaced, provided that any person becoming a

director subsequent to the beginning of such period whose election or nomination for election was approved by a vote of at least a majority of the Incumbent Directors then on the Board (either by a specific vote or by approval of the proxy statement of the Company in which such person is named as a nominee for director, without written objection to such nomination) shall be an Incumbent Director; or

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

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

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

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

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

Effect of Golden Parachute Tax If the aggregate of payments, awards, benefits and distributions (or any acceleration of any payments, awards, benefits or distributions) due to Mr. Weishar under the employment agreement or under any other plan, program, agreement or arrangement of the Company (or of any of its affiliated entities) or any entity which effectuates a change in control (or any of its affiliated entities) (the 280G benefits), would, if received by him in full and valued under Section 280G of the Code, constitute parachute payments as such term is defined in and under Section 280G of the Code, and the payment the 280G benefits net federal, state and local taxes and excise taxes under Section 4999 of the Code would exceed $1.00 less than three times Mr. Weishar s base amount (as defined under Section 280G), then such payments, benefits and distributions shall be reduced pro rata or eliminated to the extent necessary to ensure that such amounts do not constitute parachute payments. Such payments, benefits and distributions shall be reduced or eliminated in the following order: first, the elimination of cash benefits (other than cash benefits relating to the acceleration of equity awards) which do not constitute deferred compensation under Section 409A of the Code, then all other benefits (other than cash benefits relating to the acceleration of equity awards). To the extent the 280G benefits would not exceed $1.00 less than three times Mr. Weishar s base amount, then they shall not be reduced or eliminated.

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

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

agreement, or being actively planned by the Company as of the date of his termination) in the United States of America.

Non-Solicitation Furthermore, Mr. Weishar agreed that during his employment with the Company and for a one-year period following the termination of his employment that he will not personally (i) other than in the course of performing his duties for the Company or its affiliates, directly or indirectly, for his own account or for the account of any other person, solicit for employment, hire, or otherwise interfere with the relationship of the Company with, any person who is an employee of, or a consultant to, the Company at the time of solicitation, hiring or interference, or (ii) in competition with the Company, directly or indirectly, individually or on behalf of

other persons solicit or seek to do business with any entity which, as of the earlier of the date of termination of his employment or the date of solicitation, was a customer or a client of the Company or was, to his knowledge, being actively solicited by the Company to be a customer or client of the Company.

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

Employment Agreements with Other Named Executives

On May 30, 2014, we entered into an amended and restated employment agreement with Mr. Froesel. On March 22, 2011, we entered into an employment agreement with Mr. Vishnubhatla. On August 7, 2007, we entered into an employment agreement with Mr. Caneris. On July 31, 2007, we entered into an employment agreement with Mr. McKay (Mr. Froesel, Mr. Vishnubhatla, Mr. Caneris and Mr. McKay are collectively referred to in this section as the Executive Officers). Mr. Froesel s amended and restated agreement has an initial term through August 1, 2016, subject to automatic renewal for unlimited one-year periods absent cancellation on 120 days prior written notice by the Company or Mr. Froesel. The agreements of Mr. Vishnubhatla and Mr. Caneris provide for an indefinite term of employment, subject to certain termination of employment described in more detail below. Mr. McKay s employment agreement expired on December 31, 2014 and automatically renews for one year periods unless notice of non-renewal is provided by either party. We refer to the period in which an Executive Officer is employed as the Employment Period .

Pursuant to the terms of their employment agreements, Mr. Froesel, Mr. Vishnubhatla, Mr. Caneris, and Mr. McKay received or receive a minimum base salary of $490,000, $250,000, $250,000 and $250,000 respectively, which is reviewed annually by our Compensation Committee and our Chief Executive Officer.

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

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

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

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

(i) Continued payment for 18 months of the Executive Officer s (12 months of Mr. Vishnubhatla s) then current base salary and (ii) a bonus equal to the average of the annual bonuses earned by the Executive Officer over the three complete years prior to the date of termination (or, if less than three years, the average bonus earned during such shorter period).

In addition to the foregoing cash payments:

For the 18 month period (or the 12 month period for Mr. Vishnubhatla) following the date of termination, will be entitled to receive a waiver of the applicable premium otherwise payable for

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

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

Each outstanding option, restricted stock or other equity award held by the Executive Officer shall become vested to the extent provided for under the terms governing such equity incentive award; provided, however, that Mr. McKay s stock options and restricted stock units that would have become vested or exercisable on or before the third anniversary of the termination date, had his employment continued through such third anniversary, shall become fully vested and exercisable as of such termination date pursuant to the terms of his employment agreement; further provided, that if such termination of Mr. Froesel occurs before August 1, 2016, his then outstanding stock options, restricted stock units and other incentive awards shall become fully vested and exercisable as of such termination date pursuant to the terms of his employment agreement. If such termination of Mr. Froesel s employment occurs on or after August 1, 2016, (i) any outstanding stock option, restricted stock or other equity incentive awards, other than performance-based equity awards, will continue to vest and become exercisable in accordance with the applicable existing vesting schedule as if his employment continued through each vesting date and (ii) performance-based equity awards will fully vest.

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

Cause is generally defined in each of the employment agreements as the Executive Officer s (i) continued failure to substantially perform his duties over a period of not less than 30 days after a demand for substantial performance is delivered by our Board or Chief Executive Officer, (ii) willful misconduct materially and demonstrably injurious to the Company, (iii) commission of or indictment for a misdemeanor which, as determined in good faith by our Board, constitutes a crime of moral turpitude and gives rise to material harm to the Company, (iv) commission of or indictment for a felony, or (v) material breach of his obligations under the employment agreement.

Good Reason is generally defined in each of the employment agreements as (i) any reduction in the Executive Officer s base salary, incentive bonus opportunity or long-term incentive opportunity, other than reductions applicable to all members of senior management or (ii) material failure by the Company to comply with certain provisions of the employment agreement relating to the Executive Officer s position and duties and compensation, other than an isolated, insubstantial or inadvertent failure that is not taken in bad faith and is cured by the Company within 30 days of receipt of written notice thereof from the Executive Officer. For Mr. Vishnubhatla s employment agreement, the definition of Good Reason also includes the relocation of him to a facility or a location more than fifty (50) miles from his then current location. In general, the Company will have 20 days to cure any conduct that gives rise to Good Reason.

Termination for Death or Disability If an Executive Officer s employment is terminated due to his or her death or disability (defined as a condition entitling the Executive Officer to benefits under the Company s long-

term disability plan), the Company shall pay to the Executive Officer (his or her estate), the Accrued Obligations. In addition, if an Executive Officer s employment is terminated due to his or her death, each outstanding option, restricted stock unit or other equity award held by the Executive Officer shall become vested.

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

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

Change in Control means:

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

- a majority of our directors being replaced under certain circumstances;

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

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

In the event that any payments made and/or benefits provided to (or any acceleration of any payments or benefits to) Mr. Caneris in connection with a change in control pursuant to the employment agreement or any other agreement,

plan or arrangement (the Change in Control Payments) are determined to constitute a parachute payment (as such term is defined in Section 280G(b)(2) of the Code) and such Change in Control Payments with respect to Mr. Caneris in the aggregate exceed the amount which can be deducted by us under Section 280G of the Code by (i) less than 10% of the aggregate value of the Change in Control Payments, then the Change in Control Payments shall be reduced to the maximum amount which can be deducted by us or (ii) more than 10% of the aggregate value of the Change in Control Payments, then we shall pay to Mr. Caneris an additional amount which, after the imposition of all income and excise taxes thereon, is equal to the excise tax imposed under Section 4999 of the Code on the Change in Control Payment.
In the event that any Change in

Control Payments to be made or provided to Mr. McKay are determined to subject Mr. McKay to an excise tax under Section 4999 of the Code, then the Change in Control Payments to be made or provided to Mr. McKay shall be limited such that his Change in Control Payments received on an after-tax basis shall be less than the amount that would subject Mr. McKay to such excise tax. Mr. Vishnubhatla s employment agreement does not provide for any adjustments to his Change in Control Payments.

If the aggregate of the Change in Control Payments due to Mr. Froesel under his Employment Agreement or under any other plan, program, agreement or arrangement of the Company (or any of its affiliated entities) or any entity which effectuates a change in control (or any of its affiliated entities) (the 280G Benefits) would, if received by him in full and valued under Section 280G of the Code, constitute parachute payments as such term is defined in and under Section 280G of the Code, and the payment of the 280G benefits after all federal, state and local taxes and excise taxes under Section 4999 of the Code would exceed $1.00 less than three times Mr. Froesel s base amount (as defined under Section 280G), then such Change in Control Payments shall be reduced pro rata or eliminated to the extent necessary to ensure that such amounts do not constitute parachute payments. Such Change in Control Payments shall be reduced or eliminated in the following order: first, the elimination of cash benefits (other than cash benefits relating to the acceleration of equity awards) which do not constitute deferred compensation under Section 409A of the Code, then all other benefits (other than cash benefits relating to the acceleration of equity awards). To the extent the 280G benefits would not exceed $1.00 less than three times Mr. Froesel s base amount, then they shall not be reduced or eliminated. If the reduction of the 280G Benefits would not result in a greater after-tax result to Mr. Froesel, no amounts payable to him shall be reduced.

The determination of whether any payment or benefit to be paid or provided to any Executive Officer constitutes a parachute payment and, if so, the amount to be paid to the officer and the time of payment shall be made by a nationally-recognized independent accounting firm selected and paid for by us.

Each of Mr. Froesel, Mr. McKay, Mr. Vishnubhatla and Mr. Caneris has also agreed to certain confidentiality, non-competition and non-solicitation provisions in their respective employment agreements.

2014 Annual Cash Incentives Mr. Weishar

Pursuant to the Company s 2014 short-term incentive program, the incentive opportunity for Mr. Weishar was based upon on an incentive formula tied to our adjusted EBITDA which is the non-GAAP adjusted EBITDA reported in the Company s Form 10-K except that there shall not be an add-back for stock based and deferred compensation. Adjusted EBITDA was selected as the objective performance criterion because it is critical to focus our Named Executives on earnings and the achievement of cost savings.

Mr. Weishar s incentive formula was 2.2% of adjusted EBITDA for 2014, provided that adjusted EBITDA was at least $114.5 million for the year (but in no event could the incentive exceed $2 million). The Compensation Committee had, and exercised, the authority to reduce the annual amount payable under the EBITDA incentive formula based on its assessment of financial goals (e.g., adjusted EBITDA and Adjusted Diluted EPS) and his individual performance as set forth below in the description of the 2014 Annual Bonus Program.

2014 Annual Bonus Program

Pursuant to the Company s 2014 short-term incentive program, our Named Executives had the opportunity to earn annual cash incentives for meeting annual performance goals and individual performance goals.

For Messrs Weishar, Froesel and Vishnubhatla, annual bonuses are paid based on a combination of company financial performance as measured by adjusted EBITDA, Adjusted Diluted EPS and individual performance relative to pre-established financial and non-financial objectives. The Company must at least meet the threshold level of adjusted EBITDA in order for any payment to be made under the individual/group

performance-based components. Under the program, (i) the bonus of Messrs Weishar, Froesel and Vishnubhatla is based 70% on Company performance (50% adjusted EBITDA and 20% adjusted Diluted EPS) and 30% on individual performance, however, no payments are made under the program if the Company fails to meet the threshold amount under the annual bonus program.

For Messrs Caneris and McKay, annual bonuses are paid based on a combination of company financial performance as measured by adjusted EBITDA and individual performance relative to pre-established financial and non-financial objectives. The Company must at least meet the threshold level of adjusted EBITDA in order for any payment to be made under the individual/group performance-based components. Under the program, (i) the bonus of Messrs Caneris and McKay is based 50% on Company performance and 50% on individual performance; however, no payments are made under the program if the Company fails to meet the threshold amount under the annual bonus program.

For the Company in 2014, $117.1 million of adjusted EBITDA was set as the target for the payment of bonuses. Adjusted EBITDA goals for the Company for threshold and maximum bonuses were $93.7 million and $140.5 million, respectively. For the Company in 2014, $1.39 of adjusted Diluted EPS was set as the target for the payment of bonuses. Adjusted Dilutes EPS goals for the Company for threshold and maximum bonuses were $1.18 and $1.60, respectively.

Target bonus opportunities were expressed as a percentage of base salary and vary among our Named Executives. Mr. Weishar s target annual bonus is equal to 125% of his base salary. In fiscal year 2014, Mr. Froesel, Mr. McKay, Mr. Vishnubhatla and Mr. Caneris were eligible for annual target bonus opportunities (represented as a percentage of base salary) of 80%, 65%, 75% and 70% respectively.

The Company achieved adjusted EBITDA of $122.6 million for the fiscal year ended December 31, 2014 which resulted in total bonuses (reflecting the individual component of the bonus as well) being paid to the Named Executives at a 117.6% pay out level for the Adjusted EBITDA component and adjusted Diluted EPS of $1.50, which resulted in a 126.4% payout for the adjusted Diluted EPS financial component of the award opportunities. Payouts for the individual components for the Named Executives ranged from 84% to 130% of target, resulting in total bonus payments of 101% to 123% of target.

The Named Executives must remain continuously employed full-time by the Company until the award payment date in order to be entitled to receive a payout of an award under the 2014 short-term incentive program.

2014 Long-Term Incentive Program

Pursuant to the Company s 2014 long-term incentive program (the 2014 LTIP), our Named Executives are eligible to receive restricted stock units and performance share unit awards based on pre-established performance objectives and goals. The 2014 LTIP performance criteria for all Named Executives is based 70% on an adjusted EBITDA target and 30% on an adjusted diluted EPS target. The 2014 LTIP performance cycle began on January 1, 2014 and ends on December 31, 2016.

Awards were granted pursuant to the 2014 LTIP to our Named Executives in the following amounts as a percentage of the bonus target: 50% restricted stock units and 50% performance share units. On March 11, 2014, the Board of Directors, upon recommendation of the Compensation Committee, awarded restricted stock units and performance share units under the 2014 LTIP in the following amounts to the following Named Executives:

Name	Year of Grant	Restricted Stock Units	Performance Share Awards
Gregory Weishar	2014	50,798	50,798
David Froesel	2014	17,316	17,316
Suresh Vishnubhatla	2014	9,845	9,845
Thomas Caneris	2014	8,961	8,961
Robert McKay	2014	6,863	6,863

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The restricted stock units granted under the Company s 2014 long-term incentive program will vest in three equal annual installments beginning on the first anniversary of the grant date. In the event of a change in control, acceleration of vesting of restricted stock units will occur if an employee is terminated by the Company without cause or the employee voluntarily terminates employment with good reason during the 24 month period following a change in control (Qualifying Termination). Vesting of restricted stock units will accelerate immediately regardless of a Qualifying Termination if the acquirer does not assume the restricted stock unit awards. If the acquirer assumes the restricted stock unit awards, restricted stock units will continue to vest according to their original vesting schedules; provided that vesting will subsequently accelerate upon a Qualifying Termination within 24 months after the change in control, and unvested restricted stock units would be forfeited upon any other termination (unless otherwise specified by the terms of an employment agreement). With respect to performance share units, in the event of a Qualifying Termination, performance shares units will be converted to time-based restricted stock units at the change in control assuming achievement of 100% of the performance targets. Such restricted stock units will have the same terms of the restricted stock units granted pursuant to the 2014 LTIP and will be deemed to have been granted as of March 11, 2014.

Additional provisions of the 2014 incentive programs are set forth in the Compensation Discussion and Analysis.

Outstanding Equity Awards at December 31, 2014

The following table sets forth certain information regarding equity-based awards of the Company held by the Named Executives as of December 31, 2014.

	Option Awards					**Stock Awards**			
						Restricted Stock Units (1)		**Performance Share Units**	
	Number of Securities Underlying Unexercised Options (#) (1)								
Name	**Exerc-isable**	**Unexercisable (2)**	**Equity Incentive Plan Awards: Number of Securities Underlying Unexercised Unearned Options (#)**	**Option Exercise Price**	**Option Expiration Date**	**Number of Shares or Units of Stock That Have Not Vested (#)**	**Market Value of Shares or Units of Stock That Have Not Vested (#)**	**Equity Incentive Plan Awards: Number of Unearned Shares, Units or Other Rights That Have Not Vested (#)**	**Equity Incentive Plan Awards: Market or Payout Value of Unearned Shares, Units or Other Rights That Have Not Vested ($)**
Gregory Weishar									
2008 LTI Grant	85,500			$ 15.10	3/10/2015		$		$
2009 LTI Grant	166,664			$ 14.89	3/3/2016		$		$
2010 LTI Grant	155,836			$ 18.48	3/16/2017		$		$
2011 LTI Grant	137,100	45,701		$ 10.84	3/25/2018		$		$
2012 LTI Grant				$		28,186	$ 583,732	56,372(3)	$ 1,167,464
2013 LTI Grant				$		44,251	$ 916,438	66,377(4)	$ 1,374,668
2014 LTI Grant				$		50,798	$ 1,052,027	50,798(5)	$ 1,052,027

David Froesel								
2013 LTI Grant			$		40,000	$ 828,400		$
2014 LTI Grant			$		17,316	$ 358,614	17,316(5)	$ 358,614
Suresh Vishnubhatla								
2011 LTI Grant	15,538	5,181	$ 10.84	3/25/2018		$		$
2012 LTI Grant			$		3,299	$ 68,322	6,599(3)	$ 136,665
2013 LTI Grant			$		5,283	$ 109,411	7,925(4)	$ 164,127
2014 LTI Grant			$		9,845	$ 203,890	9,845(5)	$ 203,890
Thomas Caneris								
2009 LTI Grant	25,000		$ 14.89	3/3/2016		$		$
2010 LTI Grant	33,565		$ 18.48	3/16/2017		$		$
2011 LTI Grant		9,588	$ 10.84	3/25/2018		$		$
2012 LTI Grant			$		6,379	$ 132,109	12,758(3)	$ 264,218
2013 LTI Grant			$		10,015	$ 207,411	15,023(4)	$ 311,126
2014 LTI Grant			$		8,961	$ 185,582	8,961(5)	$ 185,582
Robert McKay								
2010 LTI Grant	28,360		$ 18.48	3/16/2017		$		$
2011 STI Grant			$			$		$
2011 LTI Grant	24,546	8,183	$ 10.84	3/25/2018		$		$
2012 LTI Grant			$		4,843	$ 100,299	9,686(3)	$ 200,597
2013 LTI Grant			$		7,603	$ 157,458	11,405(4)	$ 236,198
2014 LTI Grant			$		6,863	$ 142,133	6,863(5)	$ 142,133

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

(2) The unvested options held by the following Named Executives as of December 31, 2014 will vest as follows:

	Unvested Options				
Vesting Date	Mr. Weishar	Mr. Froesel	Mr. Vishnubhatla	Mr. McKay	Mr. Caneris
3/25/2015	45,701		5,181	8,183	9,588

(3) In March 2015, the Company determined that the adjusted EBITDA amount was achieved under the 2012 long-term incentive program. Therefore, a payout of performance share units was earned by the Named Executive as set forth below. Mr. Froesel was not employed by the Company in 2012 and, therefore, did not receive a grant under the 2012 long-term incentive program.

	Grant Year	Performance Period Measurement Date	Performance Share Units Granted at Target	Market Value at Grant Date of Target Awards	Performance Share Units Earned	Market Value at Vest Date of Earned Awards
Gregory Weishar	2012	12/31/2014	56,372	$ 768,914	62,236	$ 1,733,273
David Froesel	2012	12/31/2014		$		$
Suresh Vishnubhatla	2012	12/31/2014	6,599	$ 90,010	7,345	$ 204,558
Thomas Caneris	2012	12/31/2014	12,758	$ 174,019	14,200	$ 395,470
Robert McKay	2012	12/31/2014	9,686	$ 132,117	10,781	$ 300,251

(4) The unearned shares of performance share units held by Mr. Weishar, Mr. Vishnubhatla, Mr. McKay and Mr. Caneris will be earned on December 31, 2015 upon achievement of certain performance targets, provided that Mr. Vishnubhatla, Mr. McKay and Mr. Caneris are respectively employed with the Company on the vesting date in 2016. The terms of vesting of performance share units held by Mr. Weishar are controlled by the terms of his employment agreement.

(5) The unearned shares of performance share units held by Mr. Weishar, Mr. Froesel, Mr. Vishnubhatla, Mr. McKay and Mr. Caneris will be earned on December 31, 2016 upon achievement of certain performance targets, provided that Mr. Vishnubhatla, Mr. McKay and Mr. Caneris are respectively employed with the Company on the vesting date in 2017. The terms of vesting of performance share units held by Mr. Weishar and Mr. Froesel are controlled by the terms of their respective employment agreements.

(6) Restricted Stock Units were granted so that each grant vests ratably over a three year period.

Option Exercises and Stock Vested in 2014

The following table sets forth information regarding each exercise of stock options and all vesting of stock during the year ended December 31, 2014:

	Option Awards			Stock Awards		
Name	**Number of Shares Acquired on Exercise**	**Value Realized on Exercise**		**Number of Shares Acquired on Vesting**	**Value Realized on Vesting**	
Gregory Weishar		$		161,303	$	4,063,298
David Froesel		$		20,000	$	548,400
Suresh Vishnubhatla		$		18,520	$	466,536
Thomas Caneris	65,955	$	920,872	37,419	$	942,143
Robert McKay	57,712	$	612,783	30,860	$	776,939

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Non-Qualified Deferred Compensation Table Fiscal Year 2014

Name	Executive Contributions in Last Fiscal Year (1)		Registrant Contributions in Last Fiscal Year	Aggregate Earnings in Last Fiscal Year		Aggregate Withdrawals/ Distributions		Aggregate Balance at Last Fiscal Year-End (2)	
Gregory Weishar	$	807,040	$	$	423,056	$	(55,728)	$	5,969,072
David Froesel	$		$	$		$		$	
Suresh-Kumar Vishnubhatla	$		$	$		$		$	
Thomas Caneris	$	66,887	$	$	12	$		$	118,609
Robert McKay	$		$	$		$		$	

(1) The amounts in this column are Named Executive elective deferrals representing the deferred portion of base salary otherwise payable in 2014 and reported as compensation in the Summary Compensation Table.

(2) The amounts reported in this column were reported as compensation to the Named Executive Officers as elective deferrals representing the deferred portion of base salary otherwise payable in those years in the respective Summary Compensation Table.

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

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

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

employment is terminated, such participant will receive 100% of his or her account balance, payable in a lump-sum if the account balance is $25,000 or less. In the event a participant dies before retirement or a termination of employment, such participant s beneficiary will receive 100% of the participant s account balance in accordance with the participant s distribution election.

Potential Payments upon Termination or Change-in-Control

The Employment Agreements of the Named Executives require the Company to provide compensation to our Named Executives in the event of certain terminations of employment or a change in control of the

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Company. The employment agreements we entered into with our Named Executives define cause, good reason and change in control for purposes of determining payments upon termination of employment or a change in control of the Company. Please refer to Narrative Disclosure to Summary Compensation Table and Grants of Plan-Based Awards Table Employment Agreements for the definitions of these terms and additional details on the severance and change-in-control provisions that affect our Named Executives.

The estimated payments and benefits that would be provided to each Named Executive as a result of a termination (i) without cause or good reason, (ii) with cause or without good reason, (iii) upon a change in control, (iv) upon death or disability, or (v) due to non-renewal of the employment agreement are set forth in the table below. Calculations for this table are based on the assumption that the termination took place on December 31, 2014, the individual was employed for the full year of fiscal 2014, and the individual did not retire from the Company after age 62 with five years of service. The amounts in the table below do not include payments and benefits to the extent they are provided on a non-discriminatory basis to salaried employees generally upon termination of employment.

Gregory Weishar

	Non-CIC				CIC
Incremental Compensation and Benefit Payments	**Termination by Company Without Cause or Resignation for Good Reason**	**Termination for Cause or Resignation other than for Good Reason**	**Termination for Death or Disability**	**Termination Due to Non-Renewal of Employment Agreement**	**Termination by Company Without Cause or for Good Reason under Employment Agreement**
Severance	$ 4,300,000	$	$	$	$ 5,805,000
Pro-Rata Bonus	$ 1,075,000	$	$ 1,075,000	$	$ 1,075,000
Stock Options Accelerated Vesting	$ 451,061	$	$ 451,061	$ 451,061	$ 451,061
Restricted Stock Accelerated Vesting	$ 1,850,860	$	$ 2,552,204	$ 1,052,027	$ 2,552,204
Performance Shares Accelerated Vesting	$ 2,892,814	$	$ 3,594,159	$ 1,052,027	$ 3,594,159
Outplacement Services	$	$	$	$	$
Health & Welfare Benefits	$ 41,470	$	$ 20,735	$	$ 41,470
Excise Tax Gross Up	$	$	$	$	$
Totals	**$ 10,611,205**	**$**	**$ 7,693,159**	**$ 2,555,114**	**$ 13,518,894**

David Froesel

	Non-CIC				CIC
Incremental Compensation and Benefit Payments	**Termination by Company Without Cause or**	**Termination for Cause or Resignation**	**Termination for Death or Disability**	**Termination due to Non-Renewal of**	**Termination by Company Without Cause or**

	Resignation for Good Reason	other than for Good Reason		Employment Agreement	for Good Reason under Employment Agreement
Severance	$ 1,236,451	$	$	$	$ 1,236,451
Pro-Rata Bonus	$ 400,000	$	$ 400,000	$	$ 400,000
Stock Options Accelerated Vesting	$	$	$	$	$
Restricted Stock Accelerated Vesting	$ 358,614	$	$ 1,187,014	$ 1,187,014	$ 1,187,014
Performance Shares Accelerated Vesting	$ 358,614	$	$ 358,614	$ 358,614	$ 358,614
Outplacement Services	$ 6,000	$	$	$	$ 6,000
Health & Welfare Benefits	$ 30,596	$	$	$	$ 30,596
Excise Tax Gross Up	$	$	$	$	$
Totals	**$** 2,390,275	**$**	**$** 1,945,628	**$** 1,545,628	**$** 3,218,675

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Suresh Vishnubhatla

Incremental Compensation and Benefit Payments	Non-CIC Termination by Company Without Cause or Resignation for Good Reason	Non-CIC Termination for Cause or Resignation other than for Good Reason	Non-CIC Termination for Death or Disability	Non-CIC Termination due to Non-Renewal of Employment Agreement	CIC Termination by Company Without Cause or for Good Reason under Employment Agreement
Severance	$ 520,090	$	$	$	$ 520,090
Pro-Rata Bonus	$ 262,500	$	$ 262,500	$	$ 262,500
Stock Options Accelerated Vesting	$	$	$ 51,124	$	$ 51,124
Restricted Stock Accelerated Vesting	$ 171,628	$	$ 381,630	$	$ 381,630
Performance Shares Accelerated Vesting	$ 67,963	$	$ 504,682	$	$ 504,682
Outplacement Services	$ 6,000	$	$	$	$ 6,000
Health & Welfare Benefits	$ 19,908	$	$	$	$ 19,908
Excise Tax Gross Up	$	$	$	$	$
Totals	**$** 1,048,089	**$**	**$** 1,199,936	**$**	**$** 1,745,934

Thomas Caneris

Incremental Compensation and Benefit Payments	Non-CIC Termination by Company Without Cause or Resignation for Good Reason	Non-CIC Termination for Cause or Resignation other than for Good Reason	Non-CIC Termination for Death or Disability	Non-CIC Termination due to Non-Renewal of Employment Agreement	CIC Termination by Company Without Cause or for Good Reason under Employment Agreement
Severance	$ 747,089	$	$	$	$ 747,089
Pro-Rata Bonus	$ 229,600	$	$ 229,600	$	$ 229,600
Stock Options Accelerated Vesting	$	$	$ 94,634	$	$ 94,634
Restricted Stock Accelerated Vesting	$ 260,749	$	$ 525,116	$	$ 525,116
Performance Shares Accelerated Vesting	$ 61,861	$	$ 760.926	$	$ 760,926
Outplacement Services	$ 6,000	$	$	$	$ 6,000
Health & Welfare Benefits	$ 30,002	$	$	$	$ 30,002
Excise Tax Gross Up/(Cutback)	$	$	$	$	$ (65,640)
Totals	**$** 1,335,301	**$**	**$** 1,610,276	**$**	**$** 2,327,727

Robert McKay

Incremental Compensation and Benefit Payments	Non-CIC Termination by Company Without Cause or Resignation for Good Reason	Termination for Cause or Resignation other than for Good Reason	Termination for Death or Disability	Termination due to Non-Renewal of Employment Agreement	CIC Termination by Company Without Cause or for Good Reason under Employment Agreement
Severance	$ 668,519	$	$	$	$ 668,519
Pro-Rata Bonus	$ 195,975	$	$ 195,975	$	$ 195,975
Stock Options Accelerated Vesting	$ 80,759	$	$ 80,759	$	$ 80,759
Restricted Stock Accelerated Vesting	$ 399,896	$	$ 399,896	$	$ 399,896
Performance Shares Accelerated Vesting	$ 47,378	$	$ 578,928	$	$ 578,928
Outplacement Services	$ 6,000	$	$	$	$ 6,000
Health & Welfare Benefits	$ 28,861	$	$	$	$ 28,861
Excise Tax Gross Up	$	$	$	$	$
Totals	**$** 1,427,388	**$**	**$** 1,255,558	**$**	**$** 1,958,938

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Compensation Policies and Practices as they Relate to Risk Management

In 2014, the Compensation Committee evaluated the Company s compensation policies and practices as they related to risk management practices and risk-taking initiatives. As part of the evaluation, the Committee consider factors, including, but not limited to, (i) the allocation of compensation among base salary and short and long-term compensation target opportunities, (ii) the significant weighting of compensation towards long-term incentive compensation, (iii) the Company s practice of using Company-wide metrics, (iv) the mix of equity award instruments used under the Company s long-term incentive program that includes full value awards, and (v) the multi-year vesting of the Company s equity awards and its share ownership guidelines. In connection with its evaluation, it hired the Company s compensation consultant, Cook, to prepare an assessment of the Company s executive compensation program and management assessed the Company s non-executive incentive compensation programs to determine if any practices might encourage excessive risk taking on the part of our officers and employees. Based on this evaluation, the Compensation Committee believes that the Company s overall compensation practices and approach to goal setting, setting of targets with payouts at multiple levels of performance, and evaluation of performance results for our employees are not reasonably likely to have a material adverse effect on the Company. In addition, the Compensation Committee believes that the mix and design of the elements of executive compensation do not encourage management to assume excessive risks, properly accounts for the time horizon of risk, discourages short-term risk taking, and encourages decision-making that is in the best long-term interests of the Company and its stockholders as a whole.

CERTAIN RELATIONSHIPS AND RELATED PERSON TRANSACTIONS

Related Party Transaction Policy

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

PROPOSAL 2 RATIFICATION OF APPOINTMENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Audit Committee has selected KPMG LLP, or KPMG, to serve as our independent registered public accounting firm for the 2015 fiscal year. The Audit Committee is satisfied with KPMG s reputation in the auditing field, its personnel, its professional qualifications and its independence. KPMG served as our independent registered public accounting firm for 2010-2014. KPMG representatives will attend the Annual Meeting and respond to appropriate questions. Such representatives may make a statement at the Annual Meeting should they so desire.

Recommendation of Our Board of Directors

Our Board recommends a vote FOR the ratification of KPMG to serve as our independent registered public accounting firm for the 2015 fiscal year.

Required Vote

The affirmative vote of at least a majority of the votes of the shares of common stock present, in person or by proxy, at the Annual Meeting is required to approve the ratification of KPMG to serve as our independent registered public accounting firm for the 2015 fiscal year. Although it is not required to submit this proposal to the stockholders for approval, the Board believes it is desirable that an expression of stockholder opinion be solicited and presents the

selection of the independent registered public accounting firm to the stockholders for ratification. Even if the selection of KPMG is ratified by the stockholders, the Audit Committee in its discretion could decide to terminate the engagement of KPMG and engage another firm if the committee determines that this is necessary or desirable.

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Independent Registered Public Accounting Firm Fees

The Audit Committee of the Board of Directors has recommended to the Board the appointment of KPMG to audit the Company s consolidated financial statements and internal control over financial reporting for fiscal 2015, subject to ratification by the stockholders at the Annual Meeting.

The following table sets forth the aggregate fees billed to the Company for the years ended December 31, 2013 and 2014 by its independent registered public accounting firm, KPMG LLP.

Description of Fees	2013	2014
Audit Fees (1)	$ 800,000	$ 921,500
Audit Related Fees		
Tax Fees		
All Other Fees		
Total	$ 800,000	$ 921,500

(1) Audit Fees consist of fees billed for professional services rendered for the audit of the Company s consolidated annual financial statements and review of the interim consolidated financial statements included in quarterly reports and services that are normally provided by our independent registered public accountants in connection with statutory and regulatory filings or engagements.

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

The Audit Committee s charter provides that the Audit Committee will review, and approve in advance, in its sole discretion, all auditing services, internal control related services and permitted non-audit services, including fees and terms, to be performed for the Company by the independent registered public accounting firm, subject to the de minimus exceptions for non-audit services described in Section 10A(i)(l)(B) of the Securities and Exchange Act of 1934, as amended, which are approved by the Audit Committee prior to the completion of the audit. The Audit Committee may form and delegate to sub-committees of one or more members of the Audit Committee its authority to pre-approve audit and permitted non-audit services, including internal control related services, provided that any such sub-committee pre-approvals are presented to the full Audit Committee at the next scheduled Audit Committee meeting. All audit and permitted non-audit services and all fees associated with such services performed by KPMG in fiscal 2014 were approved by the full Audit Committee consistent with the policy described above.

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AUDIT COMMITTEE REPORT

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

During the course of 2014 and the first quarter of 2015, the Audit Committee regularly met and held discussions with management and the independent registered public accounting firm. In the discussions related to the Company s consolidated financial statements for fiscal year 2014, management represented to the Audit Committee that such consolidated financial statements were prepared in accordance with accounting principles generally accepted in the United States. The Audit Committee reviewed and discussed with management and the independent registered public accounting firm the audited consolidated financial statements for fiscal year 2014.

In fulfilling its responsibilities, the Audit Committee discussed with the independent registered public accounting firm the matters that are required to be discussed by the Public Company Accounting Oversight Board Auditing Standard No. 16, *Communications with Audit Committees*. In addition, the Audit Committee received from the independent registered public accounting firm the written disclosures and letter required by Public Company Accounting Oversight Board Ethics and Independence Rule 3526, *Communication with Audit Committees Concerning Independence,* and the Audit Committee discussed with the independent registered public accounting firm that firm s independence. In connection with this discussion, the Audit Committee also considered whether the provision of services by the independent registered public accounting firm not related to the audit of the Company s consolidated financial statements for fiscal year 2013 was compatible with maintaining the independent registered public accounting firm s independence. The Audit Committee s policy requires that the Audit Committee must approve any audit or permitted non-audit service proposed to be performed by its independent registered public accounting firm in advance of the performance of such service.

Based upon the Audit Committee s discussions with management and the independent registered public accounting firm and the Audit Committee s review of the representations of management and the report and written disclosures of the independent registered public accounting firm provided to the Audit Committee, the Audit Committee recommended to the Board that the audited consolidated financial statements as of and for the year ended December 31, 2014 be included in the Company s Annual Report on Form 10-K for filing with the SEC. The Audit Committee also approved, subject to stockholder ratification, the selection of KPMG LLP as the Company s independent registered public accounting firm for the fiscal year ending December 31, 2015.

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

W. Robert Dahl, Jr.

Marjorie W. Dorr

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

Background of the Proposal

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

Say on Pay Proposal

As discussed in the Compensation Discussion and Analysis section of this proxy statement, our executive compensation program is primarily structured to be competitive within the institutional pharmacy industry and focus our executives on profitability, achieving cost savings and providing quality services to our customers and to provide transparency to both our employees and stockholders. The Compensation Committee has adopted a compensation strategy in which total direct compensation is generally targeted at the 40th percentile and is expected to be achieved through a combination of below median base salary and median to above-median annual and long-term incentive opportunities. The Board of Directors believes that our compensation program for our executive officers is appropriately based upon our performance and the individual performance and level of responsibility of the executive officers. We urge you to read the Executive Compensation section of this proxy statement for details on the Company s executive compensation programs.

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

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

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

Recommendation of Our Board of Directors

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

Required Vote

The affirmative vote of at least a majority of the votes of the shares of common stock present, in person or by proxy, at the Annual Meeting is required to approve the Say on Pay proposal. Because the vote on the Say on Pay proposal is advisory, it will not be binding on the Board of Directors or the Company. However, the Compensation Committee will take into account the outcome of the Say on Pay vote when considering future executive compensation arrangements.

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PROPOSAL 4 APPROVAL AND ADOPTION OF THE PHARMERICA CORPORATION S 2015 OMNIBUS INCENTIVE PLAN

Introduction

On April 29, 2015, the Board of Directors unanimously adopted, subject to the approval of our stockholders at the Annual Meeting, the Pharmerica Corporation 2015 Omnibus Incentive Plan (the Plan). If approved by our stockholders, the Plan will become effective and no further awards will be made under the Amended and Restated PharMerica Corporation 2007 Omnibus Incentive Plan (the Prior Plan).

Stockholders are also asked to approve the Plan in order to: (i) qualify certain compensation under the Plan as performance-based compensation for purposes of Section 162(m) of the Internal Revenue Code of 1986, as amended (the Code); (ii) satisfy New York Stock Exchange (NYSE) guidelines relating to equity compensation; and (iii) qualify certain stock options authorized under the Plan for treatment as incentive stock options (ISOs) for purposes of Section 422 of the Code.

The complete text of the Plan is attached as an Appendix to this proxy statement. The following summary of the Plan does not purport to be complete and is qualified in its entirety by reference to said Appendix.

Key Considerations in Adoption of the Plan

Section 162(m) of the Code generally prevents a publicly held corporation from claiming federal income tax deductions for compensation in excess of $1 million paid to certain of its senior executives.

Compensation is exempt from this limitation, however, if it qualifies as performance-based compensation. Our stockholders must re-approve the applicable performance goals set forth in the Prior Plan every five years, and certain other requirements must be satisfied, in order for awards granted under that plan to comply with the performance-based compensation exemption. Our stockholders last approved the performance goals under the Prior Plan in 2010. As a result, in order to maintain the Company s flexibility to structure awards as performance-based compensation, our stockholders would need to re-approve the Prior Plan at the 2015 Annual Meeting. Since the Prior Plan would need to be submitted to stockholders in order to comply with Section 162(m) of the Code, the Board of Directors decided to adopt a new omnibus incentive plan.

We believe that the Plan is needed to maintain flexibility so that we may keep pace with our competitors and effectively attract, motivate and retain the employees, directors and consultants critical to our long-term success.

The Compensation Committee was advised by Cook, its independent compensation consultant, who provided the Compensation Committee with analysis regarding market trends and practices with regards to equity plan share usage rates and overhang levels. The Compensation Committee also considered the Company s historical and expected usage of equity compensation, the number of shares remaining available for issuance under the Prior Plan, the importance of equity compensation to the Company s long-term success and the interests of the Company s stockholders.

Equity Grant Practices

Outstanding Equity Awards. As of December 31, 2014, 941,570 shares subject to full-value awards (that is, awards other than stock options and stock appreciation rights (SARs)) were outstanding and 913,209 shares subject to stock options or SARs were outstanding under the Prior Plan. As of that date, the weighted average exercise price of the outstanding stock options or SARs was $14.62 and the weighted average remaining contractual term for the stock

options and SARs was 2.1.

Burn Rate. Burn rate is a measure that helps indicate the life expectancy of our equity plans and stockholder dilution. We determine our burn rate by dividing the aggregate number of shares of Company common stock

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subject to awards granted during the year by the weighted average shares of common stock outstanding during the year. Our burn rate experience for the past three fiscal years has been as follows:

Year	Burn Rate
2014	1.48%.
2013	1.98%.
2012	2.07%.
Three Year Average	1.84%.

Overhang. Overhang is a measure of the dilutive impact of equity programs. Our overhang is equal to the number of shares of Company common stock subject to outstanding equity awards plus the number of shares available to be granted (numerator), divided by the total shares of Company common stock outstanding plus shares included in the numerator. As of December 31, 2014, the 2,000,000 shares of Company common stock being requested under the Plan would bring our fully diluted overhang to approximately 11.3%, which is within industry norms.

Requested Shares. As of December 31, 2014, 1.7 million shares of our common stock remain available for grant under the Prior Plan. We are requesting the authorization of up to 2,000,000 shares of Company common stock pursuant to the Plan, subject to certain increases and reductions for grants under the Prior Plan. These adjustments are described more fully in the Section entitled Summary of the Plan Plan Limits. Upon stockholder approval of this Proposal 4, no further grants of awards will be made under the Prior Plan. Based on the Plan design and the Company s current grant practices, we believe the requested number of shares will be sufficient to grant awards for approximately 3 years from the date of stockholder approval of the Plan.

Plan Highlights

Some of the key features of the Plan are highlighted below and are more fully described below under the heading Summary of the Plan.

Feature	Description
Limit on Shares Authorized	The Plan will authorize 2,000,000 shares for delivery under equity awards, subject to certain increases and reductions for grants under the Prior Plan.
Annual Limit on Awards to Directors	The Plan provides that no non-employee director may be granted, during any one calendar year, awards with an aggregate grant date fair value (computed in accordance with applicable financial accounting rules), excluding awards made at the election of the director in lieu of a cash-based retainer, of more than $300,000.
Prohibition on Share Recycling on Stock Options and SARs	The Plan prohibits share recycling for stock options and SARs, meaning that shares used to pay the exercise price or tax withholding for those awards are not added back to the share reserve.
No Discounted Stock Options or SARs	The Plan does not permit the use of discounted stock options or SARs, which means that such awards may not have an exercise or base price less than 100% of the fair market value per share of the Company s

	common stock on the date of grant.
No Re-Pricing of Stock Options or SARs; No Reload Awards	The Plan does not permit the repricing of stock options and SARs without stockholder approval. This includes no cash buyouts of underwater options or SARs and no reloads in connection with the exercise of options and SARs.

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Feature	Description
No Liberal Change in Control Definition; No Automatic Single Trigger Vesting	The Plan does not provide a liberal change in control definition. A change in control must actually occur in order for the change in control provisions in the Plan to be triggered. The Plan does not provide for automatic accelerated vesting of awards in the event of a change in control.
No Dividends or Dividend Equivalents on Unvested Performance Awards	Dividends or dividend equivalents paid with respect to awards that vest based on the achievement of performance goals will be accumulated until such award is earned, and the dividends or dividend equivalents shall not be paid if the performance goals are not satisfied.
Administered by an Independent Committee	The Plan will be administered by the Compensation Committee, each member of which qualifies as an independent director under the listing standards of the NYSE.

Summary of the Plan

The following is a summary of the Plan and is qualified in its entirety by reference to the full text of the Plan, which is attached an Appendix to this proxy statement and incorporated herein by reference.

Plan Limits

The maximum number of shares of our common stock that may be granted with respect to awards under the Plan is 2,000,000 shares, reduced by one share for each share granted pursuant to an award under the Prior Plan after December 31, 2014, and increased by (i) shares covered by awards outstanding under the Prior Plan after December 31, 2014 that expire or are forfeited, canceled, surrendered, or otherwise terminated without the issuance of such shares, (ii) shares covered by awards outstanding under the Prior Plan after December 31, 2014 that are settled only in cash, and (iii) shares withheld by the Company or any subsidiary to satisfy a tax withholding obligation with respect to a full value award (an award that is settled by the issuance of shares, other than a stock option or a stock appreciation right) outstanding under the Prior Plan after December 31, 2014. Shares granted pursuant to an award may include authorized but unissued shares, treasury shares, or a combination of the foregoing.

The following shares shall be added back to the number of shares available for grant under the Plan: (i) shares covered by an award that expire or are forfeited, canceled, surrendered, or otherwise terminated without the issuance of such shares; (ii) shares covered by an award that are settled only in cash; and (iii) shares withheld by the Company or any subsidiary to satisfy a tax withholding obligation with respect to full value awards granted pursuant to the Plan. However, shares surrendered for the payment of the exercise price under stock options (or options outstanding under the Prior Plan), shares repurchased by us with option proceeds (or option proceeds under the Prior Plan), and shares withheld for taxes upon exercise or vesting of an award other than a full value award (or an award other than a full value award under the Prior Plan), will not again be available for issuance under the Plan. In addition, if a SAR (or SAR under the Prior Plan) is exercised and settled in shares, all of the shares underlying the SAR will be counted against the Plan limit regardless of the number of shares used to settle the SAR.

The Plan imposes various sub-limits on the number of shares of our common stock that may be granted under the Plan. In order to comply with the rules applicable to ISOs, the Plan provides that 2,000,000 shares may be issued as ISOs. In order to comply with the performance-based exemption from Section 162(m) of the Code, the Plan imposes the following additional individual sub-limits on awards intended to satisfy that exemption:

The maximum aggregate number of shares that may be subject to stock options or SARs granted in any calendar year to any one participant will be 650,000 shares;

The maximum aggregate number of shares of restricted shares and shares subject to restricted share units and other share-based awards granted in any calendar year to any one participant will be 500,000 shares or an amount of cash not in excess of the fair market value of such shares;

The maximum aggregate compensation that can be paid pursuant to cash-based awards granted in any calendar year to any one participant will be $5,000,000; and

The maximum dividend equivalents that may be paid in any calendar year to any one participant will be $500,000 or a number of shares having an aggregate fair market value not in excess of such amount.
Additionally, the Plan provides that no director may be granted, during any one calendar year, awards with an aggregate grant date fair value (computed as of the date of grant in accordance with applicable financial accounting rules), excluding awards made at the election of the director in lieu of all or a portion of annual and committee cash retainers, in excess of $300,000.

Administration

The Plan will be administered by our Compensation Committee or such other committee as our Board of Directors selects consisting of two or more directors, each of whom is intended to be a non-employee director within the meaning of Rule 16b-3 of the Securities Exchange Act of 1934, as amended, an outside director under regulations promulgated under Section 162(m) of the Code, and an independent director under the NYSE rules. The Compensation Committee will have full and final authority in its discretion to take all actions determined to be necessary in the administration of the Plan.

Our Board of Directors may reserve to itself any or all of the authority and responsibility of the Compensation Committee under the Plan or may act as administrator of the Plan for any and all purposes. In addition, to the extent permitted by applicable laws, our Board of Directors or Compensation Committee may expressly delegate to one or more directors or executive officers some or all of the Compensation Committee s authority, within specified parameters, to administer the Plan. The Board of Directors also specifically reserves the exclusive authority to approve and administer all awards under the Plan to directors.

Eligibility

The Plan provides that awards may be granted to our employees (including employees of our subsidiaries), non-employee directors and consultants, except that ISOs may be granted only to employees. Eight non-employee directors and approximately 6,000 employees would currently be eligible to participate in the Plan.

Duration and Modification

The Plan will terminate on April 28, 2025, or such earlier date as our Board of Directors may determine. The Plan will remain in effect for outstanding awards until no awards remain outstanding. The Board of Directors may amend, suspend or terminate the Plan at any time, but stockholder approval is required for any amendment to the extent necessary to comply with the NYSE rules or applicable laws. Currently, the NYSE rules would require stockholder approval for a material amendment of the Plan, which would generally include a material increase in the number of shares available under the Plan; a material increase in benefits to participants, including any material change to permit re-pricing of outstanding options or SARs, or to extend the duration of the Plan; an expansion of the class of participants eligible to participate in the Plan; and any expansion of the types of awards provided under the Plan.

Except as otherwise provided in the Plan, an amendment of the Plan or any award may not adversely affect in a material way any outstanding award without the consent of the affected participant, provided that the Compensation Committee may amend the Plan or any award without a participant s consent to the extent the Compensation Committee deems necessary to comply with applicable law.

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Stock Options

Subject to the restrictions previously noted, our Compensation Committee may, at any time and from time to time, grant stock options to participants in such number as the Compensation Committee determines in its discretion. Stock options may consist of ISOs, non-qualified stock options or any combinations of the foregoing awards.

Stock options provide the right to purchase shares of our common stock at a price not less than their fair market value on the date of grant (which date may not be earlier than the date that the Compensation Committee takes action with respect to such grants). The fair market value of our common stock as reported on the NYSE on April 24, 2015 was $30.50 per share. No stock options may be exercised more than 10 years from the date of grant, except that the period during which the stock option can be exercised will automatically be extended by up to 30 days after the exercise of the stock option first would no longer violate an applicable federal, state, local, or foreign law if, on the scheduled expiration date of the term, the participant cannot exercise the stock option because such an exercise would violate an applicable federal, state, local, or foreign law.

Our Compensation Committee will determine the terms in its discretion, which terms need not be uniform among all option holders. The option price may be paid, in the discretion of the Compensation Committee and as set forth in the applicable award agreement, (i) in cash, (ii) by tendering unrestricted shares of our common stock that are already owned by the option holder and have a value at the time of exercise equal to the option price, (iii) by cashless or broker-assisted exercise, (iv) by any combination of the foregoing methods of payment, or (v) through any other method approved by the Compensation Committee.

Stock Appreciation Rights

Subject to the restrictions previously noted, our Compensation Committee may, at any time and from time to time, grant SARs to participants in such number as the Compensation Committee determines in its discretion. The grant price for each SAR will be determined by the Compensation Committee, in its discretion, and will be at least equal to the fair market value of a share of our common stock on the date of grant. No SAR may be exercised more than 10 years from the date of grant, except that the period during which the SAR can be exercised will automatically be extended by up to 30 days if, on the scheduled expiration date of the term, the participant cannot exercise the SAR because such an exercise would violate an applicable federal, state, local, or foreign law.

Upon the exercise of a SAR, the holder is entitled to receive payment in an amount determined by multiplying (i) the excess of the fair market value of a share of our common stock on the date of exercise over the grant price, by (ii) the number of shares with respect to which the SAR is exercised. Each grant will specify whether the payment will be in cash, shares of our common stock of equivalent value, or in some combination thereof. Our Compensation Committee will determine these terms in its discretion, and these terms need not be uniform among all participants.

Restricted Shares

Subject to the restrictions previously noted, our Compensation Committee may, at any time and from time to time, grant or sell restricted shares to participants in such number as the Compensation Committee determines in its discretion.

An award of restricted shares constitutes an immediate transfer of ownership of a specified number of shares of common stock to the recipient in consideration of the performance of services. Unless otherwise provided by the Compensation Committee, the participant is entitled immediately to voting, dividend and other ownership rights in the shares. However, any right to dividends with respect to restricted shares that vest based on the achievement of

performance objectives (as defined below) will be subject to the same terms and conditions as the restricted shares. The transfer may be made without additional consideration or in consideration of a payment by the recipient that is less than the fair market value per share on the date of grant.

Restricted shares are subject to a substantial risk of forfeiture, within the meaning of Section 83 of the Code, based on continued service, the achievement of performance objectives, or upon the occurrence of other events as determined by our Compensation Committee, at its discretion. In order to enforce these forfeiture provisions, the transferability of restricted shares will be prohibited or restricted in the manner prescribed by the Compensation Committee on the date of grant for the period during which such forfeiture provisions are to continue.

Restricted Share Units

Subject to the restrictions previously noted, our Compensation Committee may, at any time and from time to time, grant or sell restricted share units to participants in such number as the Compensation Committee determines in its discretion.

Restricted share units constitute an agreement to deliver shares of our common stock to the recipient in the future at the end of a restriction period and subject to the fulfillment of such conditions as the Compensation Committee may specify, including the achievement of one or more performance objectives (as described below). To the extent earned, the participant will receive payment of restricted share units at the time and in the manner determined by our Compensation Committee, in cash, shares of common stock, restricted shares, or any combination thereof.

During the restriction period the participant has no right to transfer any rights under his or her award and no right to vote or receive dividends on the shares covered by the restricted share units, but the Compensation Committee may authorize the payment of dividend equivalents with respect to the restricted share units. However, any right to dividend equivalents with respect to restricted share units that vest based on the achievement of performance objectives will be subject to the same terms and conditions as the restricted share units.

Other Share-Based Awards

Subject to the restrictions previously noted, our Compensation Committee may, at any time and from time to time, grant or sell other share-based awards that may be denominated or payable in, valued in whole or in part by reference to, or otherwise based on or related to, shares of our common stock or factors that may influence the value of such shares. For example, the awards may include common shares granted as a bonus, convertible or exchangeable debt securities or other securities, purchase rights for shares, or awards with value and payment contingent upon performance of our Company or our subsidiaries or other factors determined by the Compensation Committee.

The Compensation Committee will determine the terms and conditions of these other share-based awards. Shares of common stock delivered pursuant to these types of awards will be purchased for such consideration, by such methods and in such forms as the Compensation Committee determines. Other share-based awards may be granted with a right to receive dividend equivalents. However, any right to dividend equivalents with respect to another share-based award that vests based on the achievement of performance objectives (as defined below) will be subject to the same terms and conditions as the other share-based award.

Cash-Based Awards

We may also grant cash-based awards under the Plan. A cash-based award gives a participant a right to receive a specified amount of cash, subject to terms and conditions established by the Compensation Committee, which may include continued service and/or the achievement of performance objectives.

Performance Objectives

Subject to the restrictions previously noted, our Compensation Committee may condition the vesting, exercise or settlement of any award upon the achievement of one or more performance objectives. Performance

objectives may be described in terms of the performance of our Company or one or more of its subsidiaries, divisions, departments, units, functions, partnerships, joint ventures or minority investments, product lines or products, or the performance of an individual participant. The performance objectives may be relative to the performance of a group of comparable companies, a published or special index that our Compensation Committee, in its discretion, deems appropriate, or we may also select performance objectives as compared to various stock market indices.

Moreover, the Compensation Committee may designate any restricted share, restricted share unit, other share-based award or cash-based award as a qualified performance-based award in order to make the award fully deductible for federal income tax purposes without regard to the $1 million limit imposed by Section 162(m) of the Code. If an award is so designated, the Compensation Committee must establish objectively determinable performance objectives for the award within certain time limits. Performance objectives for such awards will be based on one or more of the following criteria: return on equity or average equity, diluted earnings per share, total earnings, earnings growth, return on capital or average capital or invested capital, return on assets or net assets, earnings before interest and taxes, EBITDA, EBITDA minus capital expenditures, sales or sales growth, customer or customer growth, traffic, revenue or revenue growth, income or net income, net income before share-based payments, gross margin return on investment, increase in the fair market value of common stock, share price (including, but not limited to, growth measures and total stockholder return), operating profit, gross profit, net earnings, cash flow (including, but not limited to, operating cash flow and free cash flow), cash flow return on investment (which equals net cash flow divided by total capital), capital expenditures, operating expenses, selling, general and administrative expenses, operating income or net operating income, return on investment, inventory turns, return on sales, financial return ratios, total return to stockholders, market share, earnings measures/ratios, economic value added (EVA), balance sheet measurements such as receivable turnover, internal rate of return, increase in net present value, or expense targets, customer satisfaction surveys and productivity. For the avoidance of doubt, any performance objectives that are financial metrics, may be determined in accordance with United States Generally Accepted Accounting Principles (GAAP) if applicable or may be adjusted when established to include or exclude any items otherwise includable or excludable under GAAP.

The Compensation Committee may provide in any award agreement that any evaluation of attainment of a performance objective may include or exclude any of the following events that occurs during the relevant period: (i) asset write downs; (ii) litigation or claim judgments or settlements; (iii) the effect of changes in tax laws, accounting principles or other laws or provisions affecting reported results; (iv) any reorganization and restructuring programs; (v) unusual or infrequently occuring items as described in Financial Accounting Standards Board Accounting Standards Update No. 2015-01 and/or in management s discussion and analysis of financial condition and results of operations appearing in the Company s Annual Report on Form 10-K for the applicable year; (vi) acquisitions or divestitures; and (vii) foreign exchange gains and losses. Such inclusions or exclusions shall be prescribed in an objectively determinable form that meets the requirements of Section 162(m) of the Code for deductibility.

Acceleration of Awards

Our Compensation Committee may in its discretion determine at any time that: (i) all or a portion of a participant s stock options, SARs and other awards in the nature of rights that may be exercised will become fully or partially exercisable; (ii) all or a part of the time-based vesting restrictions on all or a portion of the outstanding awards will lapse; or (iii) any performance-based criteria with respect to any awards will be deemed to be wholly or partially satisfied. Any such decisions by the Compensation Committee need not be uniform among all participants or awards. Unless our Compensation Committee otherwise determines, any such adjustment that is made with respect to an award that is intended to qualify for the performance-based exception of Section 162(m) of the Code will be specified at such times and in such manner as will not cause such awards to fail to qualify under the performance-based

exception. Additionally, the Compensation Committee will not

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make any adjustment that would cause an award that is otherwise exempt from Section 409A of the Code to become subject to Section 409A or that would cause an award that is subject to Section 409A of the Code to fail to satisfy the requirements of Section 409A.

Change in Control

The Compensation Committee may, in its sole discretion, provide that a participant shall be eligible for a full or prorated award in the event that both a change in control and a qualifying termination (without cause or due to a constructive termination) of such participant s employment or other service with the Company occurs or, if the surviving entity in such change in control does not assume, replace or continue the award, solely in the event of the change in control.

A change in control generally means any of the following: (i) the acquisition of 40% or more of the Company s then outstanding common stock or outstanding voting securities; (ii) a change in the membership of our Board of Directors, so that the current incumbents and their approved successors no longer constitute a majority; (iii) consummation of a merger, reorganization or consolidation, or the sale or other disposition of all or substantially all of the Company s assets, unless (A) the owners of our common stock or voting securities own more than 50% of the resulting corporation, (B) no person owns 40% or more of the common stock or voting securities of the resulting corporation (except to the extent owned prior to the transaction), and (C) at least a majority of the board of directors of the resulting corporation are members of our incumbent Board of Directors; or (iv) stockholder approval of the complete liquidation or dissolution of the Company.

Transferability

Except as our Board of Directors or Compensation Committee otherwise determines, awards granted under the Plan will not be transferable by a participant other than by will or the laws of descent and distribution. Except as otherwise determined by our Compensation Committee, any stock options and SARs will be exercisable during a participant s lifetime only by him or her or, in the event of the participant s legal incapacity to do so, by his or her guardian or legal representative. Any award made under the Plan may provide that any shares of common stock issued or transferred as a result of the award will be subject to further restrictions upon transfer.

Adjustments

In the event of any equity restructuring, such as a stock dividend, stock split, spinoff, rights offering or recapitalization through a large, nonrecurring cash dividend, our Compensation Committee will adjust the number and kind of shares that may be delivered under the Plan, the individual award limits, and, with respect to outstanding awards, the number and kind of shares subject to outstanding awards, the exercise price, and the grant price or other price of shares subject to outstanding awards, to prevent dilution or enlargement of rights. In the event of any other change in corporate capitalization, such as a merger, consolidation or liquidation, the Compensation Committee may, in its discretion, cause there to be such equitable adjustment as described in the foregoing sentence, to prevent dilution or enlargement of rights. However, unless otherwise determined by the Compensation Committee, we will always round down to a whole number of shares subject to any award. Any such adjustment will be made by our Compensation Committee, whose determination will be conclusive. Moreover, in the event of any such transaction or event, the Compensation Committee, in its discretion, may provide in substitution for any or all outstanding awards such alternative consideration (including cash) as it, in good faith, may determine to be equitable in the circumstances and may require in connection therewith the surrender of all awards so replaced.

Prohibition on Re-Pricing

Subject to adjustment as described under Adjustments immediately above or in connection with a change in control, the Plan does not permit, without the approval of our stockholders, what is commonly known as the re-pricing of stock options or SARs, including:

- an amendment to reduce the exercise price of any outstanding stock option or base price of any outstanding SAR;
- the cancellation of an outstanding stock option or SAR and replacement with a stock option having a lower exercise price or with a SAR having a lower base price; and
- the cancellation of an underwater stock option or SAR in exchange for cash or another award under the Plan.

Federal Income Tax Consequences

The federal income tax consequences of the Plan under current federal income tax law are summarized in the following discussion which deals with the general tax principles applicable to the Plan and is intended for general information only. The following discussion of federal income tax consequences does not purport to be a complete analysis of all of the potential tax effects of the Plan. It is based upon laws, regulations, rulings and decisions now in effect, all of which are subject to change. The following does not describe alternative minimum tax, other federal taxes, or foreign, state or local income taxes which may vary depending on individual circumstances and from locality to locality. Participants should rely upon their own tax advisors for advice concerning the specific tax consequences applicable to them, including the applicability and effect of state, local and foreign tax laws.

Tax Consequences to Participants

- Nonqualified Stock Options. In general, (i) a participant will not recognize income at the time a nonqualified stock option is granted; (ii) a participant will recognize ordinary income at the time of exercise in an amount equal to the excess of the fair market value of the shares on the date of exercise over the option price paid for the shares; and (iii) at the time of sale of shares acquired pursuant to the exercise of the nonqualified stock option, appreciation (or depreciation) in value of the shares after the date of exercise will be treated as either short-term or long-term capital gain (or loss) depending on how long the shares have been held.
- Incentive Stock Options. A participant will not recognize income at the time an ISO is granted or exercised. However, the excess of the fair market value of the shares on the date of exercise over the option price paid may constitute a preference item for the alternative minimum tax. If shares are issued to the optionee pursuant to the exercise of an ISO, and if no disqualifying disposition of such shares is made by such optionee within two years after the date of the grant or within one year after the issuance of such shares to the optionee, then upon sale of such shares, any amount realized in excess of the option price will be taxed to the optionee as a long-term capital gain and any loss sustained will be a long-term capital loss. If shares acquired upon the exercise of an ISO are disposed of prior to the expiration of either holding period

described above, the optionee generally will recognize ordinary income in the year of disposition in an amount equal to the excess (if any) of the fair market value of such shares as of the time of exercise (or, if less, the amount realized on the disposition of such shares if a sale or exchange) over the option price paid for such shares. Any further gain (or loss) realized by the participant generally will be taxed as short-term or long-term capital gain (or loss) depending on the holding period.

SARs. A participant will not recognize income upon the grant of a SAR. The participant generally will recognize ordinary income when the SAR is exercised in an amount equal to the cash and the fair market value of any unrestricted shares received on the exercise.

Restricted Shares. A participant will not be subject to tax until the restricted shares are no longer subject to forfeiture or restrictions on transfer for purposes of Section 83 of the Code. At that time, the participant will be subject to tax at ordinary income rates on the fair market value of the restricted shares (reduced by any amount paid by the participant for such restricted shares). However, a participant who so elects under Section 83(b) of the Code within 30 days of the date of transfer of the shares will have taxable ordinary income on the date of transfer of the shares equal to the excess of the fair market value of such shares over the purchase price, if any, of such restricted shares. Any appreciation (or depreciation) realized upon a later disposition of such shares will be treated as long-term or short-term capital gain depending upon how long the shares have been held. If a Section 83(b) election has not been made, any dividends received with respect to restricted shares that are subject to forfeiture and restrictions on transfer generally will be treated as compensation that is taxable as ordinary income to the participant.

Restricted Share Units. A participant will not recognize income upon the grant of restricted share units. Upon payment of the awards, the participant generally will recognize ordinary income in an amount equal to the cash and the fair market value of any unrestricted shares received.

Other Share-Based Awards and Cash-Based Awards. A participant generally will recognize ordinary income upon the payment of other share-based awards or cash-based awards in an amount equal to the cash and the fair market value of any unrestricted shares received.

Dividend Equivalents. Any dividend equivalents awarded with respect to awards granted under the Plan and paid in cash or unrestricted shares will be taxed to the participant at ordinary income rates when received by the participant.

Section 409A. The Plan permits the grant of various types of awards that may or may not be exempt from Section 409A of the Code. If an award is subject to Section 409A, and if the requirements of Section 409A are not met, the taxable events as described above could apply earlier than described, and could result in the imposition of additional taxes and penalties.

Tax Consequences to the Company

To the extent that a participant recognizes ordinary income in the circumstances described above, our Company or our subsidiary for which the participant performs services will be entitled to a corresponding compensation deduction provided that, among other things, the compensation meets the test of reasonableness, is an ordinary and necessary business expense, is not an excess parachute payment within the meaning of Section 280G of the Code, and is not disallowed by the $1 million limitation on executive compensation under Section 162(m) of the Code.

New Plan Benefits

Future benefits under the Plan generally will be granted at the discretion of the Compensation Committee and are therefore not currently determinable.

Registration with the SEC

The Company intends to file a Registration Statement on Form S-8 relating to the issuance of shares of common stock under the Plan with the SEC pursuant to the Securities Act of 1933, as amended, as soon as is practicable after approval of the Plan by the Company s stockholders.

Equity Compensation Plan Information

The following table sets forth equity compensation plan information as of December 31, 2014:

Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants and rights (a)	Weighted-average exercise price of outstanding options, warrants and rights (b)	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) (c)
Equity compensation plans approved by stockholders	1,854,779(1)	$ 14.62(2)	2,865,608(3)

(1) Includes the following: 913,209 shares of common stock to be issued upon exercise of outstanding stock options granted under the Omnibus Incentive Plan; 446,833 shares of common stock to be issued upon vesting of performance share units under the Omnibus Incentive Plan; 7,831 shares of common stock to be issued upon vesting of restricted stock awards under the Omnibus Incentive Plan; and 486,906 shares of common stock to be issued upon vesting of restricted stock units under the Omnibus Incentive Plan.

(2) The weighted average exercise price in column (b) does not take into account the 941,570 shares of common stock that may be issued under restricted stock awards, performance share units and restricted stock units.

(3) The 2,865,608 shares does not take into consideration the dilution of 1.65 shares of stock for any full-value award, including restricted stock awards, restricted stock units and performance share units at target. The number of shares remaining available for future issuance calculated under the fungible share pool would be 1,737,623.

Required Vote

The affirmative vote of at least a majority of the votes of the shares of common stock cast for this Proposal 4 is required to approve the Plan; provided that the total vote cast on this Proposal 4 represents over 50% of the outstanding common stock entitled to vote on Proposal 4.

Recommendation of the Board of Directors

Our Board recommends a vote FOR the approval of the Plan.

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SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

Security Ownership of Directors, Management, and Owners of More Than 5% of the Company s Stock

Listed below are the outstanding shares of the Company s common stock beneficially owned as of April 24, 2015 by (i) the Named Executives, (ii) the Company s directors; (iii) the Company s directors and executive officers as a group, and (iv) each person or entity that we know (based on filings of Schedules 13D and 13G with the SEC) to be the beneficial owner of more than 5% of any class of our voting securities. Unless otherwise indicated below, the address of these parties is 1901 Campus Place, Louisville, Kentucky 40299. To our knowledge, except as indicated in the footnotes to this table and pursuant to applicable community property laws, the persons listed in the table have sole investment and voting power with respect to all Company securities owned by them.

As of April 24, 2015, there were 30,388,065 shares of the Company s common stock outstanding. Beneficial ownership is determined in accordance with the rules of the SEC and generally includes voting or investment power with respect to securities. Shares of common stock and restricted stock units, options, warrants and convertible securities that will vest or are currently exercisable or convertible within 60 days of April 24, 2015 into shares of our common stock are deemed to be outstanding and to be beneficially owned by the person holding the restricted stock units, options, warrants or convertible securities for the purpose of computing the percentage ownership of the person.

Name of Beneficial Owner	Amount and Nature of Beneficial Ownership	Percent of Class
Named Executives, Directors and Nominees		
Gregory Weishar (1)(3)	1,199,385	3.95%
David W. Froesel, Jr.	16,331	*
Suresh-Kumar Vishnubhatla (1)	47,509	*
Thomas Caneris (1)	65,121	*
Robert McKay (1)(3)	71,387	*
Geoffrey Meyers (1)(2)	64,046	*
Thomas Mac Mahon (2)(3)	49,709	*
Robert Oakley (1)(2)(3)	43,561	*
Marjorie Dorr (1)(2)	51,956	*
W. Robert Dahl, Jr. (1)(2)	56,909	*
Frank Collins (2)	47,709	*
Thomas Gerrity (2)	44,415	*
Patrick LePore (2)	15,856	*
All directors, nominees and executive officers of the Corporation as a group (15 Persons)	1,789,906	5.89%
Other Security Holders with More Than 5% Ownership		
BlackRock, Inc. (4)	2,890,559	9.51%
Dimensional Fund Advisors LP (5)	2,325,228	7.65%
Ameriprise Financial, Inc. (6)	1,657,383	5.45%

(1)

Includes for the following persons shares of the Company s common stock which may be acquired pursuant to the exercise of vested stock options: Mr. Weishar 505,301, Mr. Vishnubhatla 20,719, Mr. Caneris 9,588, Mr. McKay 8,183, Mr. Dahl, Jr. 9,568, Mrs. Dorr 13,831, Mr. Meyers 29,268.

(2) Includes voting rights over restricted stock as follows: Mr. Collins 4,300, Mr. Gerrity 4,300, Mr. Mac Mahon 4,300, Mr. Oakley 4,300, Mr. Dahl 39,510, Ms. Dorr 31,679, Mr. Meyers 26,786, and Mr. LePore 4,300. Does not include restricted stock units that will vest following a date that is 60 days following April 21, 2015.

(3) Includes for the following persons shares of the Company s common stock which they own through their own investment: Mr. Weishar 123,746, Mr. McKay 7,000, Mr. Mac Mahon 12,000, and Mr. Oakley 3,000.

(4) The shares included in the table are based solely on the Schedule 13G/A filed with the SEC on January 12, 2015, in which BlackRock, Inc. states that it has sole voting power over 2,798,370 shares of the Company s common stock and sole dispositive power over 2,890,559 of the Company s common stock. Its business address is 55 East 52nd Street New York, NY 10022.

(5) The shares included in the table are based solely on the Schedule 13G/A filed with the SEC on February 5, 2015, in which Dimensional Fund Advisors LP states that it has sole voting power over 2,221,731 shares of the Company s common stock and sole dispositive power over 2,325,228 shares of the Company s common stock. Its business address is Building One, 6300 Bee Cave Road, Austin, TX 78746.

(6) The shares included in the table are based solely on the Schedule 13G filed with the SEC on February 13, 2015, in which Ameriprise Financial, Inc. states that it has shared voting power over 104,980 shares of the Company s common stock and shared dispositive power over 1,657,383 shares of the Company s common stock. Its business address is 145 Ameriprise Financial Center, Minneapolis, MN 55474.

GENERAL INFORMATION

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

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

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

Stockholder Proposals for 2016 Annual Meeting

Any stockholder proposal intended to be considered for inclusion in the Company s proxy materials for presentation at the 2016 Annual Meeting of Stockholders must be in writing and received by the Corporate Secretary of the Company not later than January 1, 2016.

Under our By-laws, and as permitted by the rules of the SEC, certain procedures are provided that a stockholder must follow to nominate persons for election as directors or to introduce an item of business at an annual meeting of stockholders. These procedures provide that nominations for director nominees and/or an item of business to be introduced at an annual meeting of stockholders must be submitted in writing to the Secretary of the Company at our principal executive offices. We must receive the notice of your intention to introduce a nomination or to propose an item of business at our 2016 Annual Meeting of Stockholders:

- not fewer than 90 days nor more than 120 days prior to the first anniversary of the preceding year s annual meeting (which will be June 19, 2016); or

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

We must receive notice of your intention to introduce a nomination or other item of business at that meeting not earlier than February 20, 2016 and not later than March 21, 2016. If we do not receive notice during that period, or if

we meet certain other requirements of the SEC rules, the persons named as proxies in the proxy materials relating to that meeting will use their discretion in voting the proxies when these matters are raised at the meeting.

Notice of a proposed item of business must include:

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

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

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

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

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

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

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

Notice of a proposed item of business must include:

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

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

- the reasons for conducting such business at the meeting; and

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

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

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

By Order of the Board of Directors,

GREGORY S. WEISHAR

Chief Executive Officer

Louisville, Kentucky

April 30, 2015

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Annex A

PHARMERICA CORPORATION

2015 OMNIBUS INCENTIVE PLAN

1. Establishment, Purpose, Duration.

(a) Establishment. PharMerica Corporation (the Company), hereby establishes an equity compensation plan to be known as the PharMerica Corporation 2015 Omnibus Incentive Plan (the Plan). The Plan is effective as of April 29, 2015 (the Effective Date), subject to the approval of the Plan by the stockholders of the Company (the date of such stockholder approval being the Approval Date). Definitions of capitalized terms used in the Plan are contained in Section 2 of the Plan.

(b) Purpose. The purpose of the Plan is to attract and retain key Employees, Directors, and Consultants of the Company and its Subsidiaries and to provide to such persons incentives and rewards for superior performance.

(c) Duration. No Award may be granted under the Plan after the day immediately preceding the tenth (10th) anniversary of the Effective Date, or such earlier date as the Board shall determine. The Plan will remain in effect with respect to outstanding Awards until no Awards remain outstanding.

(d) Prior Plan. If the Company s stockholders approve the Plan, the Amended and Restated PharMerica Corporation 2007 Omnibus Incentive Plan (the Prior Plan) will terminate in its entirety effective on the Approval Date; *provided* that all outstanding awards under the Prior Plan as of the Approval Date (Prior Plan Awards) shall remain outstanding and shall be administered and settled in accordance with the provisions of the Prior Plan.

2. Definitions. As used in the Plan, the following definitions shall apply.

Applicable Laws means the applicable requirements relating to the administration of equity-based compensation plans under U.S. state corporate laws, U.S. federal and state securities laws, the Code, the rules of any stock exchange or quotation system on which the Shares are listed or quoted and the applicable laws of any other country or jurisdiction where Awards are granted under the Plan.

Approval Date has the meaning given such term in Section 1(a).

Award means an award of Nonqualified Stock Options, Incentive Stock Options, Stock Appreciation Rights, Restricted Shares, Restricted Share Units, Other Share-Based Awards, or Cash-Based Awards granted pursuant to the terms and conditions of the Plan.

Award Agreement means either: (a) an agreement, either in written or electronic format, entered into by the Company and a Participant setting forth the terms and provisions applicable to an Award granted under the Plan; or (b) a statement, either in written or electronic format, issued by the Company to a Participant describing the terms and provisions of such Award, which need not be signed by the Participant.

Board means the Board of Directors of the Company.

Cash-Based Award means a cash Award granted pursuant to Section 11 of the Plan.

Change in Control means the occurrence of one of the following events:

(a) The acquisition by any individual, entity or group (within the meaning of Section 13(d)(3) or 14(d)(2) of the Exchange Act) (a Person) of beneficial ownership (within the meaning of Rule 13d-3 promulgated under the Exchange Act) of 40% or more of either (x) the then outstanding shares of common stock

of the Company (the Outstanding Common Shares) or (y) the combined voting power of the then outstanding voting securities of the Company entitled to vote generally in the election of Directors (the Outstanding Voting Securities); provided, however, that for purposes of this subsection (a), the following acquisitions shall not constitute a Change in Control: (i) any acquisition directly from the Company; (ii) any acquisition by the Company; (iii) any acquisition by any employee benefit plan (or related trust) sponsored or maintained by the Company or its affiliated companies; or (iv) any acquisition by any corporation pursuant to a transaction which complies with clauses (i), (ii) and (iii) of subsection (c) of this definition; or

(b) Individuals who, as of the Effective Date, constitute the Board (the Incumbent Board) cease for any reason to constitute at least a majority of the Board; provided, however, that any individual becoming a Director subsequent to the Effective Date whose election, or nomination for election by the Company s stockholders, was approved by a vote of at least a majority of the Directors then comprising the Incumbent Board shall be considered as though such individual were a member of the Incumbent Board, but excluding, for this purpose, any such individual whose initial assumption of office occurs as a result of an actual or threatened election contest with respect to the election or removal of Directors or other actual or threatened solicitation of proxies or consents by or on behalf of a Person other than the Board;

(c) Consummation of a reorganization, merger or consolidation or sale or other disposition of all or substantially all of the assets of the Company (a Business Combination), in each case, unless, following such Business Combination, (i) all or substantially all of the individuals and entities who were the beneficial owners, respectively, of the Outstanding Common Shares and Outstanding Voting Securities immediately prior to such Business Combination beneficially own, directly or indirectly, more than 50% of, respectively, the then outstanding shares of common stock and the combined voting power of the then outstanding voting securities entitled to vote generally in the election of Directors, as the case may be, of the corporation resulting from such Business Combination (including, without limitation, a corporation which as a result of such transaction owns the Company or all or substantially all of the Company s assets either directly or through one or more of its affiliated companies) in substantially the same proportions as their ownership, immediately prior to such Business Combination of the Outstanding Common Shares and Outstanding Voting Securities, as the case may be, (ii) no Person (excluding any corporation resulting from such Business Combination or any employee benefit plan (or related trust) of the Company or such corporation resulting from such Business Combination) beneficially owns, directly or indirectly, 40% or more of, respectively, the then outstanding shares of common stock of the corporation resulting from such Business Combination or the combined voting power of the then outstanding voting securities of such corporation except to the extent that such ownership existed prior to the Business Combination and (iii) at least a majority of the members of the board of directors of the corporation resulting from such Business Combination were members of the Incumbent Board at the time of the execution of the initial agreement, or of the action of the Board, providing for such Business Combination; or

(d) Approval by the stockholders of the Company of a complete liquidation or dissolution of the Company.

Code means the Internal Revenue Code of 1986, as amended.

Committee means the Compensation Committee of the Board or such other committee or subcommittee of the Board as may be duly appointed to administer the Plan and having such powers in each instance as shall be specified by the Board. To the extent required by Applicable Laws, the Committee shall consist of two or more members of the Board, each of whom is a non-employee director within the meaning of Rule 16b-3 promulgated under the Exchange Act, an outside director within the meaning of regulations promulgated under Section 162(m) of the Code, and an independent director within the meaning of applicable rules of any securities exchange upon which Shares are listed.

Company has the meaning given such term in Section 1(a) and any successor thereto.

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Consultant means an independent contractor that (a) performs services for the Company or a Subsidiary in a capacity other than as an Employee or Director and (b) qualifies as a consultant under the applicable rules of the SEC for registration of shares on a Form S-8 Registration Statement.

Date of Grant means the date as of which an Award is determined to be effective and designated in a resolution by the Committee and is granted pursuant to the Plan. The Date of Grant shall not be earlier than the date of the resolution and action therein by the Committee. In no event shall the Date of Grant be earlier than the Approval Date.

Director means any individual who is a member of the Board who is not an Employee.

Effective Date has the meaning given such term in Section 1(a).

Employee means any employee of the Company or a Subsidiary; *provided*, *however*, that for purposes of determining whether any person may be a Participant for purposes of any grant of Incentive Stock Options, the term Employee has the meaning given to such term in Section 3401(c) of the Code, as interpreted by the regulations thereunder and Applicable Law.

Exchange Act means the Securities Exchange Act of 1934 and the rules and regulations thereunder, as such law, rules and regulations may be amended from time to time.

Fair Market Value means the value of one Share on any relevant date, determined under the following rules: (a) the closing sale price per Share on that date as reported on the principal exchange on which Shares are then trading, if any, or if applicable the New York Stock Exchange, or if there are no sales on that date, on the next preceding trading day during which a sale occurred; (b) if the Shares are not reported on a principal exchange or national market system, the average of the closing bid and asked prices last quoted on that date by an established quotation service for over-the-counter securities; or (c) if neither (a) nor (b) applies, (i) with respect to Stock Options, Stock Appreciation Rights and any Award of stock rights that is subject to Section 409A of the Code, the value as determined by the Committee through the reasonable application of a reasonable valuation method, taking into account all information material to the value of the Company, within the meaning of Section 409A of the Code, and (ii) with respect to all other Awards, the fair market value as determined by the Committee in good faith.

Full Value Award means an Award that is settled by the issuance of Shares, other than a Stock Option or a Stock Appreciation Right.

Incentive Stock Option means a Stock Option that is designated as an Incentive Stock Option and that is intended to meet the requirements of Section 422 of the Code.

Nonqualified Stock Option means a Stock Option that is not intended to meet the requirements of Section 422 of the Code or otherwise does not meet such requirements.

Other Share-Based Award means an equity-based or equity-related Award not otherwise described by the terms of the Plan, granted in accordance with the terms and conditions set forth in Section 10.

Participant means any eligible individual as set forth in Section 5 who holds one or more outstanding Awards.

Performance-Based Exception means the performance-based exception from the tax deductibility limitations of Section 162(m) of the Code.

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Performance Objectives means the performance objective or objectives established by the Committee pursuant to the Plan. Any Performance Objectives may relate to the performance of the Company or one or more of its Subsidiaries, divisions, departments, units, functions, partnerships, joint ventures or minority investments, product lines or products, or the performance of the individual Participant, and may include, without limitation, the Performance Objectives set forth in Section 13(b). The Performance Objectives may be made relative to the performance of a group of comparable companies, or published or special index that the Committee, in its sole discretion, deems appropriate, or the Company may select Performance Objectives as compared to various stock market indices. Performance Objectives may be stated as a combination of the listed factors. Any Performance Objectives that are financial metrics, may be determined in accordance with United States Generally Accepted Accounting Principles (GAAP) if applicable or may be adjusted when established to include or exclude any items otherwise includable or excludable under GAAP.

Plan has the meaning given such term in Section 1(a), as amended from time to time.

Prior Plan has the meaning given such term in Section 1(d).

Prior Plan Awards has the meaning given such term in Section 1(d).

Restricted Shares means Shares granted or sold pursuant to Section 8 as to which neither the substantial risk of forfeiture nor the prohibition on transfers referred to in such Section 8 has expired.

Restricted Share Units means a grant or sale of the right to receive Shares or cash at the end of a specified restricted period made pursuant to Section 9.

SEC means the United States Securities and Exchange Commission.

Share means a share of common stock of the Company, $0.01 par value per share, or any security into which such Share may be changed by reason of any transaction or event of the type referred to in Section 15.

Stock Appreciation Right means a right granted pursuant to Section 7.

Stock Option means a right to purchase a Share granted to a Participant under the Plan in accordance with the terms and conditions set forth in Section 6. Stock Options may be either Incentive Stock Options or Nonqualified Stock Options.

Subsidiary means: (a) with respect to an Incentive Stock Option, a subsidiary corporation as defined under Section 424(f) of the Code; and (b) for all other purposes under the Plan, any corporation or other entity in which the Company owns, directly or indirectly, a proprietary interest of more than fifty percent (50%) by reason of stock ownership or otherwise.

Substitute Awards means Awards that are granted in assumption of, or in substitution or exchange for, outstanding awards previously granted by an entity acquired directly or indirectly by the Company or with which the Company directly or indirectly combines.

Ten Percent Stockholder means any Participant who owns more than 10% of the combined voting power of all classes of stock of the Company, within the meaning of Section 422 of the Code.

3. Shares Available Under the Plan.

(a) Shares Available for Awards. The maximum number of Shares that may be granted pursuant to Awards under the Plan shall be 2,000,000 Shares, reduced by one Share for each Share granted pursuant to an award under the Prior Plan after December 31, 2014, and increased by (i) Shares covered by awards outstanding

under the Prior Plan after December 31, 2014 that expire or are forfeited, canceled, surrendered, or otherwise terminated without the issuance of such Shares, (ii) Shares covered by awards outstanding under the Prior Plan after December 31, 2014 that are settled only in cash, and (iii) Shares withheld by the Company or any Subsidiary to satisfy a tax withholding obligation with respect to a full value award (an award that is settled by the issuance of Shares, other than a stock option or a stock appreciation right) outstanding under the Prior Plan after December 31, 2014. No more than 2,000,000 Shares may be issued pursuant to Incentive Stock Options. Shares granted pursuant to an Award may be authorized but unissued Shares, treasury Shares, including Shares purchased in the open market, or a combination of the foregoing. The aggregate number of Shares available for grant under the Plan shall be subject to adjustment as provided in Section 15.

(b) Share Counting. The following Shares shall be added back to the number of Shares available for grant in Section 3(a): (i) Shares covered by an Award that expire or are forfeited, canceled, surrendered, or otherwise terminated without the issuance of such Shares; (ii) Shares covered by an Award that are settled only in cash; and (iii) Shares withheld by the Company or any Subsidiary to satisfy a tax withholding obligation with respect to a Full Value Award granted pursuant to the Plan. In addition, Shares granted through Substitute Awards shall not count against the Share limit in Section 3(a) (except as may be required by reason of the rules and regulations of any stock exchange or other trading market on which the Shares are listed). This Section 3(b) shall apply to the number of Shares reserved and available for Incentive Stock Options only to the extent consistent with applicable Treasury Regulations relating to Incentive Stock Options under the Code.

(c) Prohibition of Share Recycling. The following Shares subject to an Award (or an award outstanding under the Prior Plan after December 31, 2014) shall not again be available for grant as described above, regardless of whether those Shares are actually granted to the Participant: (i) Shares tendered in payment of the exercise price of a Stock Option (or a stock option under the Prior Plan); (ii) Shares withheld by the Company or any Subsidiary to satisfy a tax withholding obligation with respect to an Award other than a Full Value Award (or with respect to an award other than a full value award under the Prior Plan); and (iii) Shares that are repurchased by the Company with Stock Option proceeds (or stock option proceeds under the Prior Plan). Without limiting the foregoing, with respect to any Stock Appreciation Right (or any stock appreciation rights outstanding under the Prior Plan after December 31, 2014) that is settled in Shares, the full number of Shares subject to the Award shall count against the number of Shares available for Awards under the Plan regardless of the number of Shares used to settle the Stock Appreciation Right (or stock appreciation right under the Prior Plan) upon exercise.

(d) Per Participant Limits. Subject to adjustment as provided in Section 15 of the Plan, the following limits shall apply with respect to Awards that are intended to qualify for the Performance-Based Exception: (i) the maximum aggregate number of Shares that may be subject to Stock Options or Stock Appreciation Rights granted in any calendar year to any one Participant shall be 650,000 Shares; (ii) the maximum aggregate number of Restricted Shares and Shares issuable or deliverable under Restricted Share Units and Other Share-Based Awards granted in any calendar year to any one Participant shall be 500,000 Shares or an amount of cash not in excess of the Fair Market Value of such Shares; (iii) the maximum aggregate compensation that can be paid pursuant to Cash-Based Awards granted in any calendar year to any one Participant shall be $5,000,000; and (iv) the maximum dividend equivalents that may be paid in any calendar year to any one Participant shall be $500,000 or a number of Shares having an aggregate Fair Market Value not in excess of such amount.

(e) Director Limits. Notwithstanding any other provision of the Plan to the contrary, the aggregate grant date fair value (computed as of the date of grant in accordance with applicable financial accounting rules) of all Awards granted to any Director during any single calendar year (excluding Awards made at the election of the Director in lieu of all or a portion of annual and committee cash retainers) shall not exceed $300,000.

4. Administration of the Plan.

(a) In General. The Plan shall be administered by the Committee. Except as otherwise provided by the Board, the Committee shall have full and final authority in its discretion to take all actions determined by the

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Committee to be necessary in the administration of the Plan, including, without limitation, discretion to: select Award recipients; determine the sizes and types of Awards; determine the terms and conditions of Awards in a manner consistent with the Plan; grant waivers of terms, conditions, restrictions and limitations applicable to any Award, or accelerate the vesting or exercisability of any Award, in a manner consistent with the Plan; construe and interpret the Plan and any Award Agreement or other agreement or instrument entered into under the Plan; establish, amend, or waive rules and regulations for the Plan s administration; and take such other action, not inconsistent with the terms of the Plan, as the Committee deems appropriate. To the extent permitted by Applicable Laws, the Committee may, in its discretion, delegate to one or more Directors or executive officers of the Company any of the Committee s authority under the Plan. The acts of any such delegates shall be treated hereunder as acts of the Committee with respect to any matters so delegated.

(b) Determinations. The Committee shall have no obligation to treat Participants or eligible Participants uniformly, and the Committee may make determinations under the Plan selectively among Participants who receive, or Employees, Directors, or Consultants who are eligible to receive, Awards (whether or not such Participants or eligible Employees, Directors, or Consultants are similarly situated). All determinations and decisions made by the Committee pursuant to the provisions of the Plan and all related orders and resolutions of the Committee shall be final, conclusive and binding on all persons, including the Company, its Subsidiaries, stockholders, Employees, Directors, Consultants, Participants and their estates and beneficiaries.

(c) Authority of the Board. The Board may reserve to itself any or all of the authority or responsibility of the Committee under the Plan or may act as the administrator of the Plan for any and all purposes. To the extent the Board has reserved any such authority or responsibility or during any time that the Board is acting as administrator of the Plan, it shall have all the powers of the Committee hereunder, and any reference herein to the Committee (other than in this Section 4(c)) shall include the Board. To the extent that any action of the Board under the Plan conflicts with any action taken by the Committee, the action of the Board shall control. Without limiting the foregoing, the Board specifically reserves the exclusive authority to approve and administer all Awards granted to Directors under the Plan.

5. Eligibility and Participation. Each Employee, Director, and Consultant is eligible to participate in the Plan. Subject to the provisions of the Plan, the Committee may, from time to time, select from all eligible Employees, Directors, and Consultants those to whom Awards shall be granted and shall determine, in its sole discretion, the nature of any and all terms permissible by Applicable Law and the amount of each Award.

6. Stock Options. Subject to the terms and conditions of the Plan, Stock Options may be granted to Participants in such number, and upon such terms and conditions, as shall be determined by the Committee in its sole discretion.

(a) Award Agreement. Each Stock Option shall be evidenced by an Award Agreement that shall specify the exercise price, the term of the Stock Option, the number of Shares covered by the Stock Option, the conditions upon which the Stock Option shall become vested and exercisable and such other terms and conditions as the Committee shall determine and which are not inconsistent with the terms and conditions of the Plan. The Award Agreement also shall specify whether the Stock Option is intended to be an Incentive Stock Option or a Nonqualified Stock Option.

(b) Exercise Price. The exercise price per Share of a Stock Option shall be determined by the Committee at the time the Stock Option is granted and shall be specified in the related Award Agreement; *provided, however*, that in no event shall the exercise price per Share of any Stock Option (other than a Substitute Award) be less than one hundred percent (100%) of the Fair Market Value of a Share on the Date of Grant.

(c) Term. The term of a Stock Option shall be determined by the Committee and set forth in the related Award Agreement; *provided, however*, that in no event shall the term of any Stock Option exceed ten (10) years

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from its Date of Grant. Notwithstanding the foregoing, the period during which the Stock Option can be exercised will automatically be extended if, on the scheduled expiration date of the term, the Participant cannot exercise the Stock Option because such an exercise would violate an applicable federal, state, local, or foreign law; provided, however, that such period shall not extend beyond 30 days after the exercise of the Stock Option first would no longer violate an applicable federal, state, local, and foreign law.

(d) Exercisability. Stock Options shall become vested and exercisable at such times and upon such terms and conditions as shall be determined by the Committee and set forth in the related Award Agreement. Such terms and conditions may include, without limitation, the satisfaction of (i) performance goals based on one or more Performance Objectives, and (ii) time-based vesting requirements.

(e) Exercise of Stock Options. Except as otherwise provided in the Plan or in a related Award Agreement, a Stock Option may be exercised for all or any portion of the Shares for which it is then exercisable. A Stock Option shall be exercised by the delivery of a notice of exercise to the Company or its designee in a form specified by the Company which sets forth the number of Shares with respect to which the Stock Option is to be exercised and full payment of the exercise price for such Shares. The exercise price of a Stock Option may be paid, in the discretion of the Committee and as set forth in the applicable Award Agreement: (i) in cash or its equivalent; (ii) by tendering (either by actual delivery or attestation) previously acquired Shares having an aggregate Fair Market Value at the time of exercise equal to the aggregate exercise price; (iii) by a cashless exercise (including by withholding Shares deliverable upon exercise and through a broker-assisted arrangement to the extent permitted by Applicable Laws); (iv) by a combination of the methods described in clauses (i), (ii) and/or (iii); or (v) through any other method approved by the Committee in its sole discretion. As soon as practicable after receipt of the notification of exercise and full payment of the exercise price, the Company shall cause the appropriate number of Shares to be issued to the Participant.

(f) Special Rules Applicable to Incentive Stock Options. Notwithstanding any other provision in the Plan to the contrary:

(i) Incentive Stock Options may be granted only to Employees of the Company and its Subsidiaries. The terms and conditions of Incentive Stock Options shall be subject to and comply with the requirements of Section 422 of the Code.

(ii) To the extent that the aggregate Fair Market Value of the Shares (determined as of the Date of Grant) with respect to which an Incentive Stock Option is exercisable for the first time by any Participant during any calendar year (under all plans of the Company and its Subsidiaries) is greater than $100,000 (or such other amount specified in Section 422 of the Code), as calculated under Section 422 of the Code, then the Stock Option shall be treated as a Nonqualified Stock Option.

(iii) No Incentive Stock Option shall be granted to any Participant who, on the Date of Grant, is a Ten Percent Stockholder, unless (x) the exercise price per Share of such Incentive Stock Option is at least one hundred and ten percent (110%) of the Fair Market Value of a Share on the Date of Grant, and (y) the term of such Incentive Stock Option shall not exceed five (5) years from the Date of Grant.

7. Stock Appreciation Rights. Subject to the terms and conditions of the Plan, Stock Appreciation Rights may be granted to Participants in such number, and upon such terms and conditions, as shall be determined by the Committee in its sole discretion.

(a) Award Agreement. Each Stock Appreciation Right shall be evidenced by an Award Agreement that shall specify the exercise price, the term of the Stock Appreciation Right, the number of Shares covered by the Stock Appreciation

Right, the conditions upon which the Stock Appreciation Right shall become vested and exercisable and such other terms and conditions as the Committee shall determine and which are not inconsistent with the terms and conditions of the Plan.

(b) Exercise Price. The exercise price per Share of a Stock Appreciation Right shall be determined by the Committee at the time the Stock Appreciation Right is granted and shall be specified in the related Award Agreement; *provided, however*, that in no event shall the exercise price per Share of any Stock Appreciation Right (other than a Substitute Award) be less than one hundred percent (100%) of the Fair Market Value of a Share on the Date of Grant.

(c) Term. The term of a Stock Appreciation Right shall be determined by the Committee and set forth in the related Award Agreement; *provided, however*, that in no event shall the term of any Stock Appreciation Right exceed ten (10) years from its Date of Grant. Notwithstanding the foregoing, the period during which the Stock Appreciation Right can be exercised will automatically be extended if, on the scheduled expiration date of the term, the Participant cannot exercise the Stock Appreciation Right because such an exercise would violate an applicable federal, state, local, or foreign law; provided, however, that such period shall not extend beyond 30 days after the exercise of the Stock Appreciation Right first would no longer violate an applicable federal, state, local, and foreign law.

(d) Exercisability of Stock Appreciation Rights. A Stock Appreciation Right shall become vested and exercisable at such times and upon such terms and conditions as may be determined by the Committee and set forth in the related Award Agreement. Such terms and conditions may include, without limitation, the satisfaction of (i) performance goals based on one or more Performance Objectives, and (ii) time-based vesting requirements.

(e) Exercise of Stock Appreciation Rights. Except as otherwise provided in the Plan or in a related Award Agreement, a Stock Appreciation Right may be exercised for all or any portion of the Shares for which it is then exercisable. A Stock Appreciation Right shall be exercised by the delivery of a notice of exercise to the Company or its designee in a form specified by the Company which sets forth the number of Shares with respect to which the Stock Appreciation Right is to be exercised. Upon exercise, a Stock Appreciation Right shall entitle a Participant to an amount equal to (a) the excess of (i) the Fair Market Value of a Share on the exercise date over (ii) the exercise price per Share, multiplied by (b) the number of Shares with respect to which the Stock Appreciation Right is exercised. A Stock Appreciation Right may be settled in whole Shares, cash or a combination thereof, as specified by the Committee in the related Award Agreement.

8. Restricted Shares. Subject to the terms and conditions of the Plan, Restricted Shares may be granted or sold to Participants in such number, and upon such terms and conditions, as shall be determined by the Committee in its sole discretion.

(a) Award Agreement. Each Restricted Shares Award shall be evidenced by an Award Agreement that shall specify the number of Restricted Shares, the restricted period(s) applicable to the Restricted Shares, the conditions upon which the restrictions on the Restricted Shares will lapse and such other terms and conditions as the Committee shall determine and which are not inconsistent with the terms and conditions of the Plan.

(b) Terms, Conditions and Restrictions. The Committee shall impose such other terms, conditions and/or restrictions on any Restricted Shares as it may deem advisable, including, without limitation, a requirement that the Participant pay a purchase price for each Restricted Share, restrictions based on the achievement of specific Performance Objectives, time-based restrictions or holding requirements or sale restrictions placed on the Shares by the Company upon vesting of such Restricted Shares. Unless otherwise provided in the related Award Agreement or required by Applicable Law, the restrictions imposed on Restricted Shares shall lapse upon the expiration or termination of the applicable restricted period and the satisfaction of any other applicable terms and conditions.

(c) Custody of Certificates. To the extent deemed appropriate by the Committee, the Company may retain the certificates representing Restricted Shares in the Company s possession until such time as all terms, conditions and/or restrictions applicable to such Shares have been satisfied or lapse.

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(d) Rights Associated with Restricted Shares during Restricted Period. During any restricted period applicable to Restricted Shares: (i) the Restricted Shares may not be sold, transferred, pledged, assigned or otherwise alienated or hypothecated; (ii) unless otherwise provided in the related Award Agreement, the Participant shall be entitled to exercise full voting rights associated with such Restricted Shares; and (iii) the Participant shall be entitled to all dividends and other distributions paid with respect to such Restricted Shares during the restricted period. The Award Agreement may require that receipt of any dividends or other distributions with respect to the Restricted Shares shall be subject to the same terms and conditions as the Restricted Shares with respect to which they are paid. Notwithstanding the preceding sentence, dividends or other distributions with respect to Restricted Shares that vest based on the achievement of Performance Objectives shall be accumulated until such Award is earned, and the dividends or other distributions shall not be paid if the Performance Objectives are not satisfied.

9. Restricted Share Units. Subject to the terms and conditions of the Plan, Restricted Share Units may be granted or sold to Participants in such number, and upon such terms and conditions, as shall be determined by the Committee in its sole discretion.

(a) Award Agreement. Each Restricted Share Unit Award shall be evidenced by an Award Agreement that shall specify the number of units, the restricted period(s) applicable to the Restricted Share Units, the conditions upon which the restrictions on the Restricted Share Units will lapse, the time and method of payment of the Restricted Share Units, and such other terms and conditions as the Committee shall determine and which are not inconsistent with the terms and conditions of the Plan.

(b) Terms, Conditions and Restrictions. The Committee shall impose such other terms, conditions and/or restrictions on any Restricted Share Units as it may deem advisable, including, without limitation, a requirement that the Participant pay a purchase price for each Restricted Share Unit, restrictions based on the achievement of specific Performance Objectives or time-based restrictions or holding requirements.

(c) Form of Settlement. Restricted Share Units may be settled in whole Shares, cash or a combination thereof, as specified by the Committee in the related Award Agreement.

(d) Dividend Equivalents. Restricted Share Units may provide the Participant with dividend equivalents, on either a current or deferred or contingent basis, and either in cash or in additional Shares, as determined by the Committee in its sole discretion and set forth in the related Award Agreement; *provided* that dividend equivalents with respect to Restricted Share Units that vest based on the achievement of Performance Objectives shall be accumulated until such Award is earned, and the dividend equivalents shall not be paid if the Performance Objectives are not satisfied.

10. Other Share-Based Awards. Subject to the terms and conditions of the Plan, Other Share-Based Awards may be granted to Participants in such number, and upon such terms and conditions, as shall be determined by the Committee in its sole discretion. Other Share-Based Awards are Awards that are valued in whole or in part by reference to, or otherwise based on the Fair Market Value of, Shares, and shall be in such form as the Committee shall determine, including without limitation, unrestricted Shares, or time-based or performance-based units that are settled in Shares and/or cash.

(a) Award Agreement. Each Other Share-Based Award shall be evidenced by an Award Agreement that shall specify the terms and conditions upon which the Other Share-Based Award shall become vested, if applicable, the time and method of settlement, the form of settlement and such other terms and conditions as the Committee shall determine and which are not inconsistent with the terms and conditions of the Plan.

(b) Form of Settlement. An Other Share-Based Award may be settled in whole Shares, cash or a combination thereof, as specified by the Committee in the related Award Agreement.

(c) Dividend Equivalents. Other Share-Based Awards may provide the Participant with dividend equivalents, on either a current or deferred or contingent basis, and either in cash or in additional Shares, as determined by the Committee in its sole discretion and set forth in the related Award Agreement; *provided* that dividend equivalents with respect to Other Share-Based Awards that vest based on the achievement of Performance Objectives shall be accumulated until such Award is earned, and the dividend equivalents shall not be paid if the Performance Objectives are not satisfied.

11. Cash-Based Awards. Subject to the terms and conditions of the Plan, Cash-Based Awards may be granted to Participants in such amounts and upon such other terms and conditions as shall be determined by the Committee in its sole discretion. Each Cash-Based Award shall be evidenced by an Award Agreement that shall specify the payment amount or payment range, the time and method of settlement and the other terms and conditions, as applicable, of such Award which may include, without limitation, restrictions based on the achievement of specific Performance Objectives.

12. Compliance with Section 409A. Awards granted under the Plan shall be designed and administered in such a manner that they are either exempt from the application of, or comply with, the requirements of Section 409A of the Code. To the extent that the Committee determines that any award granted under the Plan is subject to Section 409A of the Code, the Award Agreement shall incorporate the terms and conditions necessary to avoid the imposition of an additional tax under Section 409A of the Code upon a Participant. Notwithstanding any other provision of the Plan or any Award Agreement (unless the Award Agreement provides otherwise with specific reference to this Section 12): (a) an Award shall not be granted, deferred, accelerated, extended, paid out, settled, substituted or modified under the Plan in a manner that would result in the imposition of an additional tax under Section 409A of the Code upon a Participant; and (b) if an Award is subject to Section 409A of the Code, and if the Participant holding the award is a specified employee (as defined in Section 409A of the Code, with such classification to be determined in accordance with the methodology established by the Company), then, to the extent required to avoid the imposition of an additional tax under Section 409A of the Code upon a Participant, no distribution or payment of any amount shall be made before the date that is six (6) months following the date of such Participant s separation from service (as defined in Section 409A of the Code) or, if earlier, the date of the Participant s death. Although the Company intends to administer the Plan so that Awards will be exempt from, or will comply with, the requirements of Section 409A of the Code, the Company does not warrant that any Award under the Plan will qualify for favorable tax treatment under Section 409A of the Code or any other provision of federal, state, local, or non-United States law. The Company shall not be liable to any Participant for any tax, interest, or penalties the Participant might owe as a result of the grant, holding, vesting, exercise, or payment of any Award under the Plan.

13. Compliance with Section 162(m).

(a) In General. Notwithstanding anything in the Plan to the contrary, Awards may be granted in a manner that is intended to qualify for the Performance-Based Exception. As determined by the Committee in its sole discretion, the grant, vesting, exercisability and/or settlement of any Restricted Shares, Restricted Share Units, Other Share-Based Awards and Cash-Based Awards intended to qualify for the Performance-Based Exception shall be conditioned on the attainment of one or more Performance Objectives during a performance period established by the Committee and must satisfy the requirements of this Section 13.

(b) Performance Objectives. If an Award is intended to qualify for the Performance-Based Exception, then the Performance Objectives shall be based on specified levels of or growth in one or more of the following criteria: return on equity or average equity, diluted earnings per share, total earnings, earnings growth, return on capital or average capital or invested capital, return on assets or net assets, earnings before interest and taxes, EBITDA, EBITDA minus capital expenditures, sales or sales growth, customer or customer growth, traffic, revenue or revenue growth, income or net income, net income before share-based payments, gross margin return on investment, increase in the fair market

value of common stock, share price (including, but not limited to,

growth measures and total stockholder return), operating profit, gross profit, net earnings, cash flow (including, but not limited to, operating cash flow and free cash flow), cash flow return on investment (which equals net cash flow divided by total capital), capital expenditures, operating expenses, selling, general and administrative expenses, operating income or net operating income, return on investment, inventory turns, return on sales, financial return ratios, total return to stockholders, market share, earnings measures/ratios, economic value added (EVA), balance sheet measurements such as receivable turnover, internal rate of return, increase in net present value, or expense targets, customer satisfaction surveys and productivity.

(c) Adjustments. The Committee may provide in any Award Agreement that any evaluation of attainment of a Performance Objective may include or exclude any of the following events that occurs during the relevant period: (i) asset write downs; (ii) litigation or claim judgments or settlements; (iii) the effect of changes in tax laws, accounting principles or other laws or provisions affecting reported results; (iv) any reorganization and restructuring programs; (v) unusual or infrequently occuring items as described in Financial Accounting Standards Board Accounting Standards Update No. 2015-01 and/or in management s discussion and analysis of financial condition and results of operations appearing in the Company s Annual Report on Form 10-K for the applicable year; (vi) acquisitions or divestitures; and (vii) foreign exchange gains and losses. Such inclusions or exclusions shall be prescribed in an objectively determinable form that meets the requirements of Section 162(m) of the Code for deductibility.

(d) Establishment of Performance Goals. With respect to Awards intended to qualify for the Performance-Based Exception, the Committee shall establish: (i) the applicable Performance Objectives and performance period, and (ii) the formula for computing the payout. Such terms and conditions shall be established in writing while the outcome of the applicable performance period is substantially uncertain, but in no event later than the earlier of: (x) ninety days after the beginning of the applicable performance period; or (y) the expiration of twenty-five percent (25%) of the applicable performance period.

(e) Certification of Performance. With respect to any Award intended to qualify for the Performance-Based Exception, the Committee shall certify in writing whether the applicable Performance Objectives and other material terms imposed on such Award have been satisfied, and, if they have, ascertain the amount of the payout or vesting of the Award. Notwithstanding any other provision of the Plan, payment or vesting of any such Award shall not be made until the Committee certifies in writing that the applicable Performance Objectives and any other material terms of such Award were in fact satisfied in a manner conforming to applicable regulations under Section 162(m) of the Code.

(f) Negative Discretion. With respect to any Award intended to qualify for the Performance-Based Exception, after the date that the Performance Objectives are required to be established in writing pursuant to Section 13(d), the Committee shall not have discretion to increase the amount of compensation that is payable upon achievement of the designated Performance Objectives. However, the Committee may, in its sole discretion, reduce the amount of compensation that is payable upon achievement of the designated Performance Objectives.

14. Transferability. Except as otherwise determined by the Committee, no Award or dividend equivalents paid with respect to any Award shall be transferable by the Participant except by will or the laws of descent and distribution; *provided*, that if so determined by the Committee, each Participant may, in a manner established by the Board or the Committee, designate a beneficiary to exercise the rights of the Participant with respect to any Award upon the death of the Participant and to receive Shares or other property issued or delivered under such Award. Except as otherwise determined by the Committee, Stock Options and Stock Appreciation Rights will be exercisable during a Participant s lifetime only by the Participant or, in the event of the Participant s legal incapacity to do so, by the Participant s guardian or legal representative acting on behalf of the Participant in a fiduciary capacity under state law and/or court supervision.

15. Adjustments. In the event of any equity restructuring (within the meaning of Financial Accounting Standards Board Accounting Standards Codification Topic 718, Compensation Stock Compensation), such as a

stock dividend, stock split, reverse stock split, spinoff, rights offering, or recapitalization through a large, nonrecurring cash dividend, the Committee shall cause there to be an equitable adjustment in the numbers of Shares specified in Section 3 of the Plan and, with respect to outstanding Awards, in the number and kind of Shares subject to outstanding Awards and the exercise price or other price of Shares subject to outstanding Awards, in each case to prevent dilution or enlargement of the rights of Participants. In the event of any other change in corporate capitalization, or in the event of a merger, consolidation, liquidation, or similar transaction, the Committee may, in its sole discretion, cause there to be an equitable adjustment as described in the foregoing sentence, to prevent dilution or enlargement of rights; *provided*, *however*, that, unless otherwise determined by the Committee, the number of Shares subject to any Award shall always be rounded down to a whole number. Moreover, in the event of any such transaction or event, the Committee, in its discretion, may provide in substitution for any or all outstanding Awards such alternative consideration (including cash) as it, in good faith, may determine to be equitable in the circumstances and may require in connection therewith the surrender of all Awards so replaced. Notwithstanding the foregoing, the Committee shall not make any adjustment pursuant to this Section 15 that would (a) cause an Award that is otherwise exempt from Section 409A of the Code to become subject to Section 409A of the Code, or (b) cause an Award that is subject to Section 409A of the Code to fail to satisfy the requirements of Section 409A of the Code. The determination of the Committee as to the foregoing adjustments, if any, shall be conclusive and binding on all Participants and any other persons claiming under or through any Participant.

16. Fractional Shares. The Company shall not be required to issue or deliver any fractional Shares pursuant to the Plan and, unless otherwise provided by the Committee, fractional shares shall be settled in cash.

17. Withholding Taxes. To the extent required by Applicable Law, a Participant shall be required to satisfy, in a manner satisfactory to the Company or Subsidiary, as applicable, any withholding tax obligations that arise by reason of a Stock Option or Stock Appreciation Right exercise, the vesting of or settlement of Shares under an Award, an election pursuant to Section 83(b) of the Code or otherwise with respect to an Award. The Company and its Subsidiaries shall not be required to issue or deliver Shares, make any payment or to recognize the transfer or disposition of Shares until such obligations are satisfied. The Committee may permit or require these obligations to be satisfied by having the Company withhold a portion of the Shares that otherwise would be issued or delivered to a Participant upon exercise of a Stock Option or Stock Appreciation Right or upon the vesting or settlement of an Award, or by tendering Shares previously acquired, in each case having a Fair Market Value equal to the statutorily minimum amount required to be withheld or paid (or such other amount that will not result in adverse accounting consequences for the Company or a Subsidiary). Any such elections are subject to such conditions or procedures as may be established by the Committee and may be subject to disapproval by the Committee.

18. Foreign Employees. Without amending the Plan, the Committee may grant Awards to Participants who are foreign nationals, or who are subject to Applicable Laws of one or more non-United States jurisdictions, on such terms and conditions different from those specified in the Plan as may in the judgment of the Committee be necessary or desirable to foster and promote achievement of the purposes of the Plan, and, in furtherance of such purposes, the Committee may make such modifications, amendments, procedures, and the like as may be necessary or advisable to comply with provisions of Applicable Laws of other countries in which the Company or its Subsidiaries operate or have employees.

19. Change in Control. The Committee may, in its sole discretion and in such manner as it may from time to time prescribe (including, but not by way of limitation, in an Award Agreement or in an individual employment agreement, severance plan or individual severance agreement), provide that a Participant shall be eligible for a full or prorated Award in the event that both a Change in Control and a qualifying termination (without cause or due to a constructive termination) of such Participant s employment or other service with the Company occurs or, if the surviving entity in such Change in Control does not assume, replace or continue the Award in the Change in Control, solely in the event

of the Change in Control. With respect to Awards that are subject to one or more Performance Objectives, the Committee may, in its sole discretion, provide that any such

full or prorated Award will be paid under the provisions of this Section 19 prior to when any or all such Performance Objectives are certified (or without regard to whether they are certified).

20. Amendment, Modification and Termination.

(a) In General. The Board may at any time and from time to time, alter, amend, suspend or terminate the Plan in whole or in part; *provided*, *however*, that no alteration or amendment that requires stockholder approval in order for the Plan to comply with any rule promulgated by the SEC or any securities exchange on which Shares are listed or any other Applicable Laws shall be effective unless such amendment shall be approved by the requisite vote of stockholders of the Company entitled to vote thereon within the time period required under such applicable listing standard or rule.

(b) Adjustments to Outstanding Awards. The Committee may in its sole discretion at any time: (i) provide that all or a portion of a Participant s Stock Options, Stock Appreciation Rights and other Awards in the nature of rights that may be exercised shall become fully or partially exercisable; or (ii) provide that all or a part of the time-based vesting restrictions on all or a portion of the outstanding Awards shall lapse, and/or that any Performance Objectives or other performance-based criteria with respect to any Awards shall be deemed to be wholly or partially satisfied. Unless otherwise determined by the Committee, any such adjustment that is made with respect to an Award that is intended to qualify for the Performance-Based Exception shall be made at such times and in such manner as will not cause such Awards to fail to qualify under the Performance-Based Exception. Additionally, the Committee shall not make any adjustment pursuant to this Section 20(b) that would cause an Award that is otherwise exempt from Section 409A of the Code to become subject to Section 409A of the Code, or that would cause an Award that is subject to Section 409A of the Code to fail to satisfy the requirements of Section 409A of the Code.

(c) Prohibition on Repricing. Except for adjustments made pursuant to Sections 15 or 19, the Committee will not, without the further approval of the stockholders of the Company, authorize the amendment of any outstanding Stock Option or Stock Appreciation Right to reduce the exercise price. No underwater Stock Option or Stock Appreciation Right will be cancelled and replaced with an Award having a lower exercise price, or for another Award, or for cash without further approval of the stockholders of the Company, except as provided in Sections 15 or 19. Furthermore, no Stock Option or Stock Appreciation Right will provide for the payment, at the time of exercise, of a cash bonus or grant or sale of another Award (including a reload award) without further approval of the stockholders of the Company. This Section 20(c) is intended to prohibit the repricing of underwater Stock Options or Stock Appreciation Rights without stockholder approval and will not be construed to prohibit the adjustments provided for in Sections 15 or 19.

(d) Effect on Outstanding Awards. Notwithstanding any other provision of the Plan to the contrary (other than Sections 15, 19, 20(b) and 22(d)), no termination, amendment, suspension, or modification of the Plan or an Award Agreement shall adversely affect in any material way any Award previously granted under the Plan, without the written consent of the Participant holding such Award; *provided* that the Committee may modify an Incentive Stock Option held by a Participant to disqualify such Stock Option from treatment as an incentive stock option under Section 422 of the Code without the Participant s consent.

21. Applicable Laws. The obligations of the Company with respect to Awards under the Plan shall be subject to all Applicable Laws and such approvals by any governmental agencies as the Committee determines may be required. The Plan and each Award Agreement shall be governed by the laws of the State of Delaware, excluding any conflicts or choice of law rule or principle that might otherwise refer construction or interpretation of the Plan to the substantive law of another jurisdiction.

22. Miscellaneous.

(a) Deferral of Awards. Except with respect to Stock Options, Stock Appreciation Rights and Restricted Shares, the Committee may permit Participants to elect to defer the issuance or delivery of Shares or

the settlement of Awards in cash under the Plan pursuant to such rules, procedures or programs as it may establish for purposes of the Plan. The Committee also may provide that deferred issuances and settlements include the payment or crediting of dividend equivalents or interest on the deferral amounts. All elections and deferrals permitted under this provision shall comply with Section 409A of the Code, including setting forth the time and manner of the election (including a compliant time and form of payment), the date on which the election is irrevocable, and whether the election can be changed until the date it is irrevocable.

(b) No Right of Continued Employment. The Plan shall not confer upon any Participant any right with respect to continuance of employment or other service with the Company or any Subsidiary, nor shall it interfere in any way with any right the Company or any Subsidiary would otherwise have to terminate such Participant s employment or other service at any time. No Employee, Director, or Consultant shall have the right to be selected to receive an Award under the Plan, or, having been so selected, to be selected to receive future Awards.

(c) Unfunded, Unsecured Plan. Neither a Participant nor any other person shall, by reason of participation in the Plan, acquire any right or title to any assets, funds or property of the Company or any Subsidiary, including without limitation, any specific funds, assets or other property which the Company or any Subsidiary may set aside in anticipation of any liability under the Plan. A Participant shall have only a contractual right to an Award or the amounts, if any, payable under the Plan, unsecured by any assets of the Company or any Subsidiary, and nothing contained in the Plan shall constitute a guarantee that the assets of the Company or any Subsidiary shall be sufficient to pay any benefits to any person.

(d) Severability. If any provision of the Plan is or becomes invalid, illegal or unenforceable in any jurisdiction, or would disqualify the Plan or any Award under any law deemed applicable by the Committee, such provision shall be construed or deemed amended or limited in scope to conform to Applicable Laws or, in the discretion of the Committee, it shall be stricken and the remainder of the Plan shall remain in full force and effect.

(e) Acceptance of Plan. By accepting any benefit under the Plan, each Participant and each person claiming under or through any such Participant shall be conclusively deemed to have indicated their acceptance and ratification of, and consent to, all of the terms and conditions of the Plan and any action taken under the Plan by the Committee, the Board or the Company, in any case in accordance with the terms and conditions of the Plan.

(f) Successors. All obligations of the Company under the Plan and with respect to Awards shall be binding on any successor to the Company, whether the existence of such successor is the result of a direct or indirect purchase, merger, consolidation, or other event, or a sale or disposition of all or substantially all of the business and/or assets of the Company and references to the Company herein and in any Award Agreements shall be deemed to refer to such successors.

[END OF DOCUMENT]

TO VOTE, MARK BLOCKS BELOW IN BLUE OR BLACK INK AS FOLLOWS: x

KEEP THIS PORTION FOR YOUR RECORDS

DETACH AND RETURN THIS PORTION ONLY

THIS PROXY CARD IS VALID ONLY WHEN SIGNED AND DATED.

The Board of Directors recommends you vote FOR the following:	For All	Withhold All	For All Except	To withhold authority to vote for any individual nominee(s), mark For All Except and write the number(s) of the nominee(s) on the line below.
1. Election of Directors	¨	¨	¨	

Nominees

01 Gregory S. Weishar 02 W. Robert Dahl, Jr. 03 Frank E. Collins, Esq. 04 Thomas P. Mac Mahon 05 Marjorie W. Dorr
06 Thomas P. Gerrity, Ph.D 07 Robert A. Oakley, Ph.D. 08 Geoffrey G. Meyers 09 Patrick G. LePore

The Board of Directors recommends you vote FOR proposals 2, 3 and 4.	For	Against	Abstain
2 PROPOSAL TO RATIFY THE APPOINTMENT OF KPMG LLP AS THE COMPANY S INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM FOR THE FISCAL YEAR ENDING DECEMBER 31, 2015.	¨	¨	¨
3 ADVISORY VOTE TO APPROVE NAMED EXECUTIVE OFFICER COMPENSATION.	¨	¨	¨
4	¨	¨	¨

APPROVE AND ADOPT THE PHARMERICA CORPORATION 2015 OMNIBUS INCENTIVE PLAN.

NOTE: IN THEIR DISCRETION THE PROXIES ARE AUTHORIZED TO VOTE UPON SUCH OTHER BUSINESS AS MAY PROPERLY COME BEFORE THE ANNUAL MEETING, OR ANY POSTPONEMENT OR ADJOURNMENT THEREOF.

For address change/comments, mark here. ¨

(see reverse for instructions)

Please sign exactly as your name(s) appear(s) hereon. When signing as attorney, executor, administrator, or other fiduciary, please give full title as such. Joint owners should each sign personally. All holders must sign. If a corporation or partnership, please sign in full corporate or partnership name, by authorized officer.

Investor Address Line 1

Investor Address Line 2

Investor Address Line 3

Investor Address Line 4

Investor Address Line 5

John Sample

1234 ANYWHERE STREET

ANY CITY, ON A1A 1A1

SHARES

CUSIP #

SEQUENCE #

JOB #

Signature [PLEASE SIGN WITHIN BOX] Date Signature (Joint Owners) Date

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Important Notice Regarding the Availability of Proxy Materials for the Annual Meeting: The Notice & Proxy Statement, Annual Report is/ are available at www.proxyvote.com.

PHARMERICA CORPORATION

1901 Campus Place

Louisville, Kentucky 40299

PROXY

THIS PROXY IS SOLICITED ON BEHALF OF THE BOARD OF DIRECTORS OF THE COMPANY FOR USE AT THE 2015 ANNUAL MEETING OF THE COMPANY S STOCKHOLDERS.

The undersigned stockholder acknowledges receipt of this Notice of Annual Meeting of Stockholders and the Proxy Statement and hereby appoints Gregory S. Weishar and Thomas A. Caneris, or either of them, proxies for the undersigned, each with full power of substitution, to vote all of the undersigned s shares of common stock of PharMerica Corporation (the Company) at the Annual Meeting of Stockholders to be held at the Louisville Marriott Downtown, 280 West Jefferson Street, Louisville, Kentucky 40202, at 9:00 a.m. local time, and at any adjournments or postponements thereof.

THIS PROXY, WHEN PROPERLY EXECUTED, WILL BE VOTED IN THE MANNER DIRECTED HEREIN BY THE UNDERSIGNED STOCKHOLDER. IF NO DIRECTION IS MADE, THIS PROXY WILL BE VOTED FOR PROPOSALS 1, 2, 3 and 4.

Address change / comments:

(If you noted any Address Changes and/or Comments above, please mark corresponding box on the reverse side.)

Continued and to be signed on reverse side

; MARGIN-RIGHT: 0pt" align="right">$ 76,750

$ 62,308

Total Nonperforming Assets as a % of Total Loans, Net and Other Real Estate Owned, Net	1.00%	0.88%

The gross interest income related to non-performing loans, which would have been recorded had these loans been current in accordance with their original terms totaled $1.3 million for the quarter ended December 31, 2008 or $2.5 million since origination. The interest income recognized on nonaccrual loans for the quarter ended December 31, 2008 was $32,000. As of December 31, 2008, there were five loans which RJBank considers to be impaired in the corporate loan portfolio totaling $37.6 million included in nonaccrual loans. In addition, there were two loans which RJBank considers to be impaired in the residential loan portfolio for which $474,000 is included in nonaccrual loans. The Company has established reserves totaling $7.5 million against these seven loans. The average balance of the impaired loans was $36.6 million for the three months ended December 31, 2008. RJBank considers a loan to be impaired when it is probable that it will be unable to collect the scheduled payments of principal or interest when due according to the terms of the loan agreement. Of the $3.1 million in charge-offs related to corporate loans during the quarter ended December 31, 2008, $1.6 million is related to these impaired loans and $1.5 related to a loan secured by property that was subsequently foreclosed and carried in other real estate owned. As of December 31, 2008, four of these impaired loans totaling $14.9 million were classified as a troubled debt restructuring. At the time of this restructuring, RJBank increased its commitment to one of the borrowers by $894,000. As of December 31, 2008 RJBank had commitments to lend an additional $1.6 million to borrowers whose existing loans were classified as troubled debt restructurings.

Changes in the allowance for loan losses at RJBank were as follows:

	Three Months Ended	
	December 31, 2008	December 31, 2007
	($ in 000's)	
Allowance for Loan Losses, Beginning of Period	$ 88,155	$ 47,022
Provision For Loan Losses	24,870	12,820
Charge-Offs:		
Commercial Real Estate Loans	(3,141)	(372)
Residential Mortgage Loans	(3,744)	(214)
Total Charge-Offs	(6,885)	(586)
Total Recoveries	-	-
Net Charge-Offs	(6,885)	(586)
Allowance for Loan Losses, End of Period	$ 106,140	$ 59,256
Net Charge-Offs to Average Bank Loans, Net Outstanding	0.09%	0.01%

The calculation of the allowance is subjective as management segregates the loan portfolio into different homogeneous classes and assigns each class an allowance percentage based on the perceived risk associated with that class of loans. The factors taken into consideration when assigning the reserve percentage to each reserve category

include: estimates of borrower default probabilities and collateral values; trends in delinquencies; volume and terms; changes in geographic distribution, lending policies, local, regional, and national economic conditions; concentrations of credit risk and past loss history. In addition, the Company provides for potential losses inherent in RJBank's unfunded lending commitments using the criteria above, further adjusted for an estimated probability of funding. The provision for loan loss is included in other expenses in the Condensed Consolidated Statements of Income and Comprehensive Income.

Additionally, every residential and consumer loan over 60 days past due is reviewed by RJBank personnel monthly and documented in a written report detailing delinquency information, balances, collection status, appraised value, and other data points. RJBank senior management meets monthly to discuss the status, collection strategy and charge-off/write-down recommendations on every residential or consumer loan over 60 days past due. Generally, loans are charged off when determined by management to be uncollectible. For commercial loans management evaluates all sources of repayment, including the estimated liquidation value of collateral pledged, to determine an amount to be charged off. Commercial real estate and real estate construction loans are charged off to adjusted collateral value based upon current appraisals reduced by anticipated selling costs. Residential loans and consumer loans secured by real estate are charged-off to updated collateral valuations adjusted for anticipated selling expenses.

In addition to the allowance for loan losses shown net of Bank Loans, Net, RJBank had reserves for unfunded lending commitments included in Trade and Other Payables of $8.3 million and $9.2. million at December 31, 2008 and September 30, 2008, respectively.

RJBank's net interest income after provision for loan losses for the quarter ended December 31, 2008 and 2007 was $69.6 million and $22.4 million, respectively.

RJBank originates and purchases portfolios of loans that may or may not include interest only loans that subject the borrower to payment increases over the life of the loan. RJBank does not originate or purchase residential loans that have terms that permit negative amortization features or are option adjustable rate mortgages. RJBank also does not originate or purchase loans with deeply discounted teaser rates.

Loans where borrowers may be subject to payment increases include adjustable rate mortgage loans with terms that initially require payment of interest only; payments may increase significantly when the interest-only period ends and the loan principal begins to amortize. At December 31, 2008 and September 30, 2008, these loans totaled $2.0 billion. These loans are underwritten based on a variety of factors including the borrower's credit history, debt to income ratio, employment, the loan-to-value ("LTV") ratio, and the borrower's disposable income and cash reserves. In instances where the borrower is of lower credit standing, the loans are typically underwritten to have a lower LTV ratio and/or other mitigating factors. Loans with aggregate balances totaling $237.3 million at December 31, 2008 were scheduled to re-price within the next six months. A large percentage of these loans were projected to adjust to a lower payment than the current payment, and this percentage is likely to increase in a falling rate environment.

Management does not believe these loans represent an unusual concentration of risk, as evidenced by low net charge-offs and past due loans. All of these loans are secured by mortgages on one-to-four family residential real estate and are diversified geographically. Interest-only loans are underwritten at the time of application or purchased based on the amortizing payment amount, and borrowers are required to meet stringent parameters regarding debt ratios, LTV levels, and credit score.

High LTV loans include all mortgage loans where the LTV is greater than or equal to 90% and the borrower has not provided other credit support or purchased private mortgage insurance ("PMI"). At December 31, 2008 and September 30, 2008, RJBank held $461,000 and $472,000, respectively, in total outstanding balances for these loans.

NOTE 7 - VARIABLE INTEREST ENTITIES ("VIEs"):

Under the provisions of FIN 46R the Company has determined that Raymond James Employee Investment Funds I and II (the "EIF Funds"), certain entities in which Raymond James Tax Credit Funds, Inc. ("RJTCF") owns variable interests, various partnerships involving real estate, and a trust fund established for employee retention purposes are VIEs. Of these, the Company has determined that the EIF Funds, certain tax credit fund partnerships/LLCs, and the trust fund should be consolidated in the financial statements as the Company is the primary beneficiary.

The EIF Funds are limited partnerships, for which the Company is the general partner, that invest in the merchant banking and private equity activities of the Company and other unaffiliated venture capital limited partnerships. The EIF Funds were established as compensation and retention measures for certain qualified key employees of the Company. The Company makes non-recourse loans to these employees for two-thirds of the purchase price per unit. The loans and applicable interest are to be repaid based on the earnings of the EIF Funds. Given the EIF Funds' purpose and design, the Company is deemed to be the entity/person most closely associated with these VIEs. As a result, the Company is deemed to be the primary beneficiary, and accordingly, consolidates the EIF Funds, which had combined assets of approximately $19.1 million at December 31, 2008. None of those assets act as collateral for any obligations of the EIF Funds. The Company's exposure to loss is limited to its contributions and the non-recourse loans funded to the employee investors, for which their partnership interests serve as collateral. At December 31, 2008

that exposure is approximately $3.4 million.

RJTCF is a wholly owned subsidiary of RJF and is the managing member or general partner in approximately 53 separate tax credit housing funds having one or more investor members or limited partners. These tax credit housing funds are organized as limited liability companies or limited partnerships for the purpose of investing in limited partnerships which purchase and develop low income housing properties qualifying for tax credits. As of December 31, 2008, 51 of these tax credit housing funds are VIEs as defined by FIN 46R, and RJTCF's interest in these tax credit housing funds which are VIEs range from .01% to 99%. The Company's determination of the primary beneficiary of each VIE requires judgment and is based on an analysis of all relevant facts and circumstances, including: (1) the existence of a principal-agency relationship between investor member(s) and managing member, (2) the relationship and significance of the activities of the VIE to each member, (3) each member's exposure to the expected losses of the VIE, and (4) the design of the VIE. In the design of tax credit fund VIEs, the overriding premise is that the investor members invest solely for tax attributes associated with the portfolio of low income housing properties held by the VIE, while the managing member, RJTCF, is responsible for overseeing the operations of the VIE. In instances where there is a single investor member that holds 50% or more of the total investor member tax attributes, the managing member, RJTCF, is not deemed to be the primary beneficiary of such VIEs given that one investor member has the majority of the exposure to the expected losses of the VIE. Conversely, for those tax credit fund VIEs where there is not one single investor member holding a 50% or more interest in the tax attributes, then the managing member, RJTCF, is deemed to be the primary beneficiary of such tax credit fund VIEs.

RJTCF has concluded that it is the primary beneficiary in approximately one-fifth of these tax credit housing funds, and accordingly, consolidates these funds, which have combined assets of approximately $272 million at December 31, 2008. None of those assets act as collateral for any obligations of these funds. The Company's exposure to loss is limited to its investments in, advances to, and receivables due from these funds and at December 31, 2008, that exposure is approximately $30.2 million.

RJTCF is not the primary beneficiary of the remaining tax credit housing funds it determined to be VIEs and accordingly the Company does not consolidate these funds. The Company's exposure to loss is limited to its investments in, advances to, and receivables due from these funds and at December 31, 2008, that exposure is approximately $7.5 million.

The two remaining tax credit housing funds that have been determined not to be VIEs are wholly owned by RJTCF and are included in the Company's consolidated financial statements. At December 31, 2008, only one of these funds had any material activity. These funds typically hold interests in certain tax credit limited partnerships for less than 90 days, or until beneficial interest in the fund is sold to third-parties. These funds had assets of approximately $0.4 million at December 31, 2008, which is also the Company's exposure to losses as of December 31, 2008.

See Note 12 of the Notes to Condensed Consolidated Financial Statements for information regarding the Company's commitments related to RJTCF.

As of December 31, 2008, the Company has a variable interest in several limited partnerships involved in various real estate activities, in which a subsidiary is the general partner. Given that the Company is not entitled to receive the majority of any residual returns and does not have the ability to significantly influence the financial results of these partnerships, the Company is not the primary beneficiary of these VIEs and accordingly does not consolidate these partnerships. These partnerships have assets of approximately $12 million at December 31, 2008. The carrying value of the Company's investment in these partnerships is not material at December 31, 2008.

One of the Company's restricted stock plans is associated with a trust fund which was established through the Company's wholly owned Canadian subsidiary. This trust fund was established and funded to enable the trust fund to acquire Company common stock in the open market to be used to settle restricted stock units granted as a retention vehicle for certain employees of the Canadian subsidiary. Given this trust fund's purpose and design, the Company, through its Canadian subsidiary, is deemed to be the entity/person most closely associated with this VIE. As a result,

the Company is deemed to be the primary beneficiary in accordance with FIN 46R, and accordingly, consolidates this trust fund, which has assets of approximately $12.6 million at December 31, 2008. None of those assets are specifically pledged as collateral for any obligations of the trust fund. The Company's exposure to loss is limited to its contributions to the trust fund and at December 31, 2008, that exposure is approximately $12.6 million.

NOTE 8 - BANK DEPOSITS:

Bank deposits include Negotiable Order of Withdrawal ("NOW") accounts, demand deposits, savings and money market accounts and certificates of deposit. The following table presents a summary of bank deposits at December 31, 2008 and September 30, 2008:

	December 31, 2008		September 30, 2008	
	Balance	Weighted Average Rate (1)	Balance	Weighted Average Rate (1)
	($ in 000's)			
Bank Deposits:				
NOW Accounts	$ 4,857	0.01%	$ 3,402	0.30%
Demand Deposits (Non-Interest Bearing)	2,597	-	2,727	-
Savings and Money Market Accounts	8,559,798	0.01%	8,520,121	1.58%
Certificates of Deposit	225,730	4.10%	248,207	4.12%
Total Bank Deposits	$8,792,982	0.12%	$8,774,457	1.65%

(1) Weighted average rate calculation is based on the actual deposit balances at December 31, 2008 and September 30, 2008, respectively.

RJBank had deposits from RJF executive officers and directors of $650,000 and $401,000 at December 31, 2008 and September 30, 2008, respectively.

Scheduled maturities of certificates of deposit and brokered certificates of deposit at December 31, 2008 and September 30, 2008 were as follows:

	December 31, 2008		September 30, 2008	
	Denominations Greater than or Equal to $100,000	Denominations Less than $100,000	Denominations Greater than or Equal to $100,000	Denominations Less than $100,000
	(in 000's)			
Three Months or Less	$ 13,652	$ 29,784	$ 12,068	$ 25,820
Over Three Through Six Months	5,604	20,344	12,971	27,996
Over Six Through Twelve Months	12,035	32,827	12,336	38,783
Over One Through Two Years	13,044	35,703	14,592	39,672

Over Two Through Three Years	10,942	22,621	11,520	23,039
Over Three Through Four Years	2,109	8,630	2,442	8,853
Over Four Years	8,245	10,190	8,145	9,970
Total	$ 65,631	$ 160,099	$ 74,074	$ 174,133

Interest expense on deposits is summarized as follows:

	Three Months Ended	
	December 31, 2008	December 31, 2007
	(in 000's)	
Certificates of Deposit	$ 2,448	$ 2,816
Money Market, Savings and NOW Accounts	12,635	60,620
Total Interest Expense on Deposits	$ 15,083	$ 63,436

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NOTE 9 – LOANS PAYABLE:

Loans payable at December 31, 2008 and September 30, 2008 are presented below:

	December 31, 2008	September 30, 2008
	(in 000's)	
Short-Term Borrowings:		
Borrowings on Lines of Credit	$ 50,000	$ 200,000
Current Portion of Mortgage Notes Payable	2,694	2,891
Federal Home Loan Bank Advances	-	1,900,000
Total Short-Term Borrowings	52,694	2,102,891
Long-Term Borrowings:		
Mortgage Notes Payable	58,584	59,333
Federal Home Loan Bank Advances	50,000	50,000
Total Long-Term Borrowings	108,584	109,333
Total Loans Payable	$ 161,278	$ 2,212,224

At December 31, 2008, the Company maintained three 364-day committed and several uncommitted financing arrangements denominated in U.S. dollars and one uncommitted line of credit denominated in Canadian dollars (“CDN”). At December 31, 2008, the aggregate domestic facilities were $945.1 million and the Canadian line of credit was CDN $40 million. Lenders are under no obligation to lend to the Company under uncommitted lines and there have been several recent instances where they were unwilling to do so.

On January 8, 2009, RJF amended its revolving credit agreement with JPMorgan Chase Bank and three other commercial banks. The amendment extended the facility termination date until January 22, 2009 and continued the aggregate commitment of the lenders at $50 million, the amount of loans then currently outstanding under the agreement. RJF repaid the outstanding loan balance on the facility termination date. On February 6, 2009, RJF closed on a new $100 million unsecured revolving credit agreement. Drawings on this line are subject to the Company’s receipt of approval from the U.S. Treasury to participate in the Capital Purchase Program.

Raymond James & Associates, Inc. (“RJA”) maintains a $50 million committed secured line of credit and a $100 million committed tri-party repurchase arrangement, each with a commercial bank. At December 31, 2008, there were collateralized financings of $40 million outstanding under the $100 million tri-party repurchase arrangement. These borrowings are included in Securities Sold Under Agreements to Repurchase on the Condensed Consolidated Statement of Financial Condition and are collateralized by RJA-owned securities with a market value of approximately $64 million. RJA’s committed facilities with the two commercial banks are subject to 0.15% and 0.125% per annum facility fees, respectively.

In addition, RJA maintains $235.1 million in uncommitted secured facilities. At December 31, 2008, RJA also maintained $360 million in uncommitted tri-party repurchase facilities with related parties, including an arrangement with Raymond James Financial Services, Inc. (“RJFS”). RJBank had provided $300 million of those uncommitted arrangements to RJA, which was guaranteed by RJF. Approximately $240 million was available only until January 30, 2009 under an exception from affiliate lending regulations granted by the Office of Thrift Supervision (“OTS”). RJBank has applied for an extension from the OTS until October 30, 2009, since such an extension was granted by the Federal Reserve on January 30, 2009. Collateral for loans under secured lines of credit and securities sold under repurchase agreements (collectively “collateral”) are RJA-owned and/or client margin securities, as permitted by regulatory requirements. The required market value of the collateral ranges from 102% to 125% of the cash provided. Although

RJA had $510 million committed or related party collateralized financing arrangements available at December 31, 2008, RJA's Fixed Income inventory available to serve as collateral is typically substantially less. Unsecured loan facilities available to RJA total $150 million of uncommitted unsecured lines of credit.

The interest rates for all of the Company's financing facilities are variable and are based on the Fed Funds rate, LIBOR, or Canadian prime rate as applicable. Unlike committed credit facilities, uncommitted lenders are not subject to any formula determining the interest rates they may charge on a loan. For the three months ended December 31, 2008, interest rates on the financing facilities ranged from (on a 360 days per year basis) 0.59% to 5.94%. For the three months ended December 31, 2007, those interest rates ranged from 4.75% to 6.13%.

In addition, the Company's joint ventures in Turkey and Argentina have multiple settlement lines of credit. The Company has guaranteed certain of these settlement lines of credit as follows: one in Turkey totaling $8 million and one in Argentina for $9 million. At December 31, 2008, there were no outstanding balances on the settlement lines in Turkey or Argentina. At December 31, 2008 the aggregate unsecured settlement lines of credit available were $4.4 million, and there were no outstanding balances on these lines. The interest rates for these lines of credit ranged from 6% to 25%. On December 5, 2008, the Company's Turkish joint venture ceased operations. See Note 12 of the Notes to the Condensed Consolidated Financial Statements for more information.

RJBank had $50 million in FHLB advances outstanding at December 31, 2008, which was comprised of several long-term, fixed rate advances. The weighted average interest rate on these fixed rate advances at December 31, 2008 was 5.19%. The outstanding FHLB advances mature between September 2010 and February 2011. The maximum amount of FHLB advances outstanding at any month-end during the three months ended December 31, 2008 and 2007 was $50 million and $69 million, respectively. The average amounts of FHLB advances outstanding and the weighted average interest rate thereon for the three months ended December 31, 2008 and 2007 were $50 million at a rate of 5.19% and $58.2 million at a rate of 5.32%, respectively. These advances are secured by a blanket lien on RJBank's residential loan portfolio granted to FHLB. The FHLB has the right to convert advances totaling $35 million at December 31, 2008 to a floating rate at one or more future dates. RJBank has the right to prepay these advances without penalty if the FHLB exercises its right. The September 30, 2008 FHLB advances included $1.9 billion in overnight advances to meet point in time regulatory balance sheet composition requirements related to its qualifying as a thrift institution. These advances were repaid on October 1, 2008.

Mortgage notes payable evidences a mortgage loan for the financing of the Company's home office complex. The mortgage loan bears interest at 5.7% and is secured by land, buildings, and improvements with a net book value of $67.1 million at December 31, 2008.

NOTE 10 – DERIVATIVE FINANCIAL INSTRUMENTS:

The Company enters into interest rate swaps and futures contracts as part of its fixed income business to facilitate customer transactions and to hedge a portion of the Company's trading inventory. These positions are marked to fair value with the gain or loss and the related interest recorded in Net Trading Profits within the statement of income for the period. Any collateral exchanged as part of the swap agreement is recorded in Broker Receivables and Payables in the statement of financial condition for the period.

Under FASB Interpretation ("FIN") No. 39, "Offsetting of Amounts Related to Certain Contracts" ("FIN No. 39"), the Company elects to net-by-counterparty the fair value of interest rate swap contracts entered into by the Fixed Income Trading group. Certain contracts contain a legally enforceable master netting arrangement and therefore, the fair value of those swap contracts are netted by counterparty in the Condensed Consolidated Statements of Financial Condition. As of October 1, 2008, the Company adopted FASB Staff Position ("FSP") FIN No. 39-1, "Amendment of FASB Interpretation No. 39" ("FSP FIN No. 39-1"). As the Company elects to net-by-counterparty the fair value of interest rate swap contracts, it also must now net-by-counterparty any collateral exchanged as part of the swap agreement. This cash collateral is recorded net-by-counterparty in Trading Instruments or Trading Instruments Sold but Not Yet Purchased in the Condensed Consolidated Statements of Financial Condition for the period presented.

The Company had outstanding interest rate derivative contracts with notional amounts of $3.7 billion at both December 31, 2008 and September 30, 2008. The notional amount of a derivative contract does not change hands; it is simply used as a reference to calculate payments. Accordingly, the notional amount of the Company's derivative contracts outstanding at December 31, 2008 greatly exceeds the possible losses that could arise from such transactions. The net market value of all open derivative asset positions at December 31, 2008 and September 30, 2008 was $104.3 million, (including cash collateral of $18.3 million) and $35.3 million (net of cash collateral of $4.1 million), respectively. The net market value of all open derivative liability positions at December 31, 2008 and

September 30, 2008 was $62.5 million, (including cash collateral of $13.5 million) and $19.3 million (net of cash collateral of $4.0 million), respectively.

To mitigate interest rate risk in a significantly rising rate environment, RJBank purchased three-year term interest rate caps with high strike rates (more than 300 basis points higher than current rates) during the year ended September 30, 2008 that will increase in value if interest rates rise and entitle RJBank to cash flows if interest rates rise above strike rates. These positions are recorded at fair value with any changes in fair value recorded in Other Revenue within the statement of income for the period. At December 31, 2008 and September 30, 2008, the notional amount of the interest rate caps held by RJBank was $1.5 billion. The fair value at December 31, 2008 and September 30, 2008 was $89,000 and $1.3 million, respectively. The Company's maximum loss exposure under these interest rate cap contracts was $1.8 million at December 31, 2008.

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The Company is exposed to credit losses in the event of nonperformance by the counterparties to its interest rate derivative agreements. The Company performs a credit evaluation of counterparties prior to entering into derivative transactions and monitors their credit standings. Currently, the Company anticipates that all counterparties will be able to fully satisfy their obligations under those agreements. The Company may require collateral from counterparties to support these obligations as established by the credit threshold specified by the agreement and/or as a result of monitoring the credit standing of the counterparties. The Company is also exposed to interest rate risk related to its interest rate swap agreements. The Company monitors exposure in its derivatives subsidiary daily based on established limits with respect to a number of factors, including interest rate, spread, ratio and basis, and volatility risks. These exposures are monitored both on a total portfolio basis and separately for selected maturity periods.

NOTE 11 - INCOME TAXES

As of December 31, 2008 and September 30, 2008 the liability for unrecognized tax benefits was $5.1 million and $4.9 million, respectively. The total amount of unrecognized tax benefits that, if recognized, would affect the effective tax rate for income from continuing operations was $3.7 million and $3.5 million at December 31, 2008 and September 30, 2008, respectively.

The Company recognizes the accrual of interest and penalties related to income tax matters in interest expense and other expense, respectively. As of December 31, 2008 and September 30, 2008, accrued interest and penalties included in the unrecognized tax benefits liability were approximately $1.6 million and $1.5 million, respectively.

The Company’s tax liability does not include any accrual for potential taxes, interest or penalties related to tax assessments of the Company’s Turkish joint venture. The Company has fully reserved for its equity interest in this joint venture (see Item 1, “Legal Proceedings” of Part II below for additional information).

The Company files income tax returns in the U. S. federal jurisdiction and various states, local and foreign jurisdictions. With few exceptions, the Company is no longer subject to U.S. federal, state and local, or foreign income tax examination by tax authorities for years prior to 2008 for federal tax returns, 2004 for state and local tax returns and 2000 for foreign tax returns. During this quarter, the Company settled a State of Maine audit for the years 2002 through 2006. As a result, the Company paid approximately $70,000 that was previously provided for under FIN 48 as an unrecognized tax benefit. During this quarter, the fiscal year 2004 federal income tax return examined under the IRS Compliance Assurance Program was finalized resulting in a refund. The 2008 federal income tax return is currently being examined under the IRS Compliance Assurance Program. This program accelerates the examination of key issues in an attempt to resolve them before the tax return is filed. Certain state and local returns are also currently under various stages of audit. The 2008 IRS audit and state audits in process are expected to be completed in fiscal year ending 2009. It is anticipated that the unrecognized tax benefits may increase by an estimated $0.3 million over the next 12 months.

NOTE 12 – COMMITMENTS AND CONTINGENCIES:

The Company is the lessor in a leveraged commercial aircraft transaction with Continental Airlines, Inc. (“Continental"). The Company's ability to realize its expected return is dependent upon this airline’s ability to fulfill its lease obligation. In the event that this airline defaults on its lease commitment and the trustee for the debt holders is unable to re-lease or sell the plane with adequate terms, the Company would suffer a loss of some or all of its investment. The carrying amount of this leveraged lease with Continental was approximately $8.8 million as of December 31, 2008. The Company's equity investment represented 20% of the aggregate purchase price; the remaining 80% was funded by public debt issued in the form of equipment trust certificates. The residual value of the aircraft at the end of the lease term of approximately 17 years was originally projected to be 15% of the original cost and has not been adjusted since inception. This lease expires in May 2014.

Although Continental remains current on its lease payments to the Company, the inability of Continental to make its lease payments, or the termination or modification of the lease through a bankruptcy proceeding, could result in the write-down of the Company's investment and the acceleration of certain income tax payments. The Company continues to monitor this lessee for specific events or circumstances that would increase the likelihood of a default on Continental's obligations under this lease.

RJBank had $50 million in FHLB advances outstanding at December 31, 2008, comprised of several long-term, fixed rate advances. RJBank had $1.7 billion in immediate credit available from the FHLB on December 31, 2008 and total available credit of 40% of total assets, with the pledge of additional collateral to the FHLB. See Note 9 of the Notes to the Condensed Consolidated Financial Statements for more information. At December 31, 2008 and September 30, 2008, no securities other than FHLB stock were pledged by RJBank as collateral with the FHLB for advances.

As of December 31, 2008, RJBank had entered into short-term reverse repurchase agreements totaling $1.1 billion with four counterparties, with individual exposures of $400 million, $300 million, $250 million and $100 million. Although RJBank is exposed to risk that these counterparties may not fulfill their contractual obligations, the Company believes the risk of loss is minimal due to the U.S. Treasury securities received as collateral, the creditworthiness of these counterparties, which is closely monitored, and the short duration of these agreements.

As of September 30, 2008, RJBank had not settled purchases of $8.5 million in syndicated loans (included in Bank Loans, net) due to sellers' delays in finalizing settlement, all of which had settled prior to December 31, 2008. As of December 31, 2008, there were no purchases of syndicated loans that had not settled.

RJBank provides to its affiliate, Raymond James Capital Services, Inc. ("RJCS"), on behalf of certain corporate borrowers, a guarantee of payment in the event of the borrower's default for exposure under interest rate swaps entered into with RJCS. At December 31, 2008 and September 30, 2008, the aggregate exposure under these guarantees was $14.5 million and $2.5 million, respectively, which was underwritten as part of RJBank's larger corporate credit relationships. The estimated total potential exposure under these guarantees is $16.2 million at December 31, 2008.

See Note 16 of the Notes to Condensed Consolidated Financial Statements with respect to RJBank's and Raymond James Multi-Family Finance, Inc.'s commitments to extend credit and other RJBank credit-related off-balance sheet financial instruments such as standby letters of credit and loan purchases.

As part of an effort to increase brand awareness, the Company entered into a stadium naming rights contract in July 1998. The contract expires in 2016 and has a 4% annual escalator. Expenses of $796,000 and $765,000 were recognized in the three months ended December 31, 2008 and 2007, respectively.

In the normal course of business, the Company enters into underwriting commitments. Transactions relating to such commitments of RJA that were open at December 31, 2008 and were subsequently settled had no material effect on the consolidated financial statements as of that date. There were no material transactions relating to such commitments of Raymond James Ltd. ("RJ Ltd.") that were recorded and open at December 31, 2008.

The Company utilizes client marginable securities to satisfy deposits with clearing organizations. At December 31, 2008, the Company had client margin securities valued at $113.5 million pledged with a clearing organization to meet the point in time requirement of $63.9 million. At September 30, 2008, the Company had client margin securities valued at $210 million pledged with a clearing organization to meet the point in time requirement of $139.9 million.

The Company has committed a total of $60.3 million, in amounts ranging from $200,000 to $5 million, to 44 different independent venture capital or private equity partnerships. As of December 31, 2008, the Company had invested $37.3 million of that amount and had received $30.5 million in distributions. Additionally, the Company controls the general partner in two internally sponsored private equity limited partnerships to which it has committed $14 million. Of that amount, the Company has invested $13.7 million and has received $10 million in distributions as of December 31, 2008. The Company is not the controlling general partner in another internally sponsored private equity limited partnership to which it has committed $30 million. As of December 31, 2008, the Company has invested $3.8 million of that amount and has not received any distributions.

The Company is the general partner in EIF Funds. These limited partnerships invest in the merchant banking and private equity activities of the Company and other unaffiliated venture capital limited partnerships. The EIF Funds were established as compensation and retention measures for certain qualified key employees of the Company. At December 31, 2008, the funds have unfunded commitments of $1.8 million.

In the normal course of business, certain subsidiaries of the Company act as general partner and may be contingently liable for activities of various limited partnerships. These partnerships engaged primarily in real estate activities. In

the opinion of the Company, such liabilities, if any, for the obligations of the partnerships will not in the aggregate have a material adverse effect on the Company's consolidated financial position.

At December 31, 2008, the approximate market values of collateral received that can be repledged by the Company, were:

Sources of Collateral (In 000's):	
Securities Purchased Under Agreements to Resell and Other	
Collateralized Financings	$ 1,312,689
Securities Received in Securities Borrowed vs. Cash Transactions	556,197
Collateral Received for Margin Loans	1,100,699
Total	$ 2,969,585

During the quarter, certain collateral was repledged. At December 31, 2008, the approximate market values of this portion of collateral and financial instruments owned that were repledged by the Company, were:

Uses of Collateral and Trading Securities (In 000's):	
Securities Purchased Under Agreements to Resell and Other	
Collateralized Financings	$ -
Securities Delivered in Securities Borrowed vs. Cash Transactions	529,807
Collateral Received for Margin Loans	113,515
Total	$ 643,322

The Company has from time to time authorized performance guarantees for the completion of trades with counterparties in Argentina and Turkey. At December 31, 2008, there were no outstanding performance guarantees in Argentina or Turkey.

See Note 9 of the Notes to Condensed Consolidated Financial Statements for information regarding the Company's other financing arrangements.

The Company guarantees the existing mortgage debt of RJA of approximately $61.3 million. The Company guarantees interest rate swap obligations of RJCS. The Company has also committed to lend to RJTCF, or guarantee obligations in connection with RJTCF's low income housing development/rehabilitation and syndication activities, aggregating up to $125 million upon request, subject to certain limitations as well as annual review and renewal. RJTCF borrows in order to invest in partnerships which purchase and develop properties qualifying for tax credits ("project partnerships"). These investments in project partnerships are then sold to various tax credit funds, which have third party investors, and for which RJTCF serves as the managing member or general partner. RJTCF typically sells these investments within 90 days of their acquisition, and the proceeds from the sales are used to repay RJTCF's borrowings. During the first quarter of fiscal year 2009, a subsidiary of the Company purchased 58 units in one of RJTCF's current fund offerings for a capital contribution of up to $58 million. At December 31, 2008, $30 million of capital had been contributed by the subsidiary to this fund. The subsidiary expects to resell these interests to other investors; however, the holding period of these interests could be much longer than 90 days. In addition to the 58 unit interest purchased, RJTCF provided certain specific performance guarantees to the investors of this fund. The Company has guaranteed the $58 million capital contribution obligation as well as the specified performance guarantees provided by RJTCF to the fund's investors. The unfunded capital contribution obligation is $28 million as of December 31, 2008. Additionally, RJTCF may make short-term loans or advances to project partnerships on behalf of the tax credit funds in which it serves as managing member or general partner. At December 31, 2008, cash funded to invest in either loans or investments in project partnerships (excluding the 58 unit purchase mentioned previously)

was $10.3 million. In addition, at December 31, 2008, RJTCF is committed to additional future fundings (excluding the 58 unit purchase mentioned previously) of $300,000 related to project partnerships that have not yet been sold to various tax credit funds. The Company and RJTCF also issue certain guarantees to various third parties related to project partnerships, interests in which have been or are expected to be sold to one or more tax credit funds under RJTCF's management. In some instances, RJTCF is not the primary guarantor of these obligations which aggregate to a cumulative maximum obligation of approximately $14.9 million as of December 31, 2008. Through RJTCF's wholly owned lending subsidiary, Raymond James Multi-Family Finance, Inc., certain construction loans or loans of longer duration ("permanent loans") may be made directly to certain project partnerships. As of December 31, 2008 nine such construction loans are outstanding with an unfunded balance of $13.1 million available for future draws on such loans. Similarly, five permanent loan commitments are outstanding as of December 31, 2008. Each of these commitments will only be funded if certain conditions are achieved by the project partnership and in the event such conditions are not met, generally expire two years after their issuance. The total amount of such unfunded permanent loan commitments as of December 31, 2008 is $5.9 million.

The Company entered into two agreements, both with Raymond James Trust, National Association ("RJT") and one with the Office of the Controller of the Currency ("OCC"), as a condition to RJT's conversion in January, 2008 from a state to a federally chartered institution. Under those agreements, the Company is obligated to provide RJT with sufficient capital in a form acceptable to the OCC to meet and maintain the capital and liquidity requirements commensurate with RJT's risk profile for its conversion and any subsequent requirements of the OCC. The conversion expands RJT's market nationwide, while substituting federal for multiple state regulatory oversight. RJT's federal charter limits it to fiduciary activities. Thus, capital requirements are not expected to be significant.

As a result of the extensive regulation of the securities industry, the Company's broker-dealer subsidiaries are subject to regular reviews and inspections by regulatory authorities and self regulatory organizations, which can result in the imposition of sanctions for regulatory violations, ranging from non-monetary censure to fines and, in serious cases, temporary or permanent suspension from business. In addition, from time to time regulatory agencies and self-regulatory organizations institute investigations into industry practices, which can also result in the imposition of such sanctions.

Raymond James Yatyrym Menkul Kyymetler A. S., (“RJY”), the Company’s Turkish affiliate, was assessed for the year 2001 approximately $6.8 million by the Turkish tax authorities. The authorities applied a significantly different methodology than in the prior year’s audit which the Turkish tax court and Council of State affirmed. RJY is vigorously contesting most aspects of this assessment and has sought reconsideration of the Turkish Council of State. The Turkish tax authorities, utilizing the 2001 methodology, assessed RJY $5.7 million for 2002, which is also being challenged. Audits of 2003 and 2004 are anticipated and their outcome is unknown in light of the change in methodology and the pending litigation. On October 24, 2008, RJY was notified by the Capital Markets Board of Turkey that the technical capital inadequacy resulting from RJY’s provision for this case required an additional capital contribution, and as a result, RJY halted all trading activities. On December 5, 2008, RJY ceased operations and subsequently filed for protection under Turkish bankruptcy laws. The Company has recorded a provision for loss in its condensed consolidated financial statements for its full equity interest in this joint venture. As of December 31, 2008, RJY had total capital of approximately $4.7 million, of which the Company owns approximately 50%.

Sirchie Acquisition Company (“SAC”), an 80% owned indirect unconsolidated subsidiary acquired as a merchant banking investment, has been advised by the Commerce and Justice Departments that they intend to seek civil and criminal sanctions against it, as the purported successor in interest to Sirchie Finger Print Laboratories, Inc. (“Sirchie”), based upon alleged breaches of Department of Commerce suspension orders by Sirchie and its former majority shareholder that occurred prior to the acquisition. Discussions are ongoing and the impact, if any, on the value of this investment is indeterminate at this time.

In connection with auction rate securities (“ARS”), the Company's broker-dealers, RJA and RJFS, have been subject to ongoing investigations, with which they are cooperating fully, by the Securities and Exchange Commission (“SEC”), the New York Attorney General's Office and Florida’s Office of Financial Regulation. The Company is also named in a class action similar to that filed against a number of brokerage firms alleging various securities law violations, which it is vigorously defending.

Several large banks and brokerage firms, most of whom were the primary underwriters of and supported the auctions for ARS, have announced agreements, usually as part of a regulatory settlement, to repurchase ARS at par from some of their clients. Other brokerage firms have entered into similar agreements. The Company, in conjunction with other industry participants is actively seeking a solution to ARS’ illiquidity. This includes issuers restructuring and refinancing the ARS, which has met with some success. Should these restructurings and refinancings continue, then clients’ holdings could be reduced further, however, there can be no assurance these events will continue. If the Company were to consider resolving pending claims, inquiries or investigations by offering to repurchase all or some portion of these ARS from certain clients, it would have to have sufficient regulatory capital and cash or borrowing power to do so, and at present it does not have such capacity. Further, if such repurchases were made at par value there could be a market loss if the underlying securities’ value is less than par and any such loss could adversely affect the results of operations.

NOTE 13 - CAPITAL TRANSACTIONS:

The following table presents information on a monthly basis for purchases of the Company's stock for the quarter ended December 31, 2008:

Period	Number of Shares Purchased	Average Price Per Share
October 1, 2008 - October 31,2008	1,448	$32.75
November 1, 2008 - November 30, 2008	242,670	17.91
December 1, 2008 – December 31, 2008	3,696	18.42
Total	247,814	$18.00

The Company does not have a formal stock repurchase plan. On May 20, 2004, the Board of Directors authorized $75 million for repurchases pursuant to prior authorization from the Board of Directors. During March 2008, the Company exhausted this authorization. On March 11, 2008, the Board of Directors authorized an additional $75 million for repurchases at the discretion of the Board's Share Repurchase Committee. Since May 2004, 3,620,154 shares have been repurchased for a total of $82.3 million, leaving $67.7 million available to repurchase shares. Historically the Company has considered such purchases when the price of its stock approaches 1.5 times book value or when employees surrender shares as payment for option exercises. The decision to repurchase shares is subject to cash availability and other factors. Accordingly, the Company purchased no shares in open market transactions for the three months ended December 31, 2008.

During the three months ended December 31, 2008, 242,670 shares were purchased for the trust fund that was established and funded to acquire Company common stock in the open market to be used to settle restricted stock units granted as a retention vehicle for certain employees of the Company's wholly owned Canadian subsidiary (see Note 16 of the Notes to the Consolidated Financial Statements included in the Company's Annual Report on Form 10-K for the year ended September 30, 2008 for more information on this trust fund). The Company also purchased 5,144 shares that were surrendered by employees as payment for option exercises during the three months ended December 31, 2008.

NOTE 14 – SHARE-BASED COMPENSATION:

The Company applies the provisions of SFAS No. 123R, "Share-Based Payment", to account for share-based awards made to employees and directors. This pronouncement requires the measurement and recognition of compensation expense for all share-based awards made to employees and directors to be based on estimated fair values. In addition, this pronouncement requires the excess tax benefit, the resulting realized tax benefit that exceeds the previously recognized deferred tax asset for share-based awards, to be recognized as additional paid-in capital. The Company's share-based employee and outside director compensation plans are described more fully in Note 16 of the Notes to the Consolidated Financial Statements included in the Company's Annual Report on Form 10-K for the year ended September 30, 2008. The Company's net income for the three months ended December 31, 2008 and December 31, 2007 includes $11.1 million and $10.3 million, respectively, of compensation costs and $3.4 million and $3.0 million, respectively of income tax benefits related to the Company's share-based awards to employees and members of its Board of Directors. For the three months ended December 31, 2008, the Company recognized $3.8 million of excess tax benefits as additional paid-in capital.

During the three months ended December 31, 2008, the Company granted 254,650 stock options, 859,486 shares of restricted stock and 220,086 restricted stock units to employees under its share-based employee compensation plans.

During the three months ended December 31, 2008, no stock options were granted to outside directors. Restricted stock grants under the 2007 Stock Bonus Plan and the 2005 Restricted Stock Plan are limited to 750,000 and 1,350,000 shares, respectively, per fiscal year.

The weighted-average grant-date fair value of stock options granted to employees and directors during the three months ended December 31, 2008 was $6.23 per share. Pre-tax unrecognized compensation expense for stock options granted to employees and outside directors, net of estimated forfeitures, was $13.7 million as of December 31, 2008, and will be recognized as expense over a weighted-average period of approximately 3.3 years.

The weighted-average grant-date fair value of restricted stock granted to employees during the three months ended December 31, 2008 was $18.84 per share. Pre-tax unrecognized compensation expense for unvested restricted stock granted to employees, net of estimated forfeitures, was $63.6 million as of December 31, 2008, and will be recognized as expense over a weighted-average period of approximately 3.6 years.

The weighted-average grant-date fair value of restricted stock units granted to employees during the three months ended December 31, 2008 was $17.91 per share. Pre-tax unrecognized compensation expense for unvested restricted stock units granted to employees, net of estimated forfeitures, was $8.4 million as of December 31, 2008, and will be recognized as expense over a weighted-average period of approximately 2.1 years.

Under one of its non-qualified fixed stock option plans, the Company may grant stock options to its independent contractor Financial Advisors. In addition, the Company may grant restricted stock units or restricted shares of common stock to its independent contractor Financial Advisors under one of its restricted stock plans. The Company accounts for share-based awards to its independent contractor Financial Advisors in accordance with EITF No. 96-18, “Accounting for Equity Instruments That are Issued to Other Than Employees for Acquiring, or in Conjunction with Selling, Goods or Services” and EITF 00-19, “Accounting for Derivative Financial Instruments Indexed to, and Potentially Settled in, a Company’s Own Stock” (see Note 17 of the Notes to the Consolidated Financial Statements included in the Company's Annual Report on Form 10-K for the year ended September 30, 2008 for more information). Due to the decline in the value of the Company’s common stock during the three months ended December 31, 2008, the Company’s net income for the three months ended December 31, 2008 includes $8.7 million and $3.3 million, respectively, of reductions in compensation expense and income tax benefits related to the Company’s share-based awards to its independent contractor Financial Advisors. The Company’s net income for the three months ended December 31, 2007 includes $1.5 million of compensation costs and $0.6 million of income tax benefits related to the Company’s share-based plans available for awards to its independent contractor Financial Advisors.

During the three months ended December 31, 2008, the Company granted 45,500 stock options and 6,317 shares of restricted stock to its independent contractor Financial Advisors.

As of December 31, 2008, there was $1.1 million of total unrecognized pre-tax compensation cost related to unvested stock options granted to its independent contractor Financial Advisors based on an estimated weighted-average fair value of $6.08 per share at that date. These costs are expected to be recognized over a weighted average period of approximately 2.6 years.

As of December 31, 2008, there was $2.0 million of total unrecognized pre-tax compensation cost related to unvested restricted stock granted to its independent contractor Financial Advisors based on an estimated fair value of $17.13 per share at that date. These costs are expected to be recognized over a weighted average period of approximately 4.1 years.

NOTE 15 - REGULATIONS AND CAPITAL REQUIREMENTS:

Certain broker-dealer subsidiaries of the Company are subject to the requirements of the Uniform Net Capital Rule (Rule 15c3-1) under the Securities Exchange Act of 1934. RJA, a member firm of the Financial Industry Regulatory Authority (“FINRA”), is also subject to the rules of FINRA, whose requirements are substantially the same. Rule 15c3-1 requires that aggregate indebtedness, as defined, not exceed 15 times net capital, as defined. Rule 15c3-1 also provides for an “alternative net capital requirement”, which RJA, Raymond James Financial Services, Inc. (“RJFS”), Eagle Fund Distributors, Inc. (“EFD”), formerly Heritage Fund Distributors, Inc., and Raymond James (USA) Ltd. (“RJ(USA)”) have elected. It requires that minimum net capital, as defined, be equal to the greater of $250,000 or two percent of Aggregate Debit Items arising from client transactions. FINRA may require a member firm to reduce its business if its net capital is less than four percent of Aggregate Debit Items and may prohibit a member firm from expanding its business and declaring cash dividends if its net capital is less than five percent of Aggregate Debit Items. The net capital position of RJA at December 31, 2008 and September 30, 2008 was as follows:

	December 31, 2008	September 30, 2008

	($ in 000's)	
Raymond James & Associates, Inc.:		
(Alternative Method Elected)		
Net Capital as a Percent of Aggregate Debit Items	23.07%	18.32%
Net Capital	$275,491	$ 303,192
Less: Required Net Capital	(23,886)	(33,096)
Excess Net Capital	$ 251,605	$ 270,096

At December 31, 2008 and September 30, 2008, RJFS had no Aggregate Debit Items and therefore the minimum net capital of $250,000 was applicable. The net capital position of RJFS at December 31, 2008 and September 30, 2008 was as follows:

	December 31, 2008	September 30, 2008
	(in 000's)	
Raymond James Financial Services, Inc.:		
(Alternative Method Elected)		
Net Capital	$ 35,456	$ 54,225
Less: Required Net Capital	(250)	(250)
Excess Net Capital	$ 35,206	$ 53,975

At December 31, 2008 and September 30, 2008, EFD had no Aggregate Debit Items and therefore the minimum net capital of $250,000 was applicable. The net capital position of EFD at December 31, 2008 and September 30, 2008 was as follows:

	December 31, 2008	September 30, 2008
	(in 000's)	
Eagle Fund Distributors, Inc.:		
(Alternative Method Elected)		
Net Capital	$ 1,840	$ 2,326
Less: Required Net Capital	(250)	(250)
Excess Net Capital	$ 1,590	$ 2,076

The net capital position of RJ(USA) at December 31, 2008 and September 30, 2008 was as follows:

	December 31, 2008	September 30, 2008
	($ in 000's)	
Raymond James (USA) Ltd.:		
(Alternative Method Elected)		
Net Capital as a Percent of Aggregate		
Debit Items	34,016%	749.6%
Net Capital	$ 4,504	$ 4,507
Less: Required Net Capital	(250)	(250)
Excess Net Capital	$ 4,254	$ 4,257

RJ Ltd. is subject to the Minimum Capital Rule (Dealer Member Rule No. 17 of the Investment Industry Regulatory Organization of Canada ("IIROC")) and the Early Warning System (Dealer Member Rule No. 30 of the IIROC). The Minimum Capital Rule requires that every member shall have and maintain at all times Risk Adjusted Capital greater than zero calculated in accordance with Form 1 (Joint Regulatory Financial Questionnaire and Report) and with such requirements as the Board of Directors of the IIROC may from time to time prescribe. Insufficient Risk Adjusted Capital may result in suspension from membership in the stock exchanges or the IIROC.

The Early Warning System is designed to provide advance warning that a member firm is encountering financial difficulties. This system imposes certain sanctions on members who are designated in Early Warning Level 1 or Level 2 according to their capital, profitability, liquidity position, frequency of designation or at the discretion of the IIROC. Restrictions on business activities and capital transactions, early filing requirements, and mandated corrective

measures are sanctions that may be imposed as part of the Early Warning System. The Company was not in Early Warning Level 1 or Level 2 at December 31, 2008 or September 30, 2008. The Risk Adjusted Capital of RJ Ltd. at December 31, 2008 and September 30, 2008 was as follows (in Canadian dollars):

	December 31, 2008	September 30, 2008
	(in 000's)	
Raymond James Ltd.:		
Risk Adjusted Capital before minimum	$ 36,911	$ 48,520
Less: Required Minimum Capital	(250)	(250)
Risk Adjusted Capital	$ 36,661	$ 48,270

At December 31, 2008, the Company's other active domestic and international broker-dealers are in compliance with and met all net capital requirements.

RJBank is subject to various regulatory and capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory - and possibly additional discretionary - actions by regulators. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, RJBank must meet specific capital guidelines that involve quantitative measures of RJBank's assets, liabilities, and certain off-balance sheet items as calculated under regulatory accounting practices. RJBank's capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors.

Quantitative measures established by regulation to ensure capital adequacy require RJBank to maintain minimum amounts and ratios (set forth in the table below) of total and Tier I Capital (as defined in the regulations) to risk-weighted assets (as defined). Management believes that, as of December 31, 2008, RJBank meets all capital adequacy requirements to which it is subject.

To be categorized as "well capitalized", RJBank must maintain minimum total risk-based, Tier I risk-based, and Tier I leverage ratios as set forth in the table below.

	Actual		Requirement for capital adequacy purposes		To be well capitalized under prompt corrective action provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
	($ in 000's)					
As of December 31, 2008:						
Total Capital (to Risk-Weighted Assets)	$ 806,385	10.3%	$ 622,513	8.0%	$ 778,142	10.0%
Tier I Capital (to Risk-Weighted Assets)	708,624	8.9%	311,257	4.0%	466,885	6.0%
Tier I Capital (to Adjusted Assets)	708,624	7.4%	382,695	4.0%	478,368	5.0%
As of September 30, 2008 (1):						
Total Capital (to Risk-Weighted Assets)	$ 786,599	9.7%	$ 649,518	8.0%	$ 811,897	10.0%
Tier I Capital (to Risk-Weighted Assets)	689,281	8.5%	324,759	4.0%	487,138	6.0%
Tier I Capital (to Adjusted Assets)	689,281	6.0%	458,052	4.0%	572,564	5.0%

(1) The actual Total Capital (to Risk-Weighted Assets), Tier I Capital (to Risk-Weighted Assets) and Tier I Capital (to Adjusted Assets) amounts previously reported for September 30, 2008 was $778,624,000, $689,281,000, and $689,281,000 with a ratio of 10.9%, 9.6% and 6.0%, respectively. Subsequent to filing the Company's Annual Report on Form 10-K, the Company discovered that its wholly owned subsidiary, RJBank, had misinterpreted an instruction related to the calculation of RJBank's risk weighted capital ratio. As a result, despite the Company's intention and ability to maintain RJBank at a "well capitalized" level under the bank regulatory framework, RJBank

was “adequately capitalized” rather than “well capitalized” at September 30, 2008. Upon discovery of the misinterpretation, the Company recalculated the ratio, determined the amount of additional capital that needed to be contributed and made a $30 million capital contribution to RJBank, an amount that would have increased the bank's September 30, 2008 total risk based capital ratio above the 10% level necessary to be considered well capitalized. The Company has notified the OTS and filed an amended Thrift Financial Report as of September 30, 2008. As the Company was able to and did contribute additional capital and it did not impact clients, the Company’s management does not consider this to be material and does not expect any additional ramifications of the misinterpretation.

Raymond James Trust, N.A., is regulated by the OCC and is required to maintain sufficient capital and meet capital and liquidity requirements. As of December 31, 2008, RJT met the requirements.

The Company expects to continue paying cash dividends. However, the payment and rate of dividends on the Company's common stock is subject to several factors including operating results, financial requirements of the Company, and the availability of funds from the Company's subsidiaries, including the broker-dealer subsidiaries, which may be subject to restrictions under the net capital rules of the SEC, FINRA and the IIROC; and RJBank, which may be subject to restrictions by federal banking agencies. Such restrictions have never limited the Company's dividend payments.

NOTE 16 - FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET RISK:

RJBank has outstanding at any time a significant number of commitments to extend credit and other credit-related off-balance sheet financial instruments such as standby letters of credit and loan purchases. These arrangements are subject to strict credit control assessments and each customer's credit worthiness is evaluated on a case-by-case basis. A summary of commitments to extend credit and other credit-related off-balance sheet financial instruments outstanding at December 31, 2008 and September 30, 2008, is as follows:

	December 31, 2008	September 30, 2008
	(in 000's)	
Standby Letters of Credit	$ 240,573	$ 239,317
Open End Consumer Lines of Credit	43,358	43,544
Commercial Lines of Credit	1,392,974	1,384,941
Unfunded Loan Commitments - Variable Rate (1)	330,156	1,055,686
Unfunded Loan Commitments - Fixed Rate	3,995	4,005

(1) Includes commitments to purchase pools of adjustable rate whole first mortgage loans.

Because many loan commitments expire without being funded in whole or part, the contract amounts are not estimates of the Company's future liquidity requirements.

Credit risk represents the accounting loss that would be recognized at the reporting date if counterparties failed completely to perform as contracted. The credit risk amounts are equal to the contractual amounts, assuming that the amounts are fully advanced and that the collateral or other security is of no value. RJBank uses the same credit approval and monitoring process in extending loan commitments and other credit-related off-balance sheet instruments as it does in making loans.

RJBank's policy is generally to require customers to provide collateral at the time of closing. The amount of collateral obtained, if it is deemed necessary by RJBank upon extension of credit, is based on RJBank's credit evaluation of the borrower. Collateral held varies but may include accounts receivable, inventory, real estate, and income producing commercial properties.

In the normal course of business, RJBank issues, or participates in the issuance of, financial standby letters of credit whereby it provides an irrevocable guarantee of payment in the event the letter of credit is drawn down by the beneficiary. As of December 31, 2008, $240.6 million of such letters of credit were outstanding. Of the letters of credit outstanding, $239.0 million are underwritten as part of a larger corporate credit relationship. In the event that a letter of credit is drawn down, RJBank would pursue repayment from the account party under the existing borrowing relationship, or would liquidate collateral, or both. The proceeds from repayment or liquidation of collateral are expected to satisfy the maximum potential future amount of any payments of amounts drawn down under the existing letters of credit. The credit risk involved in issuing letters of credit is essentially the same as that involved with extending loan commitments to clients, and accordingly, RJBank uses a credit evaluation process and collateral requirements similar to those for loan commitments.

The Company, through RJTCF's wholly owned lending subsidiary, Raymond James Multi-Family Finance, Inc., may have at any time unfunded commitments to extend credit to certain project partnerships for either construction or permanent loans. At December 31, 2008, the unfunded portion of executed commitments to extend credit was $19 million. See Note 12 of the Notes to the Consolidated Financial Statements for more information regarding these commitments.

RJ Ltd. is subject to foreign exchange risk primarily due to financial instruments held in U.S. dollars that may be impacted by fluctuation in foreign exchange rates. In order to mitigate this risk, RJ Ltd. enters into forward foreign exchange contracts. The fair value of these contracts is immaterial. As of December 31, 2008, forward contracts outstanding to buy and sell U.S. dollars totaled CDN $1.2 million and CDN $0.9 million, respectively.

See Note 19 of the Notes to the Consolidated Financial Statements included in the Company's Annual Report on Form 10-K for the year ended September 30, 2008 for more information regarding the Company's financial instruments with off-balance sheet risk.

NOTE 17 – EARNINGS PER SHARE:

The following table presents the computation of basic and diluted earnings per share:

	Three Months Ended	
	December 31, 2008	December 31, 2007
	(in 000's, except per share amounts)	
Net Income	$ 61,093	$ 56,242
Weighted Average Common Shares Outstanding During the Period	116,575	116,881
Dilutive Effect of Stock Options and Awards (1)	1,512	3,360
Weighted Average Diluted Common Shares (1)	118,087	120,241
Net Income per Share – Basic	$ 0.52	$ 0.48
Net Income per Share - Diluted (1)	$ 0.52	$ 0.47
Securities Excluded from Weighted Average Diluted Common Shares Because Their Effect Would Be Antidilutive	4,087	1,382

(1) Diluted earnings per share is computed on the basis of the weighted average number of shares of common stock plus the effect of dilutive potential common shares outstanding during the period using the treasury stock method. Dilutive potential common shares include stock options, units and awards.

NOTE 18 – SEGMENT ANALYSIS:

SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information", establishes standards for reporting information about operating segments. Operating segments are defined as components of an enterprise about which separate financial information is available that is evaluated regularly by the chief operating decision maker, or decision making group, in deciding how to allocate resources and in assessing performance.

The Company currently operates through the following eight business segments: Private Client Group ("PCG"); Capital Markets; Asset Management; RJBank; Emerging Markets; Stock Loan/Borrow; Proprietary Capital and various corporate activities combined in the "Other" segment. In the quarter ended December 31, 2008, a new intersegment component to the Company's segment reporting was added to reflect total gross revenues by segment with the

elimination of intersegment transactions in this new segment. In addition, the methodology for allocating the Company's corporate bonus pool expense to individual segments was changed. Reclassifications have been made in the segment disclosure for previous periods to conform to this presentation. The business segments are based upon factors such as the services provided and the distribution channels served and are consistent with how the Company assesses performance and determines how to allocate resources throughout the Company and its subsidiaries. The financial results of the Company's segments are presented using the same policies as those described in Note 1 of the Notes to the Consolidated Financial Statements included in the Company's Annual Report on Form 10-K for the year ended September 30, 2008. Segment data includes charges allocating corporate overhead and benefits to each segment. Intersegment receivables and payables are eliminated between segments upon consolidation.

The PCG segment includes the retail branches of the Company's broker-dealer subsidiaries located throughout the U.S., Canada and the United Kingdom. These branches provide securities brokerage services including the sale of equities, mutual funds, fixed income products and insurance products to their individual clients. The segment includes net interest earnings on client margin loans and cash balances. Additionally, this segment includes the correspondent clearing services that the Company provides to other broker-dealer firms.

The Capital Markets segment includes institutional sales and trading in the U.S., Canada and Europe. It provides securities brokerage, trading, and research services to institutions with an emphasis on the sale of U.S. and Canadian equities and fixed income products. This segment also includes the Company's management of and participation in underwritings, merger and acquisition services, public finance activities, and the operations of Raymond James Tax Credit Funds, Inc.

The Asset Management segment includes investment portfolio management services of Eagle Asset Management, Inc., Eagle Boston Investment Management, Inc., and Raymond James Consulting Services (RJA's asset management services division), mutual fund management by Eagle Fund Services, Inc., and trust services of Raymond James Trust, National Association. In addition to the asset management services noted above, this segment also offers fee-based programs to clients who have contracted for portfolio management services from outside money managers.

RJBank is a separate segment, which provides consumer, residential, and commercial loans, as well as Federal Deposit Insurance Corporation ("FDIC")-insured deposit accounts to clients of the Company's broker-dealer subsidiaries and to the general public.

The Emerging Markets segment includes various joint ventures in Turkey and Latin America. These joint ventures operate in securities brokerage, investment banking and asset management. On December 5, 2008, the Company's Turkish joint venture ceased operations. See Item 1, "Legal Proceedings" of Part II below for more information.

The Stock Loan/Borrow segment involves the borrowing and lending of securities from and to other broker-dealers, financial institutions and other counterparties, generally as an intermediary.

The Proprietary Capital segment consists of the Company's principal capital and private equity activities including: various direct and third party private equity and merchant banking investments (including Raymond James Capital, Inc., a captive merchant banking business), short-term special situation mezzanine and bridge investments, the EIF Funds, and three private equity funds sponsored by the Company: Raymond James Capital Partners, L.P., Ballast Point Ventures, L.P., and Ballast Point Ventures II, L.P.

The Other segment includes certain corporate activities of the Company.

Information concerning operations in these segments of business is as follows:

	Three Months Ended	
	December 31, 2008	December 31, 2007
	(in 000's)	
Revenues:		
Private Client Group	$ 414,544	$ 530,007
Capital Markets	128,706	114,523
Asset Management	51,291	64,629
RJBank	109,239	102,589
Emerging Markets	4,323	12,786
Stock Loan/Borrow	3,290	13,876
Proprietary Capital	538	1,171
Other	1,086	8,492
Intersegment Eliminations	(17,184)	(18,882)
Total Revenues	$ 695,833	$ 829,191
Income Before Provision for Income Taxes:		
Private Client Group	$ 32,585	$ 56,084
Capital Markets	14,289	4,696
Asset Management	9,074	18,555

RJBank	54,626	14,774
Emerging Markets	(465)	(1,555)
Stock Loan/Borrow	1,223	1,643
Proprietary Capital	(544)	(657)
Other	(9,124)	(2,783)
Pre-Tax Income	$ 101,664	$ 90,757
Net Interest Income (Expense):		
Private Client Group	$ 12,161	$ 28,114
Capital Markets	1,328	(564)
Asset Management	113	524
RJBank	94,463	35,204
Emerging Markets	237	904
Stock Loan/Borrow	1,851	2,571
Proprietary Capital	149	724
Other	1,419	2,109
Net Interest Income	$ 111,721	$ 69,586

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The following table presents the Company's total assets on a segment basis:

	December 31, 2008	September 30, 2008
	(in 000's)	
Total Assets:		
Private Client Group (1)	$ 6,979,895	$ 6,861,688
Capital Markets (2)	984,082	1,400,658
Asset Management	66,172	75,339
RJBank	9,450,337	11,356,939
Emerging Markets	47,248	52,786
Stock Loan/Borrow	555,576	698,926
Proprietary Capital	174,008	169,652
Other	24,998	93,628
Total	$ 18,282,316	$ 20,709,616

(1) Includes $46 million of goodwill allocated pursuant to SFAS No. 142, "Goodwill and Other Intangible Assets".
(2) Includes $17 million of goodwill allocated pursuant to SFAS No. 142.

The Company has operations in the U.S., Canada, Europe and joint ventures in Turkey and Latin America. Substantially all long-lived assets are located in the U.S. The percentage of total assets associated with foreign activities is 5.4%. The percentages of pre-tax income and net income associated with foreign activities are 1.1% and 0.7%, respectively. Revenues, classified by the major geographic areas in which they are earned, were as follows:

	Three Months Ended	
	December 31, 2008	December 31, 2007
	(in 000's)	
Revenues:		
United States	$ 634,122	$ 730,910
Canada	45,069	68,618
Europe	12,488	16,088
Other	4,154	13,575
Total	$ 695,833	$ 829,191

The Company has investments of $6.7 million, net of a $2.3 million reserve for its Turkish joint venture interest, in emerging market joint ventures, which carry greater risk than amounts invested in developed markets.

Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Business and Total Company Overview

The following Management's Discussion and Analysis is intended to help the reader understand the results of operations and the financial condition of the Company. Management's Discussion and Analysis is provided as a supplement to, and should be read in conjunction with, the Company's financial statements, and accompanying notes to the financial statements.

Historically, the Company's overall results have been highly correlated to the activity levels in the U.S. equity markets. Active securities markets, a steep, positively sloping yield curve and upward movements in equity indices have a positive impact, while volatile interest rates and disruption in credit markets have a negative impact on brokerage results. As RJBank continues to grow and a greater percentage of the firm's revenues come from interest earnings, the Company is somewhat insulated from these market influences. The Company is currently operating in a challenging environment: a recession and financial services industry issues related to credit quality, auction rate securities and liquidity are negatively impacting activity levels, and the current equity market conditions are continuing to dampen investment banking activity. However, positive Financial Advisor recruiting results, increased institutional commissions, and continued loan growth coupled with improved interest rate spreads at RJBank had a positive impact on results and should continue to support results for at least the next one or two quarters.

Segments

The Company currently operates through the following eight business segments: Private Client Group ("PCG"); Capital Markets; Asset Management; RJBank; Emerging Markets; Stock Loan/Borrow, Proprietary Capital and certain corporate activities in the Other segment.

The following table presents the gross revenues and pre-tax income of the Company on a segment basis for the periods indicated:

	Three Months Ended		
	December 31, 2008	December 31, 2007	Percentage Change
	(in 000's)		
Total Company			
Revenues	$ 695,833	$ 829,191	(16%)
Pre-tax Income	101,664	90,757	12%
Private Client Group			
Revenues	$ 414,544	$ 530,007	(22%)
Pre-tax Income	32,585	56,084	(42%)
Capital Markets			
Revenues	128,706	114,523	12%
Pre-tax Income	14,289	4,696	204%
Asset Management			
Revenues	51,291	64,629	(21%)
Pre-tax Income	9,074	18,555	(51%)
Raymond James Bank			
Revenues	109,239	102,589	6%
Pre-tax Income	54,626	14,774	270%
Emerging Markets			
Revenues	4,323	12,786	(66%)
Pre-tax Loss	(465)	(1,555)	70%
Stock Loan/Borrow			
Revenues	3,290	13,876	(76%)
Pre-tax Income	1,223	1,643	(26%)
Proprietary Capital			
Revenues	538	1,171	(54%)
Pre-tax Loss	(544)	(657)	17%
Other			
Revenues	1,086	8,492	(87%)
Pre-tax Loss	(9,124)	(2,783)	(228%)
Intersegment Eliminations			
Revenues	(17,184)	(18,882)	9%
Pre-tax Income	-	-	-

Results of Operations – Three Months Ended December 31, 2008 Compared with the Three Months Ended December 31, 2007

Total Company

Total Company net revenues decreased 3% to $664 million from $686 million in the comparable quarter of the prior year. Net interest earnings increased 61%, or $42 million, with net income up 9% from the prior year quarter. The current year results include increased net interest income, positive trading results and increased institutional commissions, partially offset by lower private client commissions, lower investment advisory fee revenue and increased non-interest, non-compensation expenses. The Company also benefitted from an $11.7 million adjustment to its estimate of incentive compensation at September 30, 2008, in comparison to a $5 million adjustment in the first quarter of the prior year. The Company's effective tax rate for the quarter continues to be higher than it had been in a rising equity market primarily as a result of a larger nondeductible unrealized loss on the Company's corporate owned life insurance investment than in the prior year. Diluted net income was $0.52 per share, versus $0.47 per share in the prior year quarter.

Net Interest Analysis

The following table presents average balance data and interest income and expense data for the Company, as well as the related net interest income. The respective average rates are presented on an annualized basis.

	Three Months Ended					
	December 31, 2008			December 31, 2007		
	Average Balance	Interest Inc./Exp.	Average Yield/ Cost	Average Balance	Interest Inc./Exp.	Average Yield/ Cost
	($ in 000's)					
Interest-Earning Assets:						
Margin Balances	$1,245,963	$ 11,738	3.77%	$ 1,513,852	$ 26,321	6.95%
Assets Segregated Pursuant to Regulations and Other Segregated Assets	4,142,295	6,317	0.61%	4,208,850	47,560	4.52%
Interest-Earning Assets of RJBank (1)	9,638,379	110,247	4.58%	6,467,707	101,719	6.29%
Stock Borrow		3,290			13,876	
Interest-Earning Assets of Variable Interest Entities		121			207	
Other		11,899			23,267	
Total Interest Income		$143,612			$212,950	

Interest-Bearing Liabilities:						
Client Interest Program	$5,383,546	$ 8,405	0.62%	$ 5,303,582	$ 53,642	4.05%
Interest-Bearing Liabilities of RJBank (1)	9,097,350	15,784	0.69%	6,079,863	66,515	4.38%
Stock Loan		1,439			11,305	
Interest-Bearing Liabilities of Variable Interest Entities		1,397			1,619	
Other		4,866			10,283	
Total Interest Expense		31,891			143,364	
Net Interest Income		$111,721			$ 69,586	

(1) See RJBank section below in Part I for details.

Net interest income increased $42 million, or 61%, over the same quarter in the prior year. RJBank's net interest income increased $59 million, or 168%, while net interest income in the PCG segment declined $16 million, or 57%. RJBank benefitted not only from the continued growth of its loan portfolio but also from increased spreads. There were two specific factors which enhanced the interest rate spreads at RJBank as follows: (1) as rates were declining over the quarter, a larger spread was realized on the large portion of the 5/1 adjustable rate mortgage portfolio that is still in its fixed rate period; and (2) RJBank benefitted from a historically low Fed rate which lowered RJBank's cost of funds, as RJBank sets interest rates on deposits consistent with the Fed rate. As a result, RJBank had an interest rate spread of 3.9% which is not sustainable for the long term.

Average client margin balances declined $268 million (18%) and assets segregated pursuant to regulations decreased $67 million over the same quarter of the prior year. Customer cash balances held in the Client Interest Program increased $80 million. Net interest income in the PCG segment was negatively impacted by lower margin balances and by lower spreads. This segment is negatively impacted by interest rate cuts as the rate is lowered immediately on the interest earning assets while the lowering of the interest rate paid to clients occurs over a period of weeks to remain competitive with money market fund yields.

Private Client Group

The PCG segment includes the retail branches of the Company's broker-dealer subsidiaries located throughout the United States, Canada, and the United Kingdom. These branches provide securities brokerage services including the sale of equities, mutual funds, fixed income products and insurance products to their individual clients. This segment accounted for 60% of the Company's revenues for the three months ended December 31, 2008. It generates revenues principally through commissions charged on securities transactions, fees from wrap fee investment accounts and the interest revenue generated from client margin loans and cash balances. The Company primarily charges for the services provided to its PCG clients based on commission schedules or through asset based advisory fees.

The success of the PCG segment is dependent upon the quality and integrity of its Financial Advisors and support personnel and the Company's ability to attract, retain, and motivate a sufficient number of these associates. The Company faces competition for qualified associates from major financial services companies, including other brokerage firms, insurance companies, banking institutions, and discount brokerage firms. The Company currently offers several affiliation alternatives for Financial Advisors ranging from the traditional branch setting, under which the Financial Advisors are employees of the Company and the costs associated with running the branch are incurred by the Company, to the independent contractor model, under which the Financial Advisors are responsible for all of their own direct costs. Accordingly, the independent contractor Financial Advisors are paid a larger percentage of commissions and fees. By offering alternative models to potential and existing Financial Advisors, the Company is able to effectively compete with a wide variety of other brokerage firms for qualified Financial Advisors, as Financial Advisors can choose the model that best suits their practice and profile. For the past several years, the Company has focused on increasing its minimum production standards and recruiting Financial Advisors with high average production. The following table presents a summary of Private Client Group Financial Advisors as of the periods indicated:

	Employee	Independent Contractors	December 31, 2008 Total	December 31, 2007 Total
Private Client Group - Financial Advisors:				
RJA	1,206	-	1,206	1,109

RJFS	-	3,123	3,123	3,060
RJ Ltd.	204	214	418	331
Raymond James Investment		101		
Services Limited (“RJIS”)	-		101	82
Total Financial Advisors	1,410	3,438	4,848	4,582

Private Client Group revenues were 22% below the prior year quarter, reflecting the impact of negative market conditions on this segment. Securities commissions and fees declined 17% despite a 6% increase in the number of Financial Advisors. All of the Company’s broker-dealers experienced positive results in recruiting successful Financial Advisors as the brokerage industry continues to be in a state of unrest. Unfortunately, the financial markets themselves have been in a decline and clients are not investing as actively. As a result average annual production per Financial Advisor declined from $328,000 to $323,000 in RJFS and from $514,000 to $493,000 in RJA since the same quarter in the prior year. In addition, the lower equity values in the marketplace result in lower asset under management balances and therefore lower fees are earned on those assets.

Private Client Group results also include the interest revenue earned on client margin balances and cash segregated for regulatory purposes net of the interest expense paid on client cash balances. The net interest from these balances declined $16 million, or 57%, from the prior year as interest rates fell to record low levels, thus compressing spreads. In addition, client margin balances have declined $357 million since the prior year.

While net revenues declined 15% from the prior year, pre-tax earnings declined 42%, with non-interest expenses declining only 11%. The expenses include increased occupancy related to RJA's growth and a $6 million write-off of capitalized software that was determined not to be a viable asset during the quarter. Increased payouts or front money associated with recruiting was offset by a $2 million bonus reversal and other cost saving measures.

Capital Markets

The Capital Markets segment includes institutional sales and trading in the United States, Canada, and Europe; management of and participation in underwritings; financial advisory services including private placements and merger and acquisition services; public finance activities; and the syndication and related management of investment partnerships designed to yield returns in the form of low-income housing tax credits to institutions. The Company provides securities brokerage services to institutions with an emphasis on the sale of U.S. and Canadian equities and fixed income products. Institutional sales commissions accounted for 71% of the segment's revenues and are driven primarily through trade volume, resulting from a combination of general market activity and by the Capital Markets group's ability to find attractive investment opportunities and promote those opportunities to potential and existing clients. Revenues from investment banking activities are driven principally by the number and the dollar value of the transactions with which the Company is involved. This segment also includes trading of taxable and tax-exempt fixed income products, as well as equity securities in the OTC and Canadian markets. This trading involves the purchase of securities from, and the sale of securities to, clients of the Company or other dealers who may be purchasing or selling securities for their own account or acting as agent for their clients. Profits and losses related to this trading activity are primarily derived from the spreads between bid and ask prices in the relevant market.

Capital Markets pre-tax results increased over 200% from the prior year as trading results shifted from a nominal loss to a $7.5 million gain and fixed income commissions increased over 150%. All of the segment's trading profits were generated by fixed income, as the bond market was volatile and active. The fixed income markets' volatility has generated activity as clients are attracted to the possibility of better yields and others are selling holdings to obtain liquidity. The segment results also included increased mergers and acquisition fees over the prior year's comparable quarter. The negative market conditions that impacted the Private Client Group also impacted Capital Markets as there were only three domestic and three Canadian underwritings in the quarter. An improvement in the overall equity markets will likely be necessary to realize a significant increase in underwritings and the related commissions and fees. The segment benefitted from a $6 million reversal of a bonus accrual.

	Three Months Ended	
	December 31, 2008	December 31, 2007
Number of managed/co-managed public equity offerings:		
United States	3	19
Canada	3	8
Total dollars raised (in 000's):		
United States	$12,752,000	$ 7,522,000
Canada (in U.S. dollars)	$ 47,000	$ 234,000

Asset Management

The Asset Management segment includes investment portfolio management services, mutual fund management, private equity management, and trust services. Investment portfolio management services include both proprietary and selected outside money managers. The majority of the revenue for this segment is generated by the investment advisory fees related to asset management services for individual investment portfolios and mutual funds. These accounts are billed a fee based on a percentage of assets. Investment advisory fees are charged based on either a single point in time within the quarter, typically the beginning or end of a quarter, or the "average daily" balances of assets under management. The balance of assets under management is affected by both the performance of the underlying investments and the new sales and redemptions of client accounts/funds. Declining equity markets negatively impact revenues from investment advisory fees as existing accounts depreciate in value, in addition to individuals and institutions being less likely to commit new funds to the equity markets.

The following table presents the assets under management as of the dates indicated:

	December 31, 2008	September 30, 2008	December 31, 2007
Assets Under Management (in 000's):			
Eagle Asset Management, Inc.	$ 11,154,995	$ 12,606,186	$ 14,224,337
Eagle Family of Mutual Funds (formerly Heritage)	8,723,899	9,151,787	9,746,392
Raymond James Consulting Services	6,600,908	7,989,510	9,424,142
Eagle Boston Investment Management, Inc.	312,983	633,646	740,069
Freedom Accounts	5,926,010	7,603,840	8,388,208
Total Assets Under Management	$ 32,718,795	$ 37,984,969	$ 42,523,148
Less: Assets Managed for Affiliated Entities	(5,012,341)	(4,675,129)	(5,249,550)
Total Third Party Assets Under Management	$ 27,706,454	$ 33,309,840	$ 37,273,598
Non-Managed Fee Based Assets:			
Passport	$ 15,180,929	$ 17,681,201	$ 20,147,134
IMPAC	7,122,251	8,436,116	8,675,982
Total	$ 22,303,180	$ 26,117,317	$ 28,823,116

The Asset Management segment's revenues declined 21% as financial assets under management declined 26% from the previous year. The decline is a combined result of the decline in market values of the equity portfolios and fewer clients investing, as they are hesitant to make new or additional investments in the uncertain markets.

Raymond James Bank

RJBank provides residential, consumer, and corporate loans, as well as FDIC-insured deposit accounts, to clients of the Company's broker-dealer subsidiaries and to the general public. RJBank also purchases residential whole loan pools, and participates with other banks in corporate loan syndications. RJBank generates revenue principally through the interest income earned on the loans noted above and other investments, offset by the interest expense it incurs on

client deposits and borrowings. RJBank's objective is to maintain a substantially duration-matched portfolio of assets and liabilities.

Gross revenues increased 6% and pre-tax profits at RJBank increased 270% during the quarter ended December 31, 2008 compared to the same quarter in the prior year. Loan interest and fees at RJBank increased $15 million despite lower interest rates, with the net loan balances increasing from $5.7 billion to $7.7 billion and total assets increasing from $6.8 billion to $9.5 billion. Deposits increased 42% from $6.2 billion to $8.8 billion. Interest expense decreased 76% due to the average cost of funds decreasing from 4.38% to 0.69%. The growth in loan balances at RJBank combined with deteriorating market conditions gave rise to an attendant increase in loan loss provisions; the provisions for loan loss were $24.9 million compared to $12.8 million in the prior year quarter. Net loan charge-offs for the quarter totaled $6.9 million. RJBank recorded an unrealized pre-tax loss of $85 million during the quarter related to their available for sale securities portfolio.

The tables below present certain credit quality trends for corporate loans and residential/consumer loans:

	Three Months Ended	
	December 31, 2008	December 31, 2007
	(in 000's)	
Net Loan Charge-offs:		
Corporate Loans	$ 3,141	$ 372
Residential/Consumer Loans	3,744	214
Total	$ 6,885	$ 586

	December 31, 2008	September 30, 2008
	(in 000's)	
Allowance for Loan Loss:		
Corporate Loans	$ 94,082	$ 79,404
Residential/Consumer Loans	12,058	8,751
Total	$ 106,140	$ 88,155
Nonperforming Assets:		
Corporate	$ 47,336	$ 39,390
Residential/Consumer	29,414	22,918
Total	$ 76,750	$ 62,308
Total Loans (1):		
Corporate Loans (1)	$ 4,930,866	$ 4,563,065
Residential/Consumer Loans (1)	2,852,065	2,620,317
Total	$ 7,782,931	$ 7,183,382

(1) Net of unearned income and deferred expenses.

The following table presents average balance data and interest income and expense data for the Company's banking operations, as well as the related interest yields/costs, rates and interest spread for the periods indicated. The respective average rates are presented on an annualized basis.

	Three Months Ended					
	December 31, 2008			December 31, 2007		
	Average Balance	Interest Inc./Exp.	Average Yield/ Cost	Average Balance	Interest Inc./Exp.	Average Yield/ Cost
	($ in 000's)					
	(continued on next page)					
Interest-Earning Banking Assets:						
Loans, Net of Unearned Income (1)	$ 7,637,064	$ 99,645	5.22%	$ 5,096,938	$ 84,259	6.61%
Reverse Repurchase Agreements	507,554	545	0.43%	665,326	7,868	4.73%
Agency Mortgage backed Securities	252,276	1,885	2.99%	188,604	2,474	5.25%
Non-agency Collateralized Mortgage Obligations	277,159	5,629	8.12%	388,896	5,580	5.74%
Money Market Funds, Cash and Cash Equivalents	929,728	2,426	1.04%	119,280	1,407	4.72%
FHLB Stock and Other	34,598	117	1.35%	8,663	131	6.05%
Total Interest-Earning Banking Assets	$9,638,379	$ 110,247	4.58%	$ 6,467,707	$ 101,719	6.29%
Non-Interest-Earning Banking Assets and Allowance for Loan Losses	47,255			18,247		
Total Banking Assets	$ 9,685,634			$ 6,485,954		
Interest-Bearing Banking Liabilities:						
Retail Deposits:						
Certificates of Deposit	$ 239,685	$ 2,448	4.09%	$ 241,888	$ 2,816	4.66%
Money Market, Savings, and NOW (2) Accounts	8,801,172	12,635	0.57%	5,595,959	60,620	4.33%

FHLB Advances and Other	56,493	701	4.96%	242,016	3,079	5.09%
Total Interest-Bearing Banking Liabilities	$ 9,097,350	$ 15,784	0.69%	$ 6,079,863	$ 66,515	4.38%
Non-Interest-Bearing Banking Liabilities	5,956			21,855		
Total Banking Liabilities	9,103,306			6,101,718		
Total Banking Shareholder's Equity	582,328			384,236		
Total Banking Liabilities and Shareholder's Equity	$ 9,685,634			$ 6,485,954		

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	Three Months Ended					
	December 31, 2008			December 31, 2007		
	Average Balance	Interest Inc./Exp.	Average Yield/ Cost	Average Balance	Interest Inc./Exp.	Average Yield/ Cost
	($ in 000's)					
	(continued)					
Excess of Interest-Earning Banking Assets Over Interest-Bearing Banking Liabilities/Net Operating Interest Income	$ 541,029	$ 94,463		$ 387,844	$ 35,204	
Bank Net Interest (3):						
Spread			3.89%			1.91%
Margin (Net Yield on Interest- Earning Bank Assets)			3.92%			2.18%
Ratio of Interest Earning Banking Assets to Interest-Bearing Banking Liabilities			105.95%			106.38%
Return On Average:						
Total Banking Assets			1.42%			0.57%
Total Banking Shareholder's Equity			23.59%			9.80%
Average Equity to Average Total Banking Assets			6.01%			5.92%

(1) Nonaccrual loans are included in the average loan balances. Payments or income received on impaired nonaccrual loans are applied to principal. Income on other nonaccrual loans is recognized on a cash basis. Fee income on loans included in interest income for the three months ended December 31, 2008 and 2007 was $4.4 million and $3.0 million, respectively.

(2) Negotiable Order of Withdrawal ("NOW") account.

(3) The increase in interest spreads is due to a rapid decline in short-term interest rates, which led to a decline in RJBank's cost of funds.

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Increases and decreases in interest income and operating interest expense result from changes in average balances (volume) of interest-earning banking assets and liabilities, as well as changes in average interest rates. The following table shows the effect that these factors had on the interest earned on RJBank's interest-earning assets and the interest incurred on its interest-bearing liabilities. The effect of changes in volume is determined by multiplying the change in volume by the previous year's average yield/cost. Similarly, the effect of rate changes is calculated by multiplying the change in average yield/cost by the previous year's volume. Changes applicable to both volume and rate have been allocated proportionately.

	Three Months Ended December 31, 2008 Compared to 2007 Increase (Decrease) Due To		
	Volume	Rate	Total
	(in 000's)		
Interest Revenue			
Interest-Earning Banking Assets:			
Loans, Net of Unearned Income	$ 41,991	$ (26,605)	$ 15,386
Reverse Repurchase Agreements	(1,866)	(5,457)	(7,323)
Agency Mortgage Backed Securities	836	(1,425)	(589)
Non-agency Collateralized Mortgage Obligations	(1,604)	1,653	49
Money Market Funds, Cash and Cash Equivalents	9,560	(8,541)	1,019
FHLB Stock and Other	392	(406)	(14)
Total Interest-Earning Banking Assets	$ 49,309	$ (40,781)	$ 8,528
Interest Expense			
Interest-Bearing Banking Liabilities:			
Retail Deposits:			
Certificates Of Deposit	$ (26)	$ (342)	$ (368)
Money Market, Savings and NOW Accounts	34,723	(82,708)	(47,985)
FHLB Advances and Other	(2,360)	(18)	(2,378)
Total Interest-Bearing Banking Liabilities	$ 32,337	$ (83,068)	$ (50,731)
Change in Net Interest Income	$ 16,972	$ 42,287	$ 59,259

Emerging Markets

The Emerging Markets segment includes the Company's joint ventures in Latin America and Turkey. The Company's joint venture in Turkey ceased conducting business during the quarter and has filed for bankruptcy. This accounts for 80% of the decline in revenues within this segment. The remaining decline was due to the global market conditions resulting in declines in commission and investment advisory revenue in Latin America.

Stock Loan/Stock Borrow

This segment conducts its business through the borrowing and lending of securities from and to other broker-dealers, financial institutions and other counterparties, generally as an intermediary. The borrower of the securities puts up a cash deposit, commonly 102% of the market value of the securities, on which interest is earned. Accordingly, the lender receives cash and pays interest. These cash deposits are adjusted daily to reflect changes in current market value. The net revenues of this operation are the interest spreads generated.

Stock Loan revenues declined 76%, with net revenues declining 28%. Both gross interest revenue and expense declined due to both lower rates and average balances, down over 50% from the prior year. The average interest rate spread increased a modest 10%. Non-interest expenses were well controlled, down 32% from the prior year's comparable quarter. As a result, the segments pre-tax income is down 26% from the same quarter in the prior year.

Proprietary Capital

This segment consists of the Company’s principal capital and private equity activities including: various direct and third party private equity and merchant banking investments, short-term special situation mezzanine and bridge investments, Raymond James Employee Investment Funds I and II (the “EIF Funds”), and three private equity funds sponsored by the Company: Raymond James Capital Partners, L.P., a merchant banking limited partnership, and Ballast Point Ventures, L.P. and Ballast Point Ventures II, L.P., venture capital limited partnerships (the “Funds”). The Company earns management fees for services provided to two of the Funds and participates in profits or losses through both general and limited partnership interests. Additionally, the Company incurs profits or losses as a result of direct merchant banking investments and short-term special situation mezzanine and bridge investments. The EIF Funds are limited partnerships, for which the Company is the general partner, that invest in the merchant banking and private equity activities of the Company and other unaffiliated venture capital limited partnerships. The EIF Funds were established as compensation and retention measures for certain qualified key employees of the Company.

Proprietary Capital results improved modestly from the prior year due to higher advisory fees.

Other

This segment includes various corporate activities of Raymond James Financial, Inc. including certain compensation accruals, interest on corporate cash and corporate expenses. Revenues in the segment declined due to lower interest earnings. Pre-tax earnings were also impacted by 22% higher non-interest expenses.

Liquidity and Capital Resources

The Company’s senior management establishes the liquidity and capital policies of the Company. These policies include senior management’s review of short- and long-term cash flow forecasts, review of monthly capital expenditures, the monitoring of the availability of alternative sources of financing, and the daily monitoring of liquidity in the Company’s significant subsidiaries. Decisions on the allocation of capital to business units considers, among other factors, projected profitability and cash flow, risk and impact on future liquidity needs. The Company’s Treasury Department assists in evaluating, monitoring and controlling the impact that the Company’s business activities have on its financial condition, liquidity and capital structure as well as maintains the relationships the Company has with various lenders. The objectives of these policies are to support the successful execution of the Company’s business strategies while ensuring ongoing and sufficient liquidity.

The unprecedented volatility of the financial markets, accompanied by a severe deterioration of economic conditions worldwide, has had a pronounced adverse affect on the availability of credit through traditional sources. As a result of concern about the stability of the markets generally and the strength of counterparties specifically, many lenders have reduced and, in some cases, ceased to provide funding to the Company. See Sources of Liquidity-Borrowings section below for additional information. Further, the current environment is not conducive to most types of financings.

Liquidity is provided primarily through the Company’s business operations and financing activities.

Cash provided by operating activities during the three months ended December 31, 2008 was approximately $272.0 million, which was primarily attributable to the decrease in brokerage client receivables, the increase in brokerage client deposits (directly correlated to the increase in segregated assets), the decrease in stock borrowed receivables, and the decrease in receivables from broker-dealers and clearing organizations. This was partially offset by the increase in segregated assets, the decrease in payables to broker-dealers and clearing organizations, the decrease in stock loaned payables, and the decrease in accrued compensation payable.

Investing activities used $994.7 million, which was primarily due to loans originated and purchased by RJBank, purchases of securities purchased under agreements to resell at RJBank, and to additional investments made in real estate partnerships held by VIEs. This was partially offset by loan repayments to RJBank.

Financing activities used $2.0 billion, predominantly the result of repayments on borrowed funds, including the $1.9 billion overnight borrowing to meet point-in-time regulatory balance sheet composition requirements related to RJBank's qualifying as a thrift institution at September 30, 2008, and the payment of cash dividends. This was partially offset by the proceeds from borrowed funds related to company-owned life insurance (see more information in the Other Sources of Liquidity section below) and an increase in deposits at RJBank.

The Company believes its existing assets, most of which are liquid in nature, together with funds generated from operations and potential external financing, should provide adequate funds for continuing operations at current levels of activity.

Sources of Liquidity

In addition to the liquidity provided through the Company's business operations, the Company has various potential sources of capital.

Liquidity Available from Subsidiaries

The Company's two principal domestic broker-dealer subsidiaries are required to maintain net capital equal to the greater of $250,000 or 2% of aggregate debit balances arising from customer transactions. At December 31, 2008, both of these brokerage subsidiaries far exceeded their minimum net capital requirements. At that date, these subsidiaries had excess net capital of $286.8 million, of which approximately $150 to $200 million is available for dividend (subject to cash availability and possibly to regulatory approval) while still maintaining a capital level well above regulatory "early warning" guidelines.

Subject to notification and in some cases approval by the Office of Thrift Supervision ("OTS"), RJBank may dividend to the Company as long as RJBank maintains its "well capitalized" status under bank regulatory capital guidelines.

Liquidity available to the Company from its subsidiaries, other than its broker-dealer subsidiaries and RJBank, is not limited by regulatory requirements.

Borrowings and Financing Arrangements

The following table presents the Company's domestic financing arrangements as of December 31, 2008:

	Committed Unsecured	Committed Collateralized	Uncommitted Collateralized	Uncommitted Unsecured	Total Financing Arrangements
			(in 000's)		
RJA (with third party lenders)	$ -	$ 150,000	$ 235,100	$ 150,000	$ 535,100
RJA (with related parties)	-	-	360,000	-	360,000
RJF	50,000	-	-	-	50,000
Total Company	$ 50,000	$ 150,000	$ 595,100	$ 150,000	$ 945,100

At December 31, 2008, the Company maintained three 364-day committed and several uncommitted financing arrangements denominated in U.S. dollars and one uncommitted line of credit denominated in Canadian dollars ("CDN"). At December 31, 2008, the aggregate domestic facilities were $945.1 million and the Canadian line of credit was CDN $40 million. Lenders are under no obligation to lend to the Company under uncommitted lines and there have been several recent instances where they were unwilling to do so.

On January 8, 2009, RJF amended its revolving credit agreement with JPMorgan Chase Bank and three other commercial banks. The amendment extended the facility termination date until January 22, 2009 and continued the aggregate commitment of the lenders at $50 million, the amount of loans then currently outstanding under the agreement. RJF repaid the outstanding loan balance on the facility termination date. On February 6, 2009, RJF closed on a new $100 million unsecured revolving credit agreement. Drawings on this line are subject to the Company's receipt of approval from the U.S. Treasury to participate in the Capital Purchase Program ("CPP").

RJA maintains a $50 million committed secured line of credit and a $100 million committed tri-party repurchase arrangement, each with a commercial bank. At December 31, 2008, there were collateralized financings of $40 million outstanding under the $100 million tri-party repurchase arrangement. These borrowings are included in Securities Sold Under Agreements to Repurchase on the Condensed Consolidated Statement of Financial Condition and are collateralized by RJA-owned securities with a market value of approximately $64 million. RJA's committed facilities with the two commercial banks are subject to 0.15% and 0.125% per annum facility fees, respectively.

In addition, RJA maintains $235.1 million in uncommitted secured facilities. At December 31, 2008, RJA also maintained $360 million in uncommitted tri-party repurchase arrangements with related parties, including an arrangement with RJFS. RJBank had provided $300 million of those uncommitted arrangements to RJA, which was guaranteed by RJF. Approximately $240 million was available until January 30, 2009 under an exception from affiliate lending regulations granted by the OTS. RJBank has applied for an extension from the OTS until October 30, 2009, since such an extension was granted by the Federal Reserve on January 30, 2009. Collateral for loans under secured lines of credit and securities sold under repurchase agreements (collectively "collateral") are RJA-owned and/or client margin securities, as permitted by regulatory requirements. The required market value of the collateral ranges from 102% to 125% of the cash provided. Although RJA had $510 million committed or related party collateralized financing arrangements available, at December 31, 2008, RJA's Fixed Income inventory available to serve as collateral is typically substantially less. Unsecured loan facilities available to RJA total $150 million of uncommitted unsecured lines of credit.

In addition, the Company's joint ventures in Turkey and Argentina have multiple settlement lines of credit. The Company has guaranteed certain of these settlement lines of credit as follows: one in Turkey totaling $8 million and one in Argentina for $9 million. At December 31, 2008, there were no outstanding balances on the settlement lines in Turkey or Argentina. At December 31, 2008 the aggregate unsecured settlement lines of credit available were $4.4 million, and there were no outstanding balances on these lines. On December 5, 2008, the Company's Turkish joint venture ceased operations. See Note 12 of the Notes to the Condensed Consolidated Financial Statements for more information.

RJBank had $50 million in FHLB advances outstanding at December 31, 2008, which comprises several long-term, fixed rate advances. RJBank had $1.7 billion in immediate credit available from the FHLB on December 31, 2008 and total available credit of 40% of total assets, with the pledge of additional collateral to the FHLB. See Note 9 of the Notes to Condensed Consolidated Financial Statements for more information.

At December 31, 2008 and September 30, 2008, the Company had loans payable of $161.3 million and $2.2 billion, respectively. The balance at December 31, 2008 is comprised of a $61.3 million mortgage loan for its home-office complex, $50 million in FHLB advances (RJBank), and $50 million outstanding on its committed line of credit.

Other Sources of Liquidity

The Company owns a significant number of life insurance policies utilized to fund certain non-qualified deferred compensation plans. The Company is able to borrow up to 90% of the cash surrender value of these policies. To further solidify its cash position, the Company borrowed the full 90%, or $38 million, against these policies in December 2008. There is no specified maturity for this loan.

The Company believes that it qualifies to participate in the U.S. Treasury's CPP and submitted an application through its primary regulator in November 2008. While there is no guarantee that the Company will be approved, the Company estimates that this program could provide up to approximately $300 million in new preferred equity. While the Company views additional capital as beneficial in the current environment, it would also have the potential to significantly improve the Company's liquidity position, which would be important in the event that Temporary Liquidity Guarantee Program ("TLGP") debt is not issued.

Once the Company has become a Bank Holding Company, which is anticipated in the next few months, it intends to apply for the FDIC's TLGP. Participation in the TLGP would be expected to assist the Company in obtaining several hundred million dollars of senior unsecured debt financing at the holding company level. The Company may also pursue other forms of debt financing that would not benefit from the TLGP. There is no assurance that any form of financing will be obtained.

If the Company were unable to obtain external financing, it may be necessary to reduce cash contributions to its subsidiaries, extract capital from its subsidiaries to the extent permitted to maintain continued compliance with regulatory requirements or reduce investments in private equity and venture capital endeavors. Those courses of action could result in foregoing opportunities to recruit additional Financial Advisors or acquire new business operations, reducing inventory levels of carried securities or scaling back of current business operations. A consequence of any of those courses of action would likely be a negative impact on near term earnings.

Statement of Financial Condition Analysis

The Company's statement of financial condition consists primarily of cash and cash equivalents (a large portion of which are segregated for the benefit of customers), receivables and payables. The items represented in the statement of financial condition are primarily liquid in nature, providing the Company with flexibility in financing its business. Total assets of $18.3 billion at December 31, 2008 were down approximately 3% from September 30, 2008 (excluding the cash received in the prior year from the $1.9 billion overnight borrowing at RJBank). Most of this modest decrease is due to changes in brokers-dealers gross assets and liabilities, including trading inventory, stock loan/borrow, receivables and payables from/to broker-dealers and clearing organizations which fluctuate with the Company's business levels and overall market conditions. Due to the Company's decision to decrease the rate of growth of RJBank's loan portfolio, the change in bank loans has had less of an impact on the Company's total assets during recent fiscal quarters than in the prior year.

As of December 31, 2008, the Company's liabilities are comprised primarily of brokerage client payables of $5.9 billion at the broker-dealer subsidiaries and deposits of $8.8 billion at RJBank, as well as deposits held on stock loan transactions of $549 million. The Company primarily acts as an intermediary in stock loan/borrow transactions. As a result, the liability associated with the stock loan transactions is related to the $558 million receivable comprised of the Company's cash deposits for stock borrowed transactions. To meet its obligations to clients, the Company has approximately $5.1 billion in cash and segregated assets. The Company also has client brokerage receivables of $1.3 billion and $7.7 billion in loans at RJBank.

Contractual Obligations, Commitments and Contingencies

The Company has contractual obligations of approximately $2.8 billion, with $2.3 billion coming due in the next twelve months related to its short and long-term debt, non-cancelable lease agreements, partnership investments, unfunded commitments to extend credit, unsettled loan purchases, underwriting commitments and a stadium naming rights agreement. Included in the obligations due within the next twelve months are $2.0 billion in commitments related to RJBank's letters of credit and lines of credit. Commitments related to letters of credit and lines of credit may expire without being funded in whole or part, therefore these amounts are not estimates of future cash flows (see Notes 12 and 16 of the Notes to the Condensed Consolidated Financial Statements for further information on the Company's commitments).

The Company's Board of Directors approved up to $200 million in short-term or mezzanine financing investments, primarily related to investment banking transactions. As of December 31, 2008, the Company did not have any such investments. The Board of Directors has approved the use of up to $75 million for investment in proprietary merchant banking opportunities. As of December 31, 2008, the Company has invested $32.3 million. The use of this capital is subject to availability of funds.

The Company is authorized by the Board of Directors to repurchase its common stock for general corporate purposes. There is no formal stock repurchase plan at this time. In May 2004 the Board authorized the repurchase of up to $75 million of shares. During March 2008, the Company exhausted this authorization. On March 11, 2008, the Board of Directors authorized an additional $75 million for repurchases at the discretion of the Board's Share Repurchase Committee. As of December 31, 2008 the unused portion of this authorization was $67.7 million.

RJBank provides to its affiliate, RJCS, on behalf of certain corporate borrowers, a guarantee of payment in the event of the borrower's default for exposure under interest rate swaps entered into with RJCS. At December 31, 2008 and September 30, 2008, the aggregate exposure under these guarantees was $14.5 million and $2.5 million respectively, which was underwritten as part of RJBank's larger corporate credit relationships. The estimated total potential exposure under these guarantees is $16.2 million at December 31, 2008.

RJBank has outstanding at any time a significant number of commitments to extend credit, and other credit-related off-balance sheet financial instruments such as standby letters of credit and loan purchases. Because many loan commitments expire without being funded in whole or part, the contract amounts are not estimates of the Company's future liquidity requirements. Based on the underlying terms and conditions of these loans, management believes it is highly unlikely that a material percentage of these commitments would be drawn. Many of these loan commitments have fixed expiration dates or other termination clauses and, historically, a large percentage of the letters of credit expire without being funded.

As of December 31, 2008, RJBank had entered into short-term reverse repurchase agreements totaling $1.1 billion with four counterparties, with individual exposures of $400 million, $300 million, $250 million and $100 million. Although RJBank is exposed to risk that these counterparties may not fulfill their contractual obligations, the Company believes the risk of default is minimal due to the U.S. Treasury securities received as collateral, the creditworthiness of these counterparties, which is closely monitored, and the short duration of these agreements.

The Company has also committed to lend to RJTCF, or guarantee obligations in connection with RJTCF's low income housing development/rehabilitation and syndication activities, aggregating up to $125 million upon request, subject to certain limitations as well as annual review and renewal. RJTCF borrows in order to invest in partnerships which purchase and develop properties qualifying for tax credits ("project partnerships"). These investments in project partnerships are then sold to various tax credit funds, which have third party investors, and for which RJTCF serves as the managing member or general partner. RJTCF typically sells these investments within 90 days of their acquisition, and the proceeds from the sales are used to repay RJTCF's borrowings. During the first quarter of fiscal year 2009, a subsidiary of the Company purchased 58 units in one of RJTCF's current fund offerings for a capital contribution of up to $58 million. At December 31, 2008, $30 million of capital had been contributed by the subsidiary to this fund. The subsidiary expects to resell these interests to other investors; however, the holding period of these interests could be much longer than 90 days. In addition to the 58 unit interest purchased, RJTCF provided certain specific performance guarantees to the investors of this fund. The Company has guaranteed the $58 million capital contribution obligation as well as the specified performance guarantees provided by RJTCF to the fund's investors. The unfunded capital contribution obligation is $28 million as of December 31, 2008. Additionally, RJTCF may make short-term loans or advances to project partnerships on behalf of the tax credit funds in which it serves as managing member or general partner. At December 31, 2008, cash funded to invest in either loans or investments in project partnerships (excluding the 58 unit purchase mentioned previously) was $10.3 million. In addition, at December 31, 2008, RJTCF is committed to additional future fundings (excluding the 58 unit purchase mentioned previously) of $300,000 related to project partnerships that have not yet been sold to various tax credit funds. The Company and RJTCF also issue certain guarantees to various third parties related to project partnerships, interests in which have been or are expected to be sold to one or more tax credit funds under RJTCF's management. In some instances, RJTCF is not the primary guarantor of these obligations which aggregate to a cumulative maximum obligation of approximately $14.9 million as of December 31, 2008. Through RJTCF's wholly owned lending subsidiary, Raymond James Multi-Family Finance, Inc., certain construction loans or loans of longer duration ("permanent loans") may be made directly to certain project partnerships. As of December 31, 2008 nine such construction loans are outstanding with an unfunded balance of $13.1 million available for future draws on such loans. Similarly, five permanent loan commitments are outstanding as of December 31, 2008. Each of these commitments will only be funded if certain conditions are achieved by the project partnership and in the event such conditions are not met, generally expire two years after their issuance. The total amount of such unfunded permanent loan commitments as of December 31, 2008 is $5.9 million.

The Company is the lessor in a leveraged commercial aircraft transaction with Continental Airlines, Inc. ("Continental"). The Company's ability to realize its expected return is dependent upon this airline's ability to fulfill its lease obligation. In the event that this airline defaults on its lease commitment and the Trustee for the debt holders is unable to re-lease or sell the plane with adequate terms, the Company would suffer a loss of some or all of its investment. The value of the Company's leveraged lease with Continental was approximately $8.8 million as of December 31, 2008. The Company's equity investment represented 20% of the aggregate purchase price; the remaining 80% was funded by public debt issued in the form of equipment trust certificates. The residual value of the aircraft at the end of the lease term of approximately 17 years is projected to be 15% of the original cost. This lease expires in May 2014. Although Continental remains current on its lease payments to the Company, the inability of Continental to make its lease payments, or the termination or modification of the lease through a bankruptcy proceeding, could result in the write-down of the Company's investment and the acceleration of certain income tax payments. The Company continues to monitor this lessee for specific events or circumstances that would increase the likelihood of a default on Continental's obligations under this lease.

The Company utilizes client marginable securities to satisfy deposits with clearing organizations. At December 31, 2008, the Company had client margin securities valued at $113.5 million pledged with a clearing organization to meet the point in time requirement of $63.9 million. At September 30, 2008, the Company had client margin securities valued at $210.0 million pledged with a clearing organization to meet the point in time requirement of $139.9 million.

In the normal course of business, certain subsidiaries of the Company act as general partner and may be contingently liable for activities of various limited partnerships. These partnerships engaged primarily in real estate activities. In the opinion of the Company, such liabilities, if any, for the obligations of the partnerships will not in the aggregate have a material adverse effect on the Company's consolidated financial position.

The Company entered into two agreements, both with Raymond James Trust, National Association ("RJT") and one with the Office of the Controller of the Currency ("OCC"), as a condition to RJT's conversion in January, 2008 from a state to a federally chartered institution. Under those agreements, the Company is obligated to provide RJT with sufficient capital in a form acceptable to the OCC to meet and maintain the capital and liquidity requirements commensurate with RJT's risk profile for its conversion and any subsequent requirements of the OCC. The conversion expands RJT's market nationwide, while substituting federal for multiple state regulatory oversight. RJT's federal charter limits it to fiduciary activities. Thus, capital requirements are not expected to be significant.

See Note 12 of the Notes to the Consolidated Financial Statements for further information on the Company's commitments and contingencies.

In addition, see Item 1, “Legal Proceedings,” in Part II of this report for discussion of auction rate securities (“ARS”) and the potential implications of the Company’s current liquidity position on its ability to resolve these matters.

Regulatory

The Company's broker-dealer subsidiaries are subject to requirements of the SEC in the United States and the IIROC in Canada relating to liquidity and capital standards. The domestic broker-dealer subsidiaries of the Company are subject to the requirements of the Uniform Net Capital Rule (Rule 15c3-1) under the Securities Exchange Act of 1934. RJA, a member firm of FINRA, is also subject to the rules of FINRA, whose requirements are substantially the same. Rule 15c3-1 requires that aggregate indebtedness, as defined, not exceed 15 times net capital, as defined. Rule 15c3-1 also provides for an “alternative net capital requirement”, which RJA, RJFS, Eagle Distribution Fund, Inc. (“EFD”) and Raymond James (USA) Ltd. have elected. It requires that minimum net capital, as defined, be equal to the greater of $250,000 or 2% of Aggregate Debit Items arising from client transactions. FINRA may require a member firm to reduce its business if its net capital is less than four percent of Aggregate Debit Items and may prohibit a member firm from expanding its business and declaring cash dividends if its net capital is less than 5% of Aggregate Debit Items. RJA, RJFS, EFD, Raymond James (USA) Ltd. all had net capital in excess of minimum requirements as of December 31, 2008.

RJ Ltd. is subject to the Minimum Capital Rule (By-Law No. 17 of the IIROC) and the Early Warning System (By-Law No. 30 of the IIROC). The Minimum Capital Rule requires that every member shall have and maintain at all times Risk Adjusted Capital greater than zero calculated in accordance with Form 1 (Joint Regulatory Financial Questionnaire and Report) and with such requirements as the Board of Directors of the IIROC may from time to time prescribe. Insufficient Risk Adjusted Capital may result in suspension from membership in the stock exchanges or the IIROC. The Early Warning System is designed to provide advance warning that a member firm is encountering financial difficulties. This system imposes certain sanctions on members who are designated in Early Warning Level 1 or Level 2 according to its capital, profitability, liquidity position, frequency of designation or at the discretion of the IIROC. Restrictions on business activities and capital transactions, early filing requirements, and mandated corrective measures are sanctions that may be imposed as part of the Early Warning System. RJ Ltd. was not in Early Warning Level 1 or Level 2 during the quarter ended December 31, 2008 or 2007.

RJBank is subject to various regulatory and capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory, and possibly, additional discretionary actions by regulators. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, RJBank must meet specific capital guidelines that involve quantitative measures of RJBank's assets, liabilities, and certain off-balance sheet items as calculated under regulatory accounting practices. RJBank's capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors. Quantitative measures established by regulation to ensure capital adequacy require RJBank to maintain minimum amounts and ratios of Total and Tier I Capital (as defined in the regulations) to risk-weighted assets (as defined). Management believes, as of December 31, 2008, that RJBank meets all capital adequacy requirements to which it is subject.

The Company has announced its plans to seek financial holding company status as a result of RJBank’s planned conversion from a thrift to a nationally-chartered commercial bank. The Company has filed to become a bank holding company, and then upon approval would elect to become a financial holding company. Once the financial holding company status is achieved, the Company would be under regulation of the Federal Reserve.

See Note 15 of the Notes to the Condensed Consolidated Financial Statements for further information on the Company’s regulatory environment.

Off-Balance Sheet Arrangements

Information concerning the Company’s off balance sheet arrangements is included in Note 16 of the Notes to the Condensed Consolidated Financial Statements. Such information is hereby incorporated by reference.

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Effects of Inflation

The Company's assets are primarily liquid in nature and are not significantly affected by inflation. However, the rate of inflation affects the Company's expenses, including employee compensation, communications and occupancy, which may not be readily recoverable through charges for services provided by the Company.

Factors Affecting "Forward-Looking Statements"

From time to time, the Company may publish "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities and Exchange Act of 1934, as amended, or make oral statements that constitute forward-looking statements. These forward-looking statements may relate to such matters as anticipated financial performance, future revenues or earnings, business prospects, projected ventures, new products, anticipated market performance, recruiting efforts, and similar matters. The Private Securities Litigation Reform Act of 1995 provides a safe harbor for forward-looking statements. In order to comply with the terms of the safe harbor, the Company cautions readers that a variety of factors could cause the Company's actual results to differ materially from the anticipated results or other expectations expressed in the Company's forward-looking statements. These risks and uncertainties, many of which are beyond the Company's control, are discussed in the section entitled "Risk Factors" of Item 1A of Part I included in the Company's Annual Report on Form 10-K for the year ended September 30, 2008 and in Item 1A of Part II of this report on Form 10-Q. The Company does not undertake any obligation to publicly update or revise any forward-looking statements.

Critical Accounting Policies

The condensed consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States of America. For a full description of these and other accounting policies, see Note 1 of the Notes to the Consolidated Financial Statements included in the Company's Annual Report on Form 10-K for the year ended September 30, 2008. The Company believes that of its significant accounting policies, those described below involve a high degree of judgment and complexity. These critical accounting policies require estimates and assumptions that affect the amounts of assets, liabilities, revenues and expenses reported in the condensed consolidated financial statements. Due to their nature, estimates involve judgment based upon available information. Actual results or amounts could differ from estimates and the difference could have a material impact on the condensed consolidated financial statements. Therefore, understanding these policies is important in understanding the reported results of operations and the financial position of the Company.

Valuation of Financial Instruments and Other Assets

"Trading instruments" and "Available for sale securities" are reflected in the Condensed Consolidated Statements of Financial Condition at fair value or amounts that approximate fair value. In accordance with SFAS 115, "Accounting for Certain Investments in Debt and Equity Securities", unrealized gains and losses related to these financial instruments are reflected in net income or other comprehensive income, depending on the underlying purpose of the instrument.

The Company adopted SFAS 157 and FSP SFAS 157-3 on October 1, 2008. The adoption of these pronouncements did not have any material impact on the financial position or operating results of the Company. SFAS 157 defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements required under other accounting pronouncements, but does not change existing guidance as to whether or not an instrument is carried at fair value. Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. The Company determines the fair values of

its financial instruments and assets and liabilities recognized at fair value in the financial statements on a recurring basis in accordance with SFAS 157. FSP SFAS No. 157-2 delays the effective date of SFAS 157 (until October 1, 2009 for the Company) for nonfinancial assets and nonfinancial liabilities, except for items recognized or disclosed at fair value on a recurring basis. As such, the Company has not applied SFAS 157 to the impairment tests or assessments under SFAS 142, real estate owned and nonfinancial long-lived assets measured at fair value for an impairment assessment under SFAS 144.

In determining fair value, the Company uses various valuation approaches, including market, income and/or cost approaches. Fair value is a market-based measure considered from the perspective of a market participant. As such, even when market assumptions are not readily available, the Company's own assumptions reflect those that market participants would use in pricing the asset or liability at the measurement date. The standard describes the following three levels used to classify fair value measurements:

Level 1—Quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2— Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3—Prices or valuation techniques that require inputs that are both significant to the fair value measurement and unobservable.

SFAS 157 requires the Company to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The availability of observable inputs can vary from instrument to instrument and in certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, an instrument's level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement. The Company's assessment of the significance of a particular input to the fair value measurement of an instrument requires judgment and consideration of factors specific to the instrument.

Valuation Techniques

The fair value for certain financial instruments is derived using pricing models and other valuation techniques that involve significant management judgment. The price transparency of financial instruments is a key determinant of the degree of judgment involved in determining the fair value of the Company's financial instruments. Financial instruments for which actively quoted prices or pricing parameters are available will generally have a higher degree of price transparency than financial instruments that are thinly traded or not quoted. In accordance with SFAS 157, the criteria used to determine whether the market for a financial instrument is active or inactive is based on the particular asset or liability. For equity securities, the Company's definition of actively traded was based on average daily volume and other market trading statistics. The Company considered the market for other types of financial instruments, including certain non-U.S. agency government securities and certain collateralized debt obligations, to be inactive as of December 31, 2008. As a result, the valuation of these financial instruments included significant management judgment in determining the relevance and reliability of market information available. The Company considered the inactivity of the market to be evidenced by several factors, including decreased price transparency caused by decreased volume of trades relative to historical levels, stale transaction prices and transaction prices that varied significantly either over time or among market makers.

Cash Equivalents

Cash equivalents consist of investments in money market mutual funds. Such instruments are classified within Level 1 of the fair value hierarchy.

Trading Instruments and Trading Instruments Sold but Not Yet Purchased

Trading Securities

Trading securities are comprised primarily of the financial instruments held by the Company's broker-dealer subsidiaries (see Note 4 of the Notes to the Condensed Consolidated Financial Statements for more information). When available, the Company uses quoted prices in active markets to determine the fair value of securities. Such instruments are classified within Level 1 of the fair value hierarchy. Examples include exchange traded equity securities and liquid government debt securities.

When instruments are traded in secondary markets and quoted market prices do not exist for such securities, the Company employs valuation techniques, including matrix pricing to estimate fair value. Matrix pricing generally utilizes spread-based models periodically re-calibrated to observable inputs such as market trades or to dealer price bids in similar securities in order to derive the fair value of the instruments. Valuation techniques may also rely on other observable inputs such as yield curves, interest rates and expected principal repayments, and default probabilities. Instruments valued using these inputs are typically classified within Level 2 of the fair value hierarchy. Examples include certain municipal debt securities, corporate debt securities, agency mortgage backed securities, and restricted equity securities in public companies. Management utilizes prices from independent services to corroborate its estimate of fair value. Depending upon the type of security, the pricing service may provide a listed price, a matrix price, or use other methods including broker-dealer price quotations.

Positions in illiquid securities that do not have readily determinable fair values require significant management judgment or estimation. For these securities the Company uses pricing models, discounted cash flow methodologies, or similar techniques. Securities valued using these techniques are classified within Level 3 of the fair value hierarchy. Examples include certain municipal debt securities, certain mortgage backed securities and equity securities in private companies. For certain collateralized mortgage obligations ("CMOs"), where there has been limited activity or less transparency around significant inputs to the valuation, such as assumptions regarding performance of the underlying mortgages, securities are currently classified as Level 3 even though the Company believes that Level 2 inputs could likely be obtainable should markets for these securities become more active in the future.

Derivative Contracts

The Company enters into interest rate swaps and futures contracts as part of its fixed income business to facilitate customer transactions and to hedge a portion of the Company's trading inventory. In addition, to mitigate interest rate risk should there be a significantly rising rate environment, Raymond James Bank ("RJBank") purchases interest rate caps. See Note 10 of the Notes to the Condensed Consolidated Financial Statements for more information. Fair values for derivative contracts are obtained from counterparties, pricing models that consider current market trading levels and the contractual prices for the underlying financial instruments, as well as time value and yield curve or other volatility factors underlying the positions. Where model inputs can be observed in a liquid market and the model does not require significant judgment, such derivative contracts are typically classified within Level 2 of the fair value hierarchy.

Available for Sale Securities

Available for sale securities are comprised primarily of CMOs and other mortgage related debt securities. Debt and equity securities classified as available for sale are reported at fair value with unrealized gains and losses, net of deferred taxes, reported in shareholders' equity as a component of accumulated other comprehensive income. See Note 5 of the Notes to the Condensed Consolidated Financial Statements for more information. The fair value of available for sale securities is determined by obtaining third party bid quotations based upon observable data including benchmark yields, reported trades, other broker-dealer quotes, issuer spreads, two-sided markets, benchmark securities, other bids,offers, new issue data, monthly payment information, collateral performance, and reference data including market research publications. Changes to fair value are recognized in Other Comprehensive Income. Securities measured using these valuation techniques are generally classified within Level 2 of the fair value hierarchy.

If these sources are not available, are deemed unreliable, or when an active market does not exist, then the fair value is estimated using pricing models or discounted cash flow analyses, using observable market data where available as well as unobservable inputs provided by management. Securities valued using these valuation techniques are classified within Level 3 of the fair value hierarchy.

The reference point for determining when securities are in a loss position is quarter end. As such, it is possible that a security had a fair value that exceeded its amortized cost on other days during the period. Unrealized losses deemed to be other-than-temporary for available for sale securities are included in current period earnings within Other Revenue and a new cost basis for the security is established. In order to evaluate the Company's risk exposure and any potential impairment of these securities, characteristics of each security owned such as collateral type, delinquency and foreclosure levels, credit enhancement, projected loan losses and collateral coverage are reviewed monthly by management. These factors, in addition to the Company's intent and ability to hold the investment for a time period sufficient to allow for the anticipated valuation recovery to the Company's cost basis, are also considered in determining whether these securities are other-than-temporarily impaired. Evidence considered in this assessment includes the reasons for the impairment, the severity and duration of the impairment, changes in value subsequent to year-end, and forecasted performance of the security. See Note 5 of the Notes to the Condensed Consolidated Financial Statements for more information.

Private Equity Investments

Private equity investments, held primarily by the Company's Proprietary Capital segment, consist of various direct and third party private equity and merchant banking investments. The valuation of these investments requires significant management judgment due to the absence of quoted market prices, inherent lack of liquidity and long-term nature of these assets. Direct private equity investments are valued initially at transaction price until significant transactions or developments indicate that a change in the carrying values of these investments is appropriate. Generally, the carrying values of these investments will be adjusted based on financial performance, investment-specific events, financing and sales transactions with third parties and changes in market outlook. Investments in funds structured as limited partnerships are generally valued based on the financial statements of the partnerships which generally use similar methodologies. Investments valued using these valuation techniques are classified within Level 3 of the fair value hierarchy.

Other Investments

Other investments consist predominantly of Canadian government bonds. The fair value of these bonds is estimated using recent external market transactions. Such bonds are classified within Level 2 of the fair value hierarchy as the external market transactions used are less frequent than those in active markets.

Goodwill

Goodwill is related to the acquisitions of Roney & Co. (now part of RJA) and Goepel McDermid, Inc. (now called Raymond James Ltd.). This goodwill, totaling $63 million, was allocated to the reporting units within the Private Client Group and Capital Markets segments pursuant to SFAS 142. Goodwill represents the excess cost of a business acquisition over the fair value of the net assets acquired. In accordance with this pronouncement, indefinite-life intangible assets and goodwill are not amortized. Rather, they are subject to impairment testing on an annual basis, or more often if events or circumstances indicate there may be impairment. This test involves assigning tangible assets and liabilities, identified intangible assets and goodwill to reporting units and comparing the fair value of each reporting unit to its carrying amount. If the fair value is less than the carrying amount, a further test is required to measure the amount of the impairment.

When available, the Company uses recent, comparable transactions to estimate the fair value of the respective reporting units. The Company calculates an estimated fair value based on multiples of revenues, earnings, and book value of comparable transactions. However, when such comparable transactions are not available or have become outdated, the Company uses discounted cash flow scenarios to estimate the fair value of the reporting units. As of December 31, 2008, goodwill had been allocated to the Private Client Group of RJA, and both the Private Client Group and Capital Markets segments of Raymond James Ltd. Due to the impact of negative market conditions on the Private Client Group and Capital Market segments the Company performed an analysis of the carrying value of the goodwill for each reporting unit. This analysis did not result in impairment. The Company will be performing its annual testing for impairment of goodwill during the quarter ending March 31, 2009. The results of this testing could result in the impairment of goodwill.

Allowance for Loan Losses and Other Provisions

The Company recognizes liabilities for contingencies when there is an exposure that, when fully analyzed, indicates it is both probable that a liability has been incurred or an asset has been impaired and the amount of loss can be reasonably estimated. When a range of probable loss can be estimated, the Company accrues the most likely amount; if not determinable, the Company accrues the minimum of the range of probable loss.

The Company records reserves related to legal proceedings in Trade and Other Payables. Such reserves are established and maintained in accordance with SFAS No. 5, "Accounting for Contingencies" (“SFAS 5”), and Financial Interpretation No. 14, “Reasonable Estimation of the Amount of a Loss”. The determination of these reserve amounts requires significant judgment on the part of management. Management considers many factors including, but not limited to: the amount of the claim; the amount of the loss in the client's account; the basis and validity of the claim; the possibility of wrongdoing on the part of an employee of the Company; previous results in similar cases; and legal precedents and case law. Each legal proceeding is reviewed with counsel in each accounting period and the reserve is adjusted as deemed appropriate by management. Lastly, each case is reviewed to determine if it is probable that insurance coverage will apply, in which case the reserve is reduced accordingly. Any change in the reserve amount is recorded in the consolidated financial statements and is recognized as a charge/credit to earnings in that period.

The Company also records reserves or allowances for doubtful accounts related to client receivables and loans. Client receivables at the broker-dealers are generally collateralized by securities owned by the brokerage clients. Therefore, when a receivable is considered to be impaired, the amount of the impairment is generally measured based on the fair value of the securities acting as collateral, which is measured based on current prices from independent sources such as listed market prices or broker-dealer price quotations.

Client loans at RJBank are generally collateralized by real estate or other property. RJBank provides for both an allowance for losses in accordance with SFAS 5 and a reserve for individually impaired loans in accordance with SFAS No. 114, "Accounting by a Creditor for Impairment of a Loan". The calculation of the SFAS 5 allowance is subjective as management segregates the loan portfolio into different homogeneous classes and assigns each class an allowance percentage based on the perceived risk associated with that class of loans. The loan grading process provides specific and detailed risk measurement across the corporate loan portfolio. The factors taken into consideration when assigning the reserve percentage to each reserve category include estimates of borrower default probabilities and collateral values; trends in delinquencies; volume and terms; changes in geographic distribution, lending policies, local, regional, and national economic conditions; concentrations of credit risk and past loss history. In addition, the Company provides for potential losses inherent in RJBank's unfunded lending commitments using the criteria above, further adjusted for an estimated probability of funding. For individual loans identified as impaired, RJBank measures impairment based on the present value of expected future cash flows discounted at the loan's effective interest rate, the loan's observable market price, or the fair value of the collateral if the loan is supported by collateral. At December 31, 2008, the amortized cost of all RJBank loans was $7.8 billion and an allowance for loan losses of $106.1 million was recorded against that balance. The total allowance for loan losses is equal to 1.36% of the amortized cost of the loan portfolio.

The following table allocates RJBank's allowance for loan losses by loan category:

	December 31, 2008		September 30, 2008	
	Allowance	Loan Category as a % of Total Loans Receivable	Allowance	Loan Category as a % of Total Loans Receivable
	($ in 000's)			
Commercial Loans	$ 10,138	9%	$ 10,147	10%
Real Estate Construction Loans	8,192	5%	7,061	5%
Commercial Real Estate Loans (1)	75,752	50%	62,197	49%
Residential Mortgage Loans	11,965	36%	8,589	36%
Consumer Loans	93	-	161	-
Total	$ 106,140	100%	$ 88,155	100%

(1) Loans wholly or partially secured by real estate.

The Company also makes loans or pays advances to Financial Advisors, primarily for recruiting and retention purposes. The Company provides for an allowance for doubtful accounts based on an evaluation of the Company's ability to collect such receivables. The Company's ongoing evaluation includes the review of specific accounts of Financial Advisors no longer associated with the Company and the Company's historical collection experience. At December 31, 2008 the receivable from Financial Advisors was $215.8 million, which is net of an allowance of $2.9 million for estimated uncollectibility.

Income Taxes

SFAS No. 109, “Accounting for Income Taxes”, as interpreted by FIN 48, establishes financial accounting and reporting standards for the effect of income taxes. The objectives of accounting for income taxes are to recognize the amount of taxes payable or refundable for the current year and deferred tax liabilities and assets for the future tax consequences of events that have been recognized in the Company’s financial statements or tax returns. Judgment is required in assessing the future tax consequences of events that have been recognized in the Company’s financial statements or tax returns. Variations in the actual outcome of these future tax consequences could materially impact the Company’s financial position, results of operations, or cash flows. See Note 10 of the Notes to the Condensed Consolidated Financial Statements for further information on the Company’s income taxes.

For discussion of the effects recently issued accounting standards not yet adopted will have on the Company’s accounting policies and consolidated financial statements, see Note 2 of the Notes to the Condensed Consolidated Financial Statements.

Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK

For a description of the Company's risk management policies, including a discussion of the Company's primary market risk exposures, which include interest rate risk and equity price risk, as well as a discussion of the Company's foreign exchange risk, credit risk, liquidity risk, operational risk, and regulatory and legal risk and a discussion of how these exposures are managed, refer to the Company's Annual Report on Form 10-K for the year ended September 30, 2008.

Market Risk

Market risk is the risk of loss to the Company resulting from changes in interest rates and security prices. The Company has exposure to market risk primarily through its broker-dealer and banking operations. The Company's broker-dealer subsidiaries, primarily RJA, trade tax exempt and taxable debt obligations and act as an active market maker in approximately 687 listed and over-the-counter equity securities. In connection with these activities, the Company maintains inventories in order to ensure availability of securities and to facilitate client transactions. Additionally, the Company, primarily within its Canadian broker-dealer subsidiary, invests for its own proprietary equity investment account.

See Notes 3 and 4 of the Notes to the Condensed Consolidated Financial Statements for information regarding the fair value of trading inventories associated with the Company's broker-dealer client facilitation, market-making and proprietary trading activities.

Changes in value of the Company's trading inventory may result from fluctuations in interest rates, credit ratings of the issuer, equity prices and the correlation among these factors. The Company manages its trading inventory by product type and has established trading divisions that have responsibility for each product type. The Company's primary method of controlling risk in its trading inventory is through the establishment and monitoring of limits on the dollar amount of securities positions that can be entered into and other risk-based limits. Limits are established both for categories of securities (e.g., OTC equities, corporate bonds, municipal bonds) and for individual traders. As of December 31, 2008, the absolute fixed income and equity inventory limits excluding contractual underwriting commitments for the Company's domestic subsidiaries, were $1.96 billion and $59.8 million, respectively. These same inventory limits for RJ Ltd. as of December 31, 2008, were $47.3 million and $62.5 million, respectively. The Company's trading activities in the aggregate were significantly below these limits at December 31, 2008. Position limits in trading inventory accounts are monitored on a daily basis. Consolidated position and exposure reports are prepared and distributed to senior management. Limit violations are carefully monitored. Management also monitors inventory levels and trading results, as well as inventory aging, pricing, concentration and securities ratings. For derivatives, primarily interest rate swaps, the Company monitors exposure in its derivatives subsidiary daily based on established limits with respect to a number of factors, including interest rate, spread, ratio, basis, and volatility risk. These exposures are monitored both on a total portfolio basis and separately for selected maturity periods.

In the normal course of business, the Company enters into underwriting commitments. RJA and RJ Ltd., as a lead, co-lead or syndicate member in the underwriting deal, may be subject to market risk on any unsold shares issued in the offering to which they are committed. Risk exposure is controlled by limiting participation, the deal size or through the syndication process.

Interest Rate Risk

The Company is exposed to interest rate risk as a result of maintaining trading inventories of fixed income instruments and actively manages this risk using hedging techniques that involve swaps, futures, and U.S. Treasury obligations. The Company monitors, on a daily basis, the Value-at-Risk ("VaR") in its institutional Fixed Income trading portfolios

(cash instruments and interest rate derivatives). VaR is an appropriate statistical technique for estimating the potential loss in trading portfolios due to typical adverse market movements over a specified time horizon with a suitable confidence level.

To calculate VaR, the Company uses historical simulation. This approach assumes that historical changes in market conditions are representative of future changes. The simulation is based upon daily market data for the previous twelve months. VaR is reported at a 99% confidence level, based on a one-day time horizon. This means that the Company could expect to incur losses greater than those predicted by the VaR estimates only once in every 100 trading days, or about 2.5 times a year on average over the course of time. During the three months ended December 31, 2008, the reported daily loss in the institutional Fixed Income trading portfolio exceeded the predicted VaR one time.

However, trading losses on a single day could exceed the reported VaR by significant amounts in unusually volatile markets and might accumulate over a longer time horizon, such as a number of consecutive trading days. Accordingly, management employs additional interest rate risk controls including position limits, a daily review of trading results, review of the status of aged inventory, independent controls on pricing, monitoring of concentration risk, and review of issuer ratings.

The following tables set forth the high, low, and daily average VaR for the Company's overall institutional portfolio during the three months ended December 31, 2008, with the corresponding dollar value of the Company's portfolio:

	Three Months Ended December 31, 2008			VaR at	
	High	Low	Daily Average	December 31, 2008	September 30, 2008
			($ in 000's)		
Daily VaR	$ 901	$ 296	$ 603	$ 446	$ 586
Related Portfolio Value (Net) (1)	$ 98,176	$ 97,195	$ 110,295	$ 86,215	$ 103,047
VaR as a Percent of Portfolio Value	0.92%	0.30%	0.55%	0.52%	0.57%

(1) Portfolio value achieved on the day of the VaR calculation.

The modeling of the risk characteristics of trading positions involves a number of assumptions and approximations. While management believes that its assumptions and approximations are reasonable, there is no uniform industry methodology for estimating VaR, and different assumptions or approximations could produce materially different VaR estimates. As a result, VaR statistics are more reliable when used as indicators of risk levels and trends within a firm than as a basis for inferring differences in risk-taking across firms.

Additional information is discussed under Derivative Financial Instruments in Note 10 of the Notes to the Condensed Consolidated Financial Statements.

RJ Ltd.'s net income is sensitive to changes in interest rate conditions. Assuming a shift of 100 basis points in interest rates and using interest-bearing asset and liability balances as of December 31, 2008, RJ Ltd.'s sensitivity analysis indicates that an upward movement would increase RJ Ltd.'s net income by approximately CDN$46,000 for the quarter, whereas a downward shift of the same magnitude would decrease RJ Ltd.'s net income by approximately this same amount for the quarter. This sensitivity analysis is based on the assumption that all other variables remain constant.

RJBank maintains an earning asset portfolio that is comprised of mortgage, corporate and consumer loans, as well as mortgage backed securities, securities purchased under resale agreements, deposits at other banks and other investments. Those earning assets are funded in part by: its obligations to clients, including NOW accounts, demand deposits, money market accounts, savings accounts, and certificates of deposit; and FHLB advances. Based on the current earning asset portfolio of RJBank, market risk for RJBank is limited primarily to interest rate risk. In the

current market and economic environment, short term interest rate risk has been severely impacted as credit conditions have rapidly deteriorated and financial markets have experienced widespread illiquidity and elevated levels of volatility. RJBank analyzes interest rate risk based on forecasted net interest income, which is the net amount of interest received and interest paid, and the net portfolio valuation, both in a range of interest rate scenarios. The following table represents the carrying value of RJBank's assets and liabilities that are subject to market risk. This table does not include financial instruments with limited market risk exposure due to offsetting asset and liability positions, short holding periods or short periods of time until the interest rate resets.

RJBank Financial Instruments with Market Risk (as described above):

	December 31, 2008	September 30, 2008
	(in 000's)	
Mortgage Backed Securities	$ 184,662	$ 301,329
Loans Receivable, Net	2,414,404	2,314,884
Total Assets with Market Risk	$ 2,599,066	$ 2,616,213
Certificates of Deposit	$ 111,483	$ 118,233
Federal Home Loan Bank Advances	50,000	50,000
Total Liabilities with Market Risk	$ 161,483	$ 168,233

The following table shows the distribution of those RJBank loans that mature in more than one year between fixed and adjustable interest rate loans at December 31, 2008:

	Interest Rate Type		
	Fixed	Adjustable	Total
		(in 000’s)	
Commercial Loans	$ 1,424	$ 723,433	$ 724,857
Real Estate Construction Loans	-	285,412	285,412
Commercial Real Estate Loans (1)	28,983	3,647,743	3,676,726
Residential Mortgage Loans	21,867	2,818,631	2,840,498
Consumer Loans	-	1,081	1,081
Total Loans	$ 52,274	$ 7,476,300	$ 7,528,574

(1) Loans wholly or partially secured by real estate. Of this amount, $612.8 million is wholly or substantially secured by lien(s) on real estate. The remainder is partially secured by real estate, the majority of which are also secured by other assets of the borrower, and includes loans to certain real estate investment trusts.

One of the core objectives of RJBank's Asset/Liability Management Committee is to manage the sensitivity of net interest income to changes in market interest rates. The Asset/Liability Management Committee uses several measures to monitor and limit RJBank's interest rate risk including scenario analysis, interest repricing gap analysis and limits, and net portfolio value limits. Simulation models and estimation techniques are used to assess the sensitivity of the net interest income stream to movements in interest rates. Assumptions about consumer behavior play an important role in these calculations; this is particularly relevant for loans such as mortgages where the client has the right, but not the obligation, to repay before the scheduled maturity.

The sensitivity of net interest income to interest rate conditions is estimated for a variety of scenarios. Assuming an immediate and lasting shift of 100 basis points in the term structure of interest rates, RJBank's sensitivity analysis indicates that an upward movement would decrease RJBank's net interest income by 3.24% in the first year after the rate increase. This sensitivity figure is based on positions as of December 31, 2008, and is subject to certain simplifying assumptions, including that management takes no corrective action.

To mitigate interest rate risk in a significantly rising rate environment, RJBank purchased three year term interest rate caps with high strike rates (more than 300 basis points higher than current rates) during the year ended September 30, 2008 that will increase in value if interest rates rise and entitle RJBank to cash flows if interest rates rise above strike rates. RJBank minimizes the credit or repayment risk of derivative instruments by entering into transactions only with high-quality counterparties whose credit rating is investment grade. See Note 10 of the Notes to the Condensed Consolidated Financial Statements for further information.

Equity Price Risk

The Company is exposed to equity price risk as a consequence of making markets in equity securities and the investment activities of RJA and RJ Ltd. The U.S. broker-dealer activities are primarily client-driven, with the objective of meeting clients' needs while earning a trading profit to compensate for the risk associated with carrying inventory. The Company attempts to reduce the risk of loss inherent in its inventory of equity securities by monitoring those security positions constantly throughout each day and establishing position limits. The Company's Canadian broker-dealer has a proprietary trading business with 26 traders. The average aggregate inventory held for proprietary trading during the three months ended December 31, 2008 was CDN$8.1 million. The Company's equity securities inventories are priced on a regular basis and there are no material unrecorded gains or losses.

Foreign Exchange Risk

RJ Ltd. is subject to foreign exchange risk primarily due to financial instruments denominated in U.S. dollars that may be impacted by fluctuation in foreign exchange rates. In order to mitigate this risk, RJ Ltd. enters into forward foreign exchange contracts. The fair value of these contracts is immaterial. As of December 31, 2008, forward contracts outstanding to buy and sell U.S. dollars totaled CDN $1.2 million and CDN $0.9 million, respectively.

Credit Risk

Credit risk is the risk of loss due to adverse changes in a borrower’s, issuer’s or counterparty’s ability to meet its financial obligations under contractual or agreed upon terms. The nature and amount of credit risk depends on the type of transaction, the structure and duration of that transaction and the parties involved. Credit risk is an integral component of the profit assessment of lending and other financing activities.

The Company is engaged in various trading and brokerage activities whose counterparties primarily include broker-dealers, banks and other financial institutions. The Company is exposed to risk that these counterparties may not fulfill their obligations. The risk of default depends on the creditworthiness of the counterparty and/or the issuer of the instrument. The Company manages this risk by imposing and monitoring individual and aggregate position limits within each business segment for each counterparty, conducting regular credit reviews of financial counterparties, reviewing security and loan concentrations, holding and marking to market collateral on certain transactions and conducting business through clearing organizations, which guarantee performance.

The Company's client activities involve the execution, settlement, and financing of various transactions on behalf of its clients. Client activities are transacted on either a cash or margin basis. Credit exposure associated with the Company's Private Client Group results primarily from customer margin accounts, which are monitored daily and are collateralized. When clients execute a purchase, the Company is at some risk that the client will renege on the trade. If this occurs, the Company may have to liquidate the position at a loss. However, most private clients have available funds in the account before the trade is executed. The Company monitors exposure to industry sectors and individual securities and performs analysis on a regular basis in connection with its margin lending activities. The Company adjusts its margin requirements if it believes its risk exposure is not appropriate based on market conditions.

The Company is subject to concentration risk if it holds large positions, extends large loans to, or has large commitments with a single counterparty, borrower, or group of similar counterparties or borrowers (e.g. in the same industry). Securities purchased under agreements to resell consist primarily of securities issued by the U.S. government or its agencies. Receivables from and payables to clients and stock borrow and lending activities are conducted with a large number of clients and counterparties and potential concentration is carefully monitored. Inventory and investment positions taken and commitments made, including underwritings, may involve exposure to individual issuers and businesses. The Company seeks to limit this risk through careful review of the underlying

business and the use of limits established by senior management, taking into consideration factors including the financial strength of the counterparty, the size of the position or commitment, the expected duration of the position or commitment and other positions or commitments outstanding.

The Company is also the lessor in a leveraged commercial aircraft transaction with Continental. The Company's ability to realize its expected return is dependent upon the airline's ability to fulfill its lease obligation. In the event that the airline defaults on its lease commitments and the trustee for the debt holders is unable to re-lease or sell the plane with adequate terms, the Company would suffer a loss of some or all of its investment. Although Continental remains current on its lease payments to the Company, the inability of Continental to make its lease payments, or the termination or modification of the lease through a bankruptcy proceeding, could result in the write-down of the Company's investment and the acceleration of certain income tax payments. The Company continues to monitor this lessee for specific events or circumstances that would increase the likelihood of a default on Continental's obligations under this lease.

RJBank manages risks inherent in its lending activities through policies and procedures which incorporate strong lending standards and management oversight. The underwriting policies are described in the section below.

Loan Underwriting Policies

The Company's credit risk is managed through its policies and procedures. There have been no material changes in the Company's underwriting policies during the three months ended December 31, 2008. For a description of RJBank's underwriting policies for both the residential and corporate loan portfolios, refer to the Company's Annual Report on Form 10-K for the year ended September 30, 2008.

Loan Portfolio

The Company tracks and reviews many factors to monitor credit risk in RJBank's loan portfolios. These factors include, but are not limited to: loan performance trends, loan product parameters and qualification requirements, geographic and industry concentrations, borrower credit scores, LTV ratios, occupancy (i.e. owner occupied, second home or investment property), collateral value trends, level of documentation, loan purpose, industry performance trends, average loan size, and policy exceptions.

The LTV/FICO scores of RJBank's residential first mortgage loan portfolio are as follows:

	December 31, 2008	September 30, 2008
Residential First Mortgage Loan Weighted Average LTV/FICO (1)	63% / 751	64% / 750

(1) At origination. Small group of local loans representing less than 0.5% of residential portfolio excluded.

The geographic concentrations (top five states) of RJBank's one-to-four family residential mortgage loans are as follows:

December 31, 2008	September 30, 2008 (1)
($ outstanding as a % of RJBank total assets)	
5.9% CA	5.2% CA
4.1% NY	3.3% NY
3.0% FL	3.0% FL
2.0% NJ	2.1% NJ
1.3% VA	1.3% VA

(1) Concentration ratios are presented as a percentage of adjusted RJBank total assets of $9.4 billion. Adjusted RJBank total assets (non-GAAP) at September 30, 2008 exclude the assets associated with the $1.9 billion FHLB advance repaid on October 1, 2008 and the $60 million return of capital to RJF on October 2, 2008.

The industry concentrations (top five categories) of RJBank's corporate loans are as follows:

December 31, 2008	September 30, 2008 (1)
($ outstanding as a % of RJBank total assets)	
3.7% Consumer Products/Services	3.3% Telecom
3.6% Telecom	3.2% Retail Real Estate
3.5% Industrial Manufacturing	3.2% Consumer Products/Services
3.3% Retail Real Estate	3.1% Industrial Manufacturing
3.3% Healthcare (excluding hospitals)	3.0% Healthcare (excluding hospitals)

(1) Concentration ratios are presented as a percentage of adjusted RJBank total assets of $9.4 billion. Adjusted RJBank total assets (non-GAAP) at September 30, 2008 exclude the assets associated with the $1.9 billion FHLB advance repaid on October 1, 2008 and the $60 million return of capital to RJF on October 2, 2008.

To manage and limit credit losses, the Company maintains a rigorous process to manage its loan delinquencies. With all whole loans purchased on a servicing-retained basis and all originated first mortgages serviced by a third party, the primary collection effort resides with the servicer. RJBank personnel direct and actively monitor the servicers' efforts through extensive communications regarding individual loan status changes and requirements of timely and appropriate collection or property management actions and reporting, including management of other third parties used in the collection process (appraisers, attorneys, etc.). Additionally, every residential and consumer loan over 60 days past due is reviewed by RJBank personnel monthly and documented in a written report detailing delinquency information, balances, collection status, appraised value, and other data points. RJBank senior management meets monthly to discuss the status, collection strategy and charge-off/write-down recommendations on every residential or consumer loan over 60 days past due.

See Note 6 of the Notes to the Condensed Consolidated Financial Statements for more information.

Liquidity Risk

See Item 2, "Management's Discussion and Analysis of Financial Condition and Results of Operations - Liquidity and Capital Resources," in this report for more information regarding the Company's liquidity and how it manages its liquidity risk.

Item 4. CONTROLS AND PROCEDURES

DISCLOSURE CONTROLS AND PROCEDURES

Disclosure controls are procedures designed to ensure that information required to be disclosed in the Company's reports filed under the Exchange Act, such as this report, is recorded, processed, summarized, and reported within the time periods specified in the SEC's rules and forms. Disclosure controls are also designed to ensure that such information is accumulated and communicated to management, including the Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure. In designing and evaluating the disclosure controls and procedures, management recognized that any controls and procedures, no matter how well designed and operated, can provide only reasonable, not absolute, assurance of achieving the desired control objectives, as the Company's are designed to do, and management necessarily was required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures.

Under the supervision and with the participation of the Company's management, including the Chief Executive Officer and Chief Financial Officer, the Company has evaluated the effectiveness of its disclosure controls and procedures pursuant to Exchange Act Rule 13a-15(b) as of the end of the period covered by this report. Based on that evaluation, the Chief Executive Officer and Chief Financial Officer have concluded that these disclosure controls and procedures are effective.

CHANGES IN INTERNAL CONTROL OVER FINANCIAL REPORTING

There were no changes in the Company's internal control over financial reporting during the quarter ended December 31, 2008 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II OTHER INFORMATION

Item 1. LEGAL PROCEEDINGS

As a result of the extensive regulation of the securities industry, the Company's broker-dealer subsidiaries are subject to regular reviews and inspections by regulatory authorities and self-regulatory organizations, which can result in the imposition of sanctions for regulatory violations, ranging from non-monetary censure to fines and, in serious cases, temporary or permanent suspension from business. In addition, from time to time regulatory agencies and self-regulatory organizations institute investigations into industry practices, which can also result in the imposition of such sanctions.

Raymond James Yatyrym Menkul Kyymetler A. S., ("RJY"), the Company's Turkish affiliate, was assessed for the year 2001 approximately $6.8 million by the Turkish tax authorities. The authorities applied a significantly different methodology than in the prior year's audit which the Turkish tax court and Council of State affirmed. RJY is vigorously contesting most aspects of this assessment and has sought reconsideration of the Turkish Council of State. The Turkish tax authorities, utilizing the 2001 methodology, assessed RJY $5.7 million for 2002, which is also being challenged. Audits of 2003 and 2004 are anticipated and their outcome is unknown in light of the change in methodology and the pending litigation. On October 24, 2008, RJY was notified by the Capital Markets Board of Turkey that the technical capital inadequacy resulting from RJY's provision for this case required an additional capital contribution, and as a result, RJY halted all trading activities. On December 5, 2008 RJY ceased operations and subsequently filed for protection under Turkish bankruptcy laws. The Company has recorded a provision for loss in its consolidated financial statements for its full equity interest in this joint venture. As of December 31, 2008, RJY had total capital of approximately $4.7 million, of which the Company owns approximately 50%.

Sirchie Acquisition Company, LLC ("SAC"), an 80% owned indirect unconsolidated subsidiary acquired as a merchant banking investment has been advised by the Commerce and Justice Departments that they intend to seek civil and criminal sanctions against it, as the purported successor in interest to Sirchie Finger Print Laboratories, Inc. ("Sirchie"), based upon alleged breaches of Department of Commerce suspension orders by Sirchie and its former majority shareholder that occurred prior to the acquisition. Discussions are ongoing, and the impact, if any, on the value of this investment is indeterminate at this time.

In connection with auction rate securities ("ARS"), the Company's primary broker-dealers, RJA and RJFS, have been subject to ongoing investigations, with which they are cooperating fully, by the Securities and Exchange Commission ("SEC"), the New York Attorney General's Office and Florida's Office of Financial Regulation. The Company is also named in a class action lawsuit similar to that filed against a number of brokerage firms alleging various securities law violations, which it is vigorously defending. The Company announced in April 2008 that customers held approximately $1.9 billion of ARS, which as of December 31, 2008, had declined to approximately $919 million due to the redemption and refinancing of such securities by the issuers of the ARS. Additional information regarding ARS can be found at http://www.raymondjames.com/auction_rate_preferred.htm. The information on the Company's Internet site is not incorporated by reference.

Several large banks and brokerage firms, most of whom were the primary underwriters of and supported the auctions for ARS, have announced agreements, usually as part of a regulatory settlement, to repurchase ARS at par from some of their clients. Other brokerage firms have entered into similar agreements. The Company, in conjunction with other industry participants is actively seeking a solution to ARS' illiquidity. This includes issuers restructuring and refinancing the ARS, which has met with some success. Should these restructurings and refinancings continue, then clients' holdings could be reduced further, however, there can be no assurance these events will continue. If the Company were to consider resolving pending claims, inquiries or investigations by offering to repurchase all or some portion of these ARS from certain clients, it would have to have sufficient regulatory capital and cash or borrowing power to do so, and at present it does not have such capacity. Further, if such repurchases were made at par value there could be a market loss if the underlying securities' value is less than par and any such loss could adversely affect the results of operations.

The Company is a defendant or co-defendant in various lawsuits and arbitrations incidental to its securities business. The Company is contesting the allegations in these cases and believes that there are meritorious defenses in each of these lawsuits and arbitrations. In view of the number and diversity of claims against the Company, the number of jurisdictions in which litigation is pending and the inherent difficulty of predicting the outcome of litigation and other claims, the Company cannot state with certainty what the eventual outcome of pending litigation or other claims will be. In the opinion of the Company's management, based on current available information, review with outside legal

counsel, and consideration of amounts provided for in the accompanying consolidated financial statements with respect to these matters, ultimate resolution of these matters will not have a material adverse impact on the Company's financial position or results of operations. However, resolution of one or more of these matters may have a material effect on the results of operations in any future period, depending upon the ultimate resolution of those matters and upon the level of income for such period.

Item 1A. RISK FACTORS

There were no changes to Item 1A, “Risk Factors”, included in the Company’s Annual Report on Form 10-K for the year ended September 30, 2008.

Item 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

Reference is made to information contained under “Capital Transactions” in Note 13 of the Notes to Condensed Consolidated Financial Statements for the information required by Part II, Item 2(c).

The Company expects to continue paying cash dividends. However, the payment and rate of dividends on the Company's common stock is subject to several factors including operating results, financial requirements of the Company, compliance with the net worth covenant in the Company's line of credit agreement, and the availability of funds from the Company's subsidiaries, including the broker-dealer subsidiaries, which may be subject to restrictions under the net capital rules of the SEC, FINRA and the IIROC; and RJBank, which may be subject to restrictions by federal banking agencies. Such restrictions have never become applicable with respect to the Company's dividend payments. (See Note 15 of the Notes to the Condensed Consolidated Financial Statements for more information on the capital restrictions placed on RJBank and the Company's broker-dealer subsidiaries).

Item 5. OTHER INFORMATION

On February 6, 2009, RJF entered into a new 364-day credit agreement with six commercial banks, JPMorgan Chase Bank, National Association also acting in the capacity of Administrative Agent for the lenders. The new agreement provides for up to $100 million of revolving borrowings outstanding from time to time. In addition to representations, warranties and covenants that are comparable to the RJF credit agreement that recently terminated, the new agreement contains additional provisions related to RJBank. Borrowings under this new agreement are subject to RJF’s receipt of approval from the U.S. Treasury to participate in the CPP. The Comapny conducts other commercial banking business with the six lenders.

Item 6. EXHIBITS

10.9.8 $100,000,000 CREDIT AGREEMENT, dated as of February 6, 2009, among RAYMOND JAMES FINANCIAL, INC., as Borrower, THE LENDERS NAMED HEREIN, JPMORGAN CHASE BANK, NATIONAL ASSOCIATION, as Administrative Agent, REGIONS BANK, as Co-Syndication Agent, FIFTH THIRD BANK, as Co-Syndication Agent, and PNC BANK, NATIONAL ASSOCIATION, as Co-Syndication agent, filed herewith.

11 Statement Re: Computation of per Share Earnings (The calculation of per share earnings is included in Part I, Item 1 in the Notes to Condensed Consolidated Financial Statements (Earnings Per Share) and is omitted here in accordance with Section (b)(11) of Item 601 of Regulation S-K).

31.1 Principal Executive Officer Certification as required by Rule 13a-14(a)/15d-14(a), filed herewith.

31.2 Principal Financial Officer Certification as required by Rule 13a-14(a)/15d-14(a), filed herewith.

32.1 Certification of Chief Executive Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, filed herewith.

32.2 Certification of Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, filed herewith.

SIGNATURES

Pursuant to the requirements 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.

RAYMOND JAMES FINANCIAL, INC.
(Registrant)

Date: February 9, 2009

/s/ Thomas A. James
Thomas A. James
Chairman and Chief
Executive Officer

/s/ Jeffrey P. Julien
Jeffrey P. Julien
Senior Vice President - Finance
and Chief Financial
Officer