PharMerica CORP
Form 10-Q
May 07, 2010
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, DC 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 March 31, 2010

or

¨ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the transition period from ______ to ______.

Commission File Number: 001-33380

PHARMERICA CORPORATION

(Exact name of registrant as specified in its charter)

Delaware	**87-0792558**
(State or Other Jurisdiction of	**(I.R.S. Employer**
Incorporation or Organization)	**Identification No.)**
1901 Campus Place	**40299**

Louisville, KY
(Address of Principal Executive Offices) **(Zip Code)**
(502) 627-7000

(Registrant s Telephone Number, Including Area Code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. x Yes ¨ No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). ¨ Yes ¨ No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, 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 ¨	Accelerated filer x	Non-accelerated filer ¨ (Do not check if a smaller reporting company)	Smaller reporting company ¨

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

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

Class of Common Stock	**Outstanding at April 30, 2010**
Common stock, $0.01 par value	30,645,169 shares

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PHARMERICA CORPORATION

FORM 10-Q

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PHARMERICA CORPORATION

CONDENSED CONSOLIDATED INCOME STATEMENTS

For the Three Months Ended March 31, 2009 and 2010

(Unaudited)

(In millions, except share and per share amounts)

	Three Months Ended March 31, 2009	Three Months Ended March 31, 2010
Revenues	$ 468.2	$ 462.2
Cost of goods sold	396.8	399.5
Gross profit	71.4	62.7
Selling, general and administrative expenses	50.9	44.2
Amortization expense	1.8	2.3
Integration, merger and acquisition related costs and other charges	2.0	1.2
Operating income	16.7	15.0
Interest expense, net	3.2	0.9
Income before income taxes	13.5	14.1
Provision for income taxes	5.3	5.7
Net income	$ 8.2	$ 8.4
Earnings per common share:		
Basic	$ 0.27	$ 0.28
Diluted	$ 0.27	$ 0.27
Shares used in computing earnings per common share:		
Basic	30,211,699	30,396,520
Diluted	30,311,930	30,571,049

See accompanying Notes to Condensed Consolidated Financial Statements

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PHARMERICA CORPORATION

CONDENSED CONSOLIDATED BALANCE SHEETS

As of December 31, 2009 and March 31, 2010

(Unaudited)

(In millions, except share and per share amounts)

	December 31, 2009	March 31, 2010
ASSETS		
Current assets:		
Cash and cash equivalents	$ 51.2	$ 73.5
Accounts receivable, net	215.3	204.2
Inventory	79.8	77.1
Deferred tax assets	39.8	41.4
Prepaids and other assets	23.6	19.8
	409.7	416.0
Equipment and leasehold improvements	119.6	122.0
Accumulated depreciation	(59.0)	(63.5)
	60.6	58.5
Deferred tax assets, net	21.0	14.6
Goodwill	140.1	140.6
Intangible assets, net	90.8	88.8
Other	2.1	1.8
	$ 724.3	$ 720.3
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Accounts payable	$ 59.6	$ 48.5
Salaries, wages and other compensation	30.9	29.5
Other accrued liabilities	6.4	6.7
	96.9	84.7
Long-term debt	240.0	240.0
Other long-term liabilities	16.5	15.4
Commitments and contingencies (See Note 6)		
Stockholders' equity:		
Preferred stock, $0.01 par value per share; 1,000,000 shares authorized and no shares issued, December 31, 2009 and March 31, 2010	-	-
Common stock, $0.01 par value per share; 175,000,000 shares authorized; 30,619,830 shares and 30,632,218 shares issued and outstanding as of December 31, 2009 and March 31, 2010, respectively	0.3	0.3
Capital in excess of par value	344.8	345.7
Retained earnings	25.8	34.2

		370.9		380.2
	$	724.3	$	720.3

See accompanying Notes to Condensed Consolidated Financial Statements

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PHARMERICA CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

For the Three Months Ended March 31, 2009 and 2010

(Unaudited)

(In millions)

	Three Months Ended March 31, 2009	Three Months Ended March 31, 2010
Cash flows provided by operating activities:		
Net income	$ 8.2	$ 8.4
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	4.7	4.6
Amortization	1.8	2.3
Integration, merger and acquisition related costs and other charges	0.2	0.1
Stock-based compensation	0.6	0.8
Amortization of deferred financing fees	0.1	0.2
Deferred income taxes	4.8	4.8
Loss on disposition of equipment	0.1	-
Other	(0.1)	0.1
Change in operating assets and liabilities:		
Accounts receivable, net	0.6	11.1
Inventory and other assets	1.4	2.6
Prepaids and other assets	3.1	3.8
Accounts payable	(8.0)	(11.5)
Salaries, wages and other compensation	(5.0)	(2.8)
Other accrued liabilities	1.4	0.2
Net cash provided by operating activities	13.9	24.7
Cash flows used in investing activities:		
Purchases of equipment and leasehold improvements	(3.2)	(2.2)
Other	-	(0.1)
Net cash used in investing activities	(3.2)	(2.3)
Cash flows provided by (used in) financing activities:		
Repayments of capital lease obligations	(0.1)	(0.2)
Issuance of common stock	0.1	0.1
Tax benefit from stock-based compensation	0.1	-
Net cash provided by (used in) financing activities	0.1	(0.1)
Change in cash and cash equivalents	10.8	22.3
Cash and cash equivalents at beginning of period	41.3	51.2
Cash and cash equivalents at end of period	$ 52.1	$ 73.5
Supplemental information:		
Cash paid for interest	$ 3.3	$ 0.8

Cash paid (refund) for taxes	$	0.3	$	(0.2)
Supplemental schedule of non-cash activities:				
Capital lease obligations	$	1.8	$	0.4
Integrity Working Capital Adjustment (Note 2)	$	-	$	0.5

See accompanying Notes to Condensed Consolidated Financial Statements

PHARMERICA CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY

For the Three Months Ended March 31, 2010

(Unaudited)

(In millions, except share amounts)

	Common Stock		Capital in Excess of Par Value	Retained Earnings	Total
	Shares	Amount			
Balance at December 31, 2009	30,619,830	$ 0.3	$ 344.8	$ 25.8	$ 370.9
Comprehensive income:					
Net income				8.4	8.4
Total comprehensive income				8.4	8.4
Grant and forfeiture of non-vested restricted stock	4,695	-	-	-	-
Exercise of stock options	7,693	-	0.1	-	0.1
Stock-based compensation - restricted stock	-	-	0.4	-	0.4
Stock-based compensation - stock options	-	-	0.4	-	0.4
Balance at March 31, 2010	30,632,218	$ 0.3	$ 345.7	$ 34.2	$ 380.2

See accompanying Notes to Condensed Consolidated Financial Statements

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PHARMERICA CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

NOTE 1 ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Business

PharMerica Corporation (the Corporation) is an institutional pharmacy services company that services healthcare facilities and provides pharmacy management services to hospitals. The Corporation is the second largest institutional pharmacy services company in the United States, operating 91 institutional pharmacies in 41 states. The Corporation s customers are typically institutional healthcare providers, such as nursing centers, assisted living facilities, hospitals and other long-term alternative care settings and generally the primary source of supply of pharmaceuticals to its customers. The Corporation also provides pharmacy management services to 86 hospitals in the United States.

Principles of Consolidation

All intercompany transactions have been eliminated.

Basis of Presentation

The accompanying condensed consolidated financial statements have been prepared in accordance with the instructions to Form 10-Q and Article 10 of Regulation S-X and do not include all of the information and disclosures required by generally accepted accounting principles in the United States (U.S. GAAP) for complete financial statements. Accordingly, the accompanying condensed consolidated financial statements should be read in conjunction with the consolidated financial statements of the Corporation and related footnotes for the year ended December 31, 2009, included in the Corporation s Annual Report on Form 10-K. The balance sheet as of December 31, 2009 has been derived from the audited consolidated financial statements as of that date but does not include all of the information and footnotes required by U.S. GAAP for complete financial statements.

The results of operations for the interim periods are not necessarily indicative of results of operations for a full year. It is the opinion of management that all necessary adjustments for a fair presentation of the condensed consolidated income statements, balance sheets, cash flows, and stockholders equity for the interim periods have been made and are of a normal recurring nature.

Use of Estimates

The accompanying condensed consolidated financial statements have been prepared in accordance with U.S. GAAP which require management to make estimates and assumptions that affect the reported amounts of assets, liabilities and disclosure of contingent liabilities as of the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Significant estimates are involved in collectibility of accounts receivable, revenue recognition, inventory valuation, supplier rebates, the valuation of long-lived assets and goodwill, accounting for income taxes and stock-based compensation. Actual amounts may differ from these estimates.

Potential risks and uncertainties, many of which are beyond the control of the Corporation, include, but are not necessarily limited to, such factors as overall economic, financial and business conditions; delays and reductions in reimbursement by the government and other payers to the Corporation and/or its customers; the overall financial condition of the Corporation s customers; the effect of new government regulations, executive orders and/or legislative initiatives, including those relating to reimbursement and drug pricing policies and changes in the interpretation and application of such policies; efforts by payers to control costs; the outcome of litigation; the outcome of audit, compliance, administrative or investigatory reviews, including governmental/ regulatory inquiries; other contingent liabilities; changes in international economic and political conditions; changes in interest rates; changes in the valuation of the Corporation s financial instruments; changes in tax laws and regulations; access to capital and financing; the demand for the Corporation s products and services; pricing and other competitive factors in the industry; changes in manufacturers rebate programs; shifts in demand for generic drug equivalents; changes in insurance claims experience and related assumptions; variations in costs or expenses; and changes in accounting rules and standards.

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PHARMERICA CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

NOTE 1 ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Cash and Cash Equivalents

Cash and cash equivalents consist of cash on hand and cash equivalents with original maturities of three months or less. The Corporation places its cash in financial institutions that are federally insured. As of December 31, 2009 and March 31, 2010, the Corporation did not hold a material amount of funds in cash equivalent money market accounts. Management believes it effectively safeguards cash assets given current economic conditions.

Fair Value of Financial Instruments

Fair value is an exit price, representing the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. As such, fair value is a market-based measurement that should be determined based upon assumptions that market participants would use in pricing an asset or liability. As a basis for considering such assumptions, the Corporation follows a three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair value as follows:

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

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

A. *Market approach:* Prices and other relevant information generated by market transactions involving identical or comparable assets or liabilities.

B. *Cost approach:* Amount that would be required to replace the service capacity of an asset (replacement cost).

C. *Income approach:* Techniques to convert future amounts to a single present amount based upon market expectations (including present value techniques, option-pricing and excess earnings models).

Financial liabilities disclosed at fair value at December 31, 2009 and March 31, 2010, are set forth in the tables below (dollars in millions):

As of March 31, 2010	**(Liability)**	**Level 1**	**Level 2**	**Level 3**	**Valuation Technique**
Deferred Compensation Plan	$ (3.3)	$ -	$ (3.3)	$ -	A
Contingent Consideration	$ (1.7)	$ -	$ -	$ (1.7)	C

As of December 31, 2009	(Liability)	Level 1	Level 2	Level 3	Valuation Technique
Deferred Compensation Plan	$ (2.9)	$ -	$ (2.9)	$ -	A
Contingent Consideration	$ (1.7)	$ -	$ -	$ (1.7)	C

The deferred compensation plan liability represents an unfunded obligation associated with the deferred compensation plan offered to eligible employees and members of the Board of Directors of the Corporation. The fair value of the liability associated with the deferred compensation plan is derived using pricing and other relevant information for similar assets or liabilities generated by market transactions. The contingent consideration represents a future earn-out associated with our acquisition of an institutional pharmacy in West Virginia (West Virginia Acquisition). The fair value of the liability associated with the contingent consideration is derived using the income approach with unobservable inputs, which include future gross profit forecast and present value assumptions, and there is little or no market data.

The carrying amounts reported in the accompanying condensed consolidated balance sheets for cash and cash equivalents, accounts receivable, inventory and accounts payable approximate fair value because of the short-term maturity of these instruments. The Corporation s debt approximates fair value due to the terms of the interest being set at variable market interest rates.

PHARMERICA CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

NOTE 1 ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Accounts Receivable and Allowance for Doubtful Accounts

Accounts receivable primarily consist of amounts due from Prescription Drug Plans (PDPs) under Medicare Part D, institutional healthcare providers, the respective state Medicaid programs, third party insurance companies, and private payers. The Corporation s ability to collect outstanding receivables is critical to its results of operations and cash flows. To provide for accounts receivable that could become uncollectible in the future, the Corporation establishes an allowance for doubtful accounts to reduce the carrying value of such receivables to the extent it is probable that a portion or all of a particular account will not be collected.

The Corporation has an established process to determine the adequacy of the allowance for doubtful accounts, which relies on analytical tools, specific identification, and benchmarks to arrive at a reasonable allowance. No single statistic or measurement determines the adequacy of the allowance for doubtful accounts. In evaluating the collectibility of accounts receivable, the Corporation considers a number of factors, which include, but are not limited to, the impact of changes in the regulatory and payer environment, historical trends, the financial viability of the payer, contractual reimbursement terms and other factors that may impact ultimate reimbursement. Accounts receivable are written off after collection efforts have been completed in accordance with the Corporation s policies.

The Corporation s accounts receivable accounts and summarized aging categories are as follows (dollars in millions):

	December 31, 2009	March 31, 2010
Institutional healthcare providers	$ 138.7	$ 139.4
Medicare Part D	60.2	46.5
Private payor and other	34.5	33.9
Insured	9.7	8.7
Medicaid	10.9	11.8
Medicare	1.5	1.5
Allowance for doubtful accounts	(40.2)	(37.6)
	$ 215.3	$ 204.2
0 to 60 days	64.9%	66.2%
61 to 120 days	17.1%	17.8%
Over 120 days	18.0%	16.0%
	100.0%	100.0%

The following is a summary of activity in the Corporation s allowance for doubtful accounts (dollars in millions):

	Beginning Balance	Acquisitions/ Transfers	Charges to Costs and Expenses	Write-offs	Ending Balance

Allowance for doubtful accounts:										
Year Ended December 31, 2009	$	46.5	$	3.5	$	16.6	$	(26.4)	$	40.2
Three Months Ended March 31, 2010	$	40.2	$	-	$	3.8	$	(6.4)	$	37.6

The allowance for doubtful accounts for 2009 included a transfer of reserves on contractual adjustments into the allowance for doubtful accounts during the period. The reclassification did not impact the provision for bad debt.

Concentration of Credit Risk

For the three months ended March 31, 2009 and 2010, the Corporation derived approximately 13.0% of its revenues from a single customer, including all payer sources associated with the residents of its long-term care facilities.

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PHARMERICA CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

NOTE 1 ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Deferred Financing Fees

The Corporation capitalizes financing fees related to acquiring or issuing new debt instruments. These expenditures include bank fees and premiums, legal costs, and filing fees. The Corporation amortizes these deferred financing fees using the effective interest method.

Inventory

Inventory is primarily located at the Corporation s institutional pharmacy locations. Inventory consists solely of finished products (primarily prescription drugs) and is valued at the lower of first-in, first-out cost (FIFO) or market. Physical inventories are performed on a quarterly basis at all pharmacy sites. Cost of goods sold is recorded based upon the actual results of the physical inventory counts, and is estimated when a physical inventory is not performed in a particular month. Historically, no significant adjustments have resulted from reconciliations with the quarterly physical inventories.

Equipment and leasehold improvements

Equipment and leasehold improvements are recorded at cost at the acquisition date and are depreciated using the straight-line method over their estimated useful lives as follows or lease term, if shorter (in years):

	Estimated Useful Lives
Leasehold improvements	1-7
Equipment and software	3-10
Leased equipment	1-5

Expenditures for maintenance, repairs and renewals of minor items are expensed as incurred. Major rebuilds and improvements are capitalized. For the three months ended March 31, 2009 and 2010, maintenance and repairs were approximately $1.6 million and $1.5 million, respectively.

Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of long-lived assets is assessed by a comparison of the carrying amount of the asset to the estimated future undiscounted net cash flows expected to be generated by the asset. If estimated future undiscounted net cash flows are less than the carrying amount of the asset or group of assets, the asset is considered impaired and an expense is recorded in an amount required to reduce the carrying amount of the asset to its then fair value. The Corporation did not record impairment charges on equipment and leasehold improvements for the three months ended March 31, 2009 and 2010.

The Corporation s equipment and leasehold improvements are further described in Note 3.

Capitalization of Internal Software Costs

The Corporation capitalizes the costs incurred during the application development stage, which include costs to design the software configuration and interfaces, coding, installation, and testing. Costs incurred during the preliminary project along with post-implementation stages of internal use computer software are expensed as incurred. Capitalized development costs are amortized over various periods up to three years and are subject to impairment evaluations. Costs incurred to maintain existing software development are expensed as incurred. The capitalization and ongoing assessment of recoverability of development costs requires judgment by management with respect to certain external factors, including, but not limited to, technological and economic feasibility and estimated economic life. For the three months ended March 31, 2009 and 2010, the Corporation capitalized software development costs of $0.5 million and $0.6 million, respectively. As of December 31, 2009 and March 31, 2010, net capitalized software costs totaled $6.9 million and $6.8 million, respectively.

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PHARMERICA CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

NOTE 1 ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Goodwill and Other Intangibles

Goodwill represents the excess purchase price of an acquired entity over the net amounts assigned to assets acquired and liabilities assumed. Goodwill and intangible assets with indefinite lives are reviewed by the Corporation at least annually for impairment, each of which are reviewed separately for impairment. The Corporation s business is comprised of two reporting units, institutional pharmacy and hospital management, each of which are reviewed separately for impairment. The Corporation performed its annual impairment tests for goodwill recorded as of December 31, 2009, and did not incur an impairment charge.

The Corporation s finite-lived intangible assets are comprised primarily of trade names, customer relationship assets and non-compete agreements originating from business acquisitions. Finite-lived intangible assets are amortized on a straight-line basis over the terms of the agreements ranging from 5 to 20 years. For impairment reviews, intangible assets are reviewed on a specific pharmacy basis or as a group of pharmacies depending on the intangible assets under review. The Corporation s goodwill and intangible assets are further described in Note 4.

Self-Insured Employee Health Benefits

The Corporation is self-insured for employee health benefits. The Corporation s self-insurance for employee health benefits includes a stop-loss policy to limit the maximum potential liability of the Corporation for both individual and aggregate claims per year. The Corporation records a monthly expense for self-insurance based on historical claims data and inputs from third-party administrators. As of December 31, 2009 and March 31, 2010, the Corporation had approximately $2.5 million and $3.0 million, respectively, recorded as a liability for self-insured employee health benefits.

Supplier Rebates

The Corporation receives rebates on purchases from its vendors and suppliers. The Corporation generally accounts for these rebates and other incentives received from its vendors and suppliers, relating to the purchase or distribution of inventory, as a reduction of cost of goods sold and inventory. The Corporation considers these rebates to represent product discounts, and as a result, the rebates are capitalized as a reduction of product cost and relieved through cost of goods sold upon the sale of the related inventory. For the three months ended March 31, 2009 and 2010, rebates were $10.5 million and $13.4 million, respectively, and recorded as a reduction of cost of goods sold in the accompanying condensed consolidated income statements. The Corporation had approximately $3.0 million and $3.4 million of rebates capitalized in inventory as of December 31, 2009 and March 31, 2010, respectively.

Delivery Expenses

The Corporation incurred expenses totaling approximately $13.6 million and $14.5 million for the three months ended March 31, 2009 and 2010, respectively, to deliver products sold to its customers. Delivery expenses are reported as a component of cost of goods sold in the accompanying condensed consolidated income statements.

Stock Option Accounting

The Company recognizes stock-based compensation expense in its condensed consolidated financial statements using a Black-Scholes option valuation model for non-vested stock options. See Note 9.

Income Taxes

Deferred tax assets and liabilities are recognized for the future tax consequences attributable to temporary differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax basis. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The Corporation accrues for tax obligations that are more likely than not, as required by facts and circumstances in the various regulatory environments. Deferred tax assets and liabilities are more fully described in Note 10.

Subsequent Events

The Corporation has evaluated all of the subsequent events through the date of this filing. The Corporation does not believe there are any material subsequent events which require disclosure.

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PHARMERICA CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

NOTE 1 ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Pharmacy Transaction

The Corporation, formerly known as Safari Holding Corporation, was formed on October 23, 2006, by Kindred Healthcare, Inc. (Kindred or Former Parent) and AmerisourceBergen Corporation (AmerisourceBergen) for the purpose of consummating the transactions contemplated by the Master Transaction Agreement dated October 25, 2006, as amended (the Master Agreement). Pursuant to the Master Agreement, Kindred and AmerisourceBergen, through a series of transactions (collectively, the Pharmacy Transaction), spun-off and combined their respective institutional pharmacy businesses, Kindred Pharmacy Services (KPS) and PharMerica Long-Term Care (PharMerica LTC), into a new, stand-alone, publicly traded company. The Pharmacy Transaction was consummated on July 31, 2007 (the Closing Date).

PHARMERICA CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

NOTE 2 ACQUISITIONS

2009 Acquisitions

Integrity Pharmacy Services Acquisition

On December 31, 2009, the Corporation through a wholly-owned subsidiary, acquired all of the membership interests in Integrity Pharmacy Services, LLC (IPS), and Integrity Medical Supplies, LLC (IMS and together with IPS, Integrity), for $38.0 million in cash plus $3.3 million to retire outstanding promissory notes in favor of the sellers. The Corporation s primary purpose in acquiring Integrity was to increase the Corporation s market share in certain regions.

The acquisition of Integrity has been accounted for as a business combination using the acquisition method of accounting. The total purchase price of Integrity was allocated to the net tangible and identifiable intangible assets based upon their fair values on December 31, 2009. The excess of the purchase price over the fair values of the net tangible and identifiable intangible assets was recorded as goodwill. For tax purposes, the transaction was considered an asset acquisition, therefore, the amount of goodwill recorded in the transaction of $12.1 million will be tax deductible to the Corporation. The Corporation believes the resulting amount of goodwill reflects its expectations of the synergistic benefits of being able to fully integrate the Integrity business into its existing institutional pharmacy locations.

Except for identifiable intangible assets, and equipment and leasehold improvements, the assets acquired and liabilities assumed were valued at their respective carrying amounts recorded by Integrity as the Corporation believes that their carrying value amounts approximate their fair value at the acquisition date.

The purchase price of Integrity is considered preliminary. The terms of the securities purchase agreement state that an amount of $4.8 million be placed in escrow, comprised of $3.8 million as a Receivables Holdback and $1.0 million as an Indemnity Holdback . The Receivables Holdback will remain in escrow until the closing receivables acquired are paid or are released to the sellers pursuant to the terms of the agreement. The Indemnity Holdback will be used to satisfy payments required to be made by the sellers, if any, pursuant to the indemnification obligations defined within the purchase agreement. Any escrow amounts that are not ultimately distributed to the sellers will be a reduction of the excess purchase price assigned to goodwill. The terms of the purchase agreement also state that a working capital adjustment was required to be made subsequent to the acquisition date by either the seller or the Corporation, to the extent the target net working capital amounts (as defined by the agreement) were not met at the closing. Subsequent to March 31, 2010, the Corporation paid to the sellers and its vendors approximately $0.5 million as a working capital adjustment. Because of the holdbacks, the purchase price is considered preliminary.

The preliminary purchase price allocation was as follows (dollars in millions):

Current assets, net of cash acquired	$	9.8
Equipment and leasehold improvements		1.2
Identifiable intangible assets		20.6
Goodwill		12.1
Total assets		43.7
Current liabilities		(4.4)
Purchase price, net of cash acquired	$	39.3

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PHARMERICA CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

NOTE 2 ACQUISITIONS (Continued)

The following are the fair values of the equipment and leasehold improvements of Integrity acquired at the date of acquisition (dollars in millions):

	Fair Value	Weighted Average Useful Lives
Leasehold improvements	$ 0.3	7.0
Equipment and software	0.9	4.0
Total equipment and leasehold improvements acquired	$ 1.2	5.1

The following are the fair values of the identifiable intangible assets of Integrity acquired at the date of acquisition (dollars in millions):

	Fair Value	Weighted Average Useful Lives
Non-competition agreement	$ 0.2	5.0
Customer relationships	20.4	15.0
Total identifiable intangible assets acquired	$ 20.6	14.9

West Virginia Acquisition

On August 10, 2009, the Corporation acquired certain assets and assumed certain liabilities of an institutional pharmacy business providing medications, pharmacy and medical supplies and services to residents of long-term care facilities mostly in West Virginia. The Corporation paid $15.9 million in cash for the business, with an additional amount not to exceed $10.0 million in the form of contingent consideration to be paid at the end of a three year period based upon the cumulative achievement of certain financial performance measures. The transaction was accounted for under the acquisition method of accounting, in which the preliminary purchase price was allocated based upon the fair value of the assets acquired and liabilities assumed with the difference recorded as goodwill. As a result of the acquisition the Corporation recorded $4.4 million as finite-lived intangible assets and $12.6 million of goodwill. The contingent consideration was recorded at fair value at the acquisition date in the amount of $1.7 million. The contingent consideration will be adjusted to fair value through earnings until the final amount is determined.

Other

For the three months ended March 31, 2010, the Corporation incurred $0.6 million of acquisition related costs, which have been classified as a component of integration, merger, acquisition related costs and other charges. For the three months ended March 31, 2009, no costs were incurred for acquisition related costs.

The total amount of goodwill expected to be deductible for tax purposes from past acquisitions of the Corporation was $99.2 million as of March 31, 2010. Deferred tax assets and liabilities are further described in Note 10.

Pro forma

The following unaudited pro forma consolidated financial information is not intended to represent or be indicative of the consolidated results of operations or financial condition of the Corporation that would have been reported had the acquisitions been completed as of the date or for the periods presented, and should not be taken as representative of the future consolidated results of operations or financial condition of the Corporation.

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PHARMERICA CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

NOTE 2 ACQUISITIONS (Continued)

The unaudited pro forma effect of the Integrity Pharmacy Services and West Virginia acquisitions assuming the acquisitions occurred on January 1, 2009, excluding the integration, merger and acquisition related costs and other charges for the three months ended March 31, 2009, would be as follows (dollars in millions, except per share amounts):

	Three Months Ended March 31, 2009	
Revenues	$	490.0
Net income	$	9.9
Earnings per common share:		
Basic	$	0.33
Diluted	$	0.33

NOTE 3 EQUIPMENT AND LEASEHOLD IMPROVEMENTS

Equipment and leasehold improvements consist of the following (dollars in millions):

	December 31, 2009		March 31, 2010	
Leasehold improvements	$	11.6	$	12.0
Equipment and software		95.3		97.3
Leased equipment		2.6		3.0
Construction in progress		10.1		9.7
		119.6		122.0
Accumulated depreciation		(59.0)		(63.5)
Total Equipment and leasehold improvements	$	60.6	$	58.5

The following is a progression of equipment and leasehold improvements for the period presented (dollars in millions):

	Balance at December 31, 2009		Additions		Disposals		Transfers		Balance at March 31, 2010
Equipment and leasehold improvements:									
Leasehold improvements	$	11.6	$	0.1	$	-	$	0.3	$	12.0
Equipment and software		95.3		1.2		(0.2)		1.0		97.3

Leased equipment		2.6		0.4		-		-		3.0
Construction in progress		10.1		0.9		-		(1.3)		9.7
Sub-Total		119.6		2.6		(0.2)		-		122.0
Accumulated depreciation		(59.0)		(4.6)		0.1		-		(63.5)
Total	$	60.6	$	(2.0)	$	(0.1)	$	-	$	58.5

Depreciation expense totaled approximately $4.7 million and $4.6 million for the three months ended March 31, 2009 and 2010, respectively.

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PHARMERICA CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

NOTE 3 EQUIPMENT AND LEASEHOLD IMPROVEMENTS (Continued)

Total estimated depreciation expense for the Corporation s equipment and leasehold improvements for the current year and next four years and thereafter are as follows (dollars in millions):

Year Ending December 31,		
2010	$	17.6 *
2011		12.9
2012		9.0
2013		6.3
2014		4.4
Thereafter		12.9
Total	$	63.1

* The 2010 amount shown includes depreciation expense for the three months ended March 31, 2010 of $4.6 million.

NOTE 4 GOODWILL AND INTANGIBLES

The following table presents the changes in the carrying amount of goodwill for the three months ended March 31, 2010 (dollars in millions):

Balance at December 31, 2009	$	140.1
Integrity Working Capital Adjustment (Note 2)		0.5
Balance at March 31, 2010	$	140.6

The Corporation does not have accumulated impairments that reduce the gross value of goodwill.

The following table presents the components of the Corporation s intangible assets (dollars in millions):

Lived Intangible Assets		Balance at December 31, 2009		Additions	Bal Marc
mer relationships	$	76.6	$	-	$
name		28.5		-	
ompete agreement		4.7		0.3	

Sales by affiliates under Rule 144 are also subject to certain manner of sale and notice requirements and to the availability of current public information about us.

In addition, under Rule 144, a person who has not been one of our affiliates during the preceding 90 days and who has beneficially owned the restricted shares for at least six months is entitled to sell them without restriction, provided that until the shares have been held for at least one year, they may only be sold subject to the availability of current public information about us.

Registration Rights

In connection with the closing of the Ryan Beck acquisition, we entered into a registration rights agreement with BankAtlantic Bancorp (on its own behalf and on behalf of the holders of options to acquire shares of Ryan Beck common stock who received shares of Stifel common stock in the acquisition) relating to the registration of shares of our common stock issued as merger consideration. We registered for resale all such shares (including shares issuable upon exercise of certain warrants) held by stockholders other than BankAtlantic Bancorp within 180 days after the closing of the Ryan Beck acquisition, in July 2007. In addition, at that time we also registered an initial tranche of one-third of such shares issued to BankAtlantic Bancorp (including shares issuable upon exercise of certain warrants held by BankAtlantic Bancorp). Under the registration rights agreement, we also agreed to register two additional tranches each equal to one-third of such shares held by BankAtlantic Bancorp by the first and second anniversaries of our initial share registration. We have included the shares to be sold by BankAtlantic Bancorp in this offering pursuant to certain incidental registration rights in the registration rights agreement. In addition, effective upon the consummation of this offering, we have agreed to release the lock-up restrictions in the registration rights agreement on the balance of the shares issued to BankAtlantic Bancorp.

In addition, in December 1997 we entered into a registration rights agreement with The Western and Southern Life Insurance Company (Western and Southern) relating to the registration of shares of our common stock acquired by Western and Southern at that time. We granted to Western and Southern certain demand and piggyback registration rights. We are not obligated to effect more than one demand registration in any 12-month period. We agreed to bear the expenses of the registration (excluding Western and Southern s internal expenses and underwriting discounts and commissions) for the initial two demand registrations and for all piggyback registrations. We have the right to repurchase the shares proposed to be registered pursuant to any registration request delivered by Western and Southern under this registration rights agreement.

PRINCIPAL AND SELLING STOCKHOLDERS

BankAtlantic Bancorp. 1,600,000 shares of the common stock registered for sale under this prospectus are owned by BankAtlantic Bancorp, the former stockholder of Ryan Beck, who acquired our shares in connection with our acquisition of Ryan Beck. On February 28, 2007, we issued 2,467,600 shares of our common stock as partial payment of our acquisition of Ryan Beck to BankAtlantic Bancorp as the sole stockholder of Ryan Beck, and to other holders of options to purchase Ryan Beck common stock who were entitled to a portion of the merger consideration (Other Recipients). In addition, we received stockholder approval in 2007 to, among other things, issue immediately exercisable warrants to purchase an aggregate of 500,000 shares of our common stock at an exercise price of $36.00 per share to BankAtlantic Bancorp and to the Other Recipients. We subsequently issued those warrants.

On January 14, 2008, we repurchased 250,000 shares of our common stock from BankAtlantic Bancorp in a privately negotiated transaction for $42.35 per share, the closing price on Friday, January 11, 2008.

BankAtlantic Bancorp was the sole stockholder of Ryan Beck prior to our acquisition of Ryan Beck on February 28, 2007. BankAtlantic Bancorp and the Other Recipients were issued shares and warrants as partial consideration for our acquisition of Ryan Beck. Upon closing of the acquisition, Ryan Beck became a wholly-owned subsidiary of Stifel Financial Corp. To our knowledge, other than the foregoing and the ownership of shares of our common stock and warrants to purchase our common stock and the associated registration rights agreement described in this prospectus supplement, neither BankAtlantic Bancorp nor any of its affiliates has held any position or office with, been employed by or otherwise had any material relationship with us or our affiliates during the past three years.

Western and Southern. 300,000 shares of the common stock registered for sale under this prospectus are owned by The Western and Southern Life Insurance Company (Western and Southern). To our knowledge, neither Western and Southern nor any of its affiliates have held any position or office with, been employed by or otherwise has had any material relationship with us or our affiliates during the past three years.

The following table sets forth certain information with respect to the beneficial ownership of our common stock as of February 22, 2008, and, as adjusted to reflect the sale of the common stock being offered hereby and assuming no exercise of the underwriter s over-allotment option, by:

each of our directors and executive officers;

all our directors and executive officers as a group; and

each person, or group of affiliated persons, who is known by us to own beneficially more than 5% of our common stock, including the selling stockholders.

	Beneficial Ownership Prior to the Offering	Number of Shares to be	Beneficial Ownership

Directors and Executive Officers	Number(1)	Percent(2)	Sold in the Offering	Following the Offering Number	Following the Offering Percent
Ronald J. Kruszewski	673,769	4.22%		673,769	4.14%
James M. Zemlyak	338,043	2.14%		338,043	2.10%
Scott B. McCuaig	320,181	2.03%		320,181	1.99%
Thomas P. Mulroy	120,463	*		120,463	*
Richard J. Himelfarb	113,355	*		113,355	*
Joseph A. Sullivan	112,130	*		112,130	*
James M. Oates	83,104	*		83,104	*
Ben A. Plotkin	76,688	*		76,688	*
David D. Sliney	71,870	*		71,870	*
Bruce A. Beda	43,392	*		43,392	*
Robert E. Lefton	39,250	*		39,250	*
Charles A. Dill	36,981	*		36,981	*

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Directors and Executive Officers	Beneficial Ownership Prior to the Offering Number(1)	Percent(2)	Number of Shares to be Sold in the Offering	Beneficial Ownership Following the Offering Number	Percent
Robert J. Baer	23,737	*		23,737	*
Richard F. Ford	22,885	*		22,885	*
John P. Dubinsky	20,376	*		20,376	*
Fredrick O. Hanser	16,643	*		16,643	*
David M. Minnick	5,286	*		5,286	*
Kelvin R. Westbrook	1,282			1,282	
Total Directors & Executive Officers (18 persons)	2,119,355	12.90%		2,119,355	12.66%
Five Percent and Selling Stockholders					
BankAtlantic Bancorp, Inc.	2,609,078	16.16%	1,600,000	1,009,078	6.14%
The Western and Southern Life Insurance Company	1,359,882	8.68%	300,000	1,059,882	6.64%
Rainier Investment Management, Inc.	795,525	5.08%		795,525	4.98%

* Less than 1%.

(1) Includes the following shares that such persons and group have the right to acquire currently or within 60 days following February 22, 2008, upon the exercise of stock options: Mr. Kruszewski 170,133; Mr. Zemlyak 141,334; Mr. McCuaig 78,401; Mr. Oates 200; Mr. Sliney 40,199; Mr. Beda 7,399; Mr. Lefton 7,399; Mr. Dill 7,399; Mr. Baer 6,600; Mr. Ford 7,399; Mr. Dubinsky 7,401; Mr. Hanser 7,401; Mr. Minnick 1,800; and directors and executive officers as a group 483,065. Also includes the following shares allocated to such persons and group under the Stifel Financial Corp. Stock Ownership Plan and Trust: Mr. Kruszewski 475; Mr. Zemlyak 385; Mr. McCuaig 452; Mr. Mulroy 29; Mr. Himelfarb 29; Mr. Sullivan 29; Mr. Sliney 618; Mr. Minnick 48; and directors and executive officers as a group 2,065. Also includes the following shares allocated to such persons and group underlying stock units vested currently or within 60 days following February 22, 2008: Mr. Kruszewski 121,099 Mr. Zemlyak 19,544; Mr. McCuaig 26,939; Mr. Mulroy 4,847; Mr. Himelfarb 856; Mr. Sullivan 749; Mr. Oates 11,782; Mr. Plotkin 12,500; Mr. Sliney 9,947; Mr. Beda 12,216; Mr. Lefton 11,674; Mr. Dill 10,813; Mr. Baer 10,813; Mr. Ford 7,082; Mr. Dubinsky 7,909; Mr. Hanser 7,909; Mr. Minnick 874; Mr. Westbrook 1,282; and directors and executive officers as a group 278,835. Also includes the following shares allocated to such persons and group under the Stifel, Nicolaus & Company, Incorporated Profit Sharing 401(k) Plan: Mr. Zemlyak 2,852; Mr. Himelfarb 1,484; Mr. Sullivan 1,352; and directors and executive officers as a group 5,689. Also includes the following shares that such persons and group have the right to acquire currently upon the exercise of warrants to purchase common stock: Mr. Plotkin 10,467; directors and executive officers as a group 10,467; and BankAtlantic Bancorp, Inc. 481,724. The information shown for BankAtlantic Bancorp is based on a Schedule 13D/A, dated January 16, 2008, of BankAtlantic Bancorp. The

information in the Schedule 13D/A indicates that BankAtlantic Bancorp has the sole power to vote and dispose of such shares. The information shown for Western and Southern is based on a Schedule 13G/A filed February 14, 2008 by Western and Southern. The information in the Schedule 13G/A indicates that Western and Southern has the sole power to vote and dispose of such shares. The information shown for Rainier Investment Management, Inc. (Rainer Investment Management) is based on a Schedule 13G filed February 14, 2008 by Rainier Investment Management. The information in the Schedule 13G indicates that Rainier Investment Management has the sole power to vote and dispose of such shares.

(2) Based upon 15,665,146 shares of common stock issued and outstanding as of February 22, 2008, and, for each director or officer or the group, the number of shares subject to options, stock units, or warrants to purchase common stock which the director or officer or the group has the right to acquire currently or

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within 60 days following February 22, 2008. For BankAtlantic Bancorp, Inc., the percentage is based upon the number of shares held at February 22, 2008 and the number of shares to be issued upon exercise of warrants to purchase common stock.

MATERIAL UNITED STATES FEDERAL TAX CONSEQUENCES FOR NON-U.S. HOLDERS OF COMMON STOCK

The following is a general discussion of certain U.S. federal income and estate tax consequences of the purchase, ownership and disposition of our common stock. This discussion applies only to a non-U.S. holder (as defined below) of our common stock. This discussion is based upon the provisions of the Internal Revenue Code of 1986, as amended, or the Code, the Treasury regulations promulgated thereunder and administrative and judicial interpretations thereof, all as of the date hereof, all of which are subject to change, possibly with retroactive effect. This discussion is limited to investors that hold our common stock as capital assets for U.S. federal income tax purposes. Furthermore, this discussion does not address all aspects of U.S. federal income and estate taxation that may be applicable to investors in light of their particular circumstances, or to investors subject to special treatment under U.S. federal income or estate tax law, such as financial institutions, insurance companies, tax-exempt organizations, entities that are treated as partnerships for U.S. federal tax purposes, dealers in securities or currencies, expatriates, persons deemed to sell our common stock under the constructive sale provisions of the Code and persons that hold our common stock as part of a straddle, hedge, conversion transaction or other integrated investment. Furthermore, this discussion does not address any U.S. federal gift tax consequences or any state, local or foreign tax consequences. Prospective investors should consult their tax advisors regarding the U.S. federal, state, local and foreign income, estate and other tax consequences of the purchase, ownership and disposition of our common stock.

For purposes of this summary, the term non-U.S. holder means a beneficial owner of our common stock that is not, for U.S. federal income and estate tax purposes, (i) a citizen or resident of the United States, (ii) a corporation or other entity subject to tax as a corporation for such purposes that is created or organized under the laws of the United States or any political subdivision thereof, (iii) a partnership (including any entity or arrangement treated as a partnership for such purposes), (iv) an estate the income of which is subject to U.S. federal income taxation regardless of its source, or (v) a trust (A) if a court within the United States is able to exercise primary supervision over its administration and one or more U.S. persons have the authority to control all of its substantial decisions or (B) that has made a valid election to be treated as a U.S. person for such purposes. If a partnership (including any entity or arrangement treated as a partnership for such purposes) owns our common stock, the tax treatment of a partner in the partnership will depend upon the status of the partner and the activities of the partnership. Partners in a partnership that owns our common stock should consult their tax advisors as to the particular U.S. federal income and estate tax consequences applicable to them.

Dividends

Dividends paid to a non-U.S. holder generally will be subject to withholding of U.S. federal income tax at a 30% rate or such lower rate as may be specified by an applicable income tax treaty. Non-U.S. holders should consult their tax advisors regarding their entitlement to benefits under an applicable income tax treaty and the manner of claiming the benefits of such treaty. A non-U.S. holder that is eligible for a reduced rate of withholding tax under an income tax treaty may obtain a refund or credit of any excess amounts withheld by filing an appropriate claim for refund with the Internal Revenue Service.

Dividends that are effectively connected with a non-U.S. holder s conduct of a trade or business in the United States and, if certain income tax treaties apply, that are attributable to a non-U.S. holder s permanent establishment in the United States are not subject to the withholding tax described above but instead are subject to U.S. federal income tax on a net income basis at applicable graduated U.S. federal income tax rates. A non-U.S. holder must satisfy certain certification requirements for its effectively connected dividends to be exempt from the withholding tax described above. Dividends received by a foreign corporation that are effectively connected with its conduct of a trade or business in the United States may be subject to an additional branch profits tax at a 30% rate or such lower rate as may be specified by an applicable income tax treaty.

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Gain on Disposition of Common Stock

A non-U.S. holder generally will not be taxed on gain recognized on a disposition of our common stock unless:

- the non-U.S. holder is an individual who holds our common stock as a capital asset, has a tax home in the U.S. (within the meaning of Section 865(g)(1)(A)(i)(II) of the Code) and is present in the United States for 183 days or more during the taxable year of the disposition and meets certain other conditions;

- the gain is effectively connected with the non-U.S. holder s conduct of a trade or business in the United States and, if certain income tax treaties apply, is attributable to a Non-U.S. Holder s permanent establishment in the United States; or

- we are or have been a United States real property holding corporation for U.S. federal income tax purposes at any time within the shorter of the five-year period ending on the date of disposition or the period that the non-U.S. holder held our common stock. We do not believe that we have been, currently are, or will become, a United States real property holding corporation. If we were or were to become a United States real property holding corporation at any time during the applicable period, however, any gain recognized on a disposition of our common stock by a non-U.S. Holder that did not own (directly, indirectly or constructively) more than 5% of our common stock during the applicable period would not be subject to U.S. federal income tax, provided that our common stock is regularly traded on an established securities market (within the meaning of Section 897(c)(3) of the Code).

Individual non-U.S. holders who are subject to U.S. federal income tax because the holders were present in the United States for 183 days or more during the year of disposition, and had a tax home in the U.S. (within the meaning of Section 865(g)(1)(A)(i)(II) of the Code) are taxed on their gains (including gains from the sale of our common stock and net of applicable U.S. losses from sales or exchanges of other capital assets recognized during the year) at a flat rate of 30% or such lower rate as may be specified by an applicable income tax treaty. Other non-U.S. holders subject to U.S. federal income tax with respect to gain recognized on the disposition of our common stock generally will be taxed on any such gain on a net income basis at applicable graduated U.S. federal income tax rates and, in the case of foreign corporations, the branch profits tax discussed above also may apply.

Federal Estate Tax

Our common stock that is owned or treated as owned by an individual who is a non-U.S. holder at the time of death will be included in the individual s gross estate for U.S. federal estate tax purposes, and, therefore, U.S. federal estate tax may be imposed with respect to the value of such stock, unless an applicable estate tax or other treaty provides otherwise.

Information Reporting and Backup Withholding

In general, backup withholding will apply to dividends on our common stock paid to a non-U.S. holder, unless the holder has provided the required certification that it is a non-U.S. holder and the payor does not have actual knowledge (or reason to know) that the holder is a U.S. person. Generally, information will be reported to the Internal Revenue Service regarding the amount of dividends paid, the name and address of the recipient, and the amount, if any, of tax withheld. These information reporting requirements apply even if no tax was required to be withheld. A similar report is sent to the recipient of the dividend.

In general, backup withholding and information reporting will apply to the payment of proceeds from the disposition of our common stock by a non-U.S. holder through a U.S. office of a broker or through the non-U.S. office of a broker that is a U.S. person or has certain enumerated connections with the United States, unless the holder has provided the required certification that it is a non-U.S. holder and the payor does not have actual knowledge (or reason to know) that the holder is a U.S. person.

Backup withholding is not an additional tax. Any amounts that are withheld under the backup withholding rules from a payment to a non-U.S. holder will be refunded or credited against the holder s U.S. federal income tax liability, if any, provided that certain required information is furnished to the Internal Revenue Service.

Non-U.S. holders should consult their tax advisors regarding the application of the information reporting and backup withholding rules to them.

UNDERWRITING

Subject to the terms and conditions stated in the underwriting agreement dated the date hereof, each underwriter named below has severally agreed to purchase, and Stifel and the selling stockholders have agreed to sell to such underwriter, the respective number of shares set forth opposite the name of such underwriter.

Underwriter	**Number of Shares**
Stifel, Nicolaus & Company, Incorporated	
Merrill Lynch, Pierce, Fenner & Smith Incorporated	
Keefe, Bruyette & Woods, Inc.	
Fox-Pitt Kelton Cochran Caronia Waller (USA) LLC	
Total	

The maximum underwriting compensation in connection with an offering will not exceed 8% of gross proceeds. Because we may be deemed to be an affiliate of Stifel Nicolaus, the offering will be conducted in accordance with FINRA Conduct Rule 2720.

The underwriting agreement provides that the obligations of the several underwriters to purchase the shares included in this offering are subject to approval of certain legal matters by counsel and to certain other conditions. The underwriters are obligated to purchase all the shares (other than those covered by the over-allotment option described below) if they purchase any of the shares.

The underwriters, for whom Stifel, Nicolaus & Company, Incorporated, Merrill Lynch, Pierce, Fenner & Smith Incorporated and Keefe, Bruyette & Woods, Inc. are acting as representatives, propose to offer some of the shares directly to the public at the public offering price set forth on the cover page of this prospectus and some of the shares to certain dealers at the public offering price less a discount not in excess of $ per share. The underwriters may allow, and such dealers may reallow, a concession not in excess of $ per share to certain other dealers. If all of the shares are not sold at the initial offering price, the representatives may change the public offering price and other selling terms.

We have granted to the underwriters an option, exercisable for 30 days from the date of this prospectus, to purchase up to 330,000 additional shares of common stock at the public offering price less the underwriting discount. The underwriters may exercise such option solely for the purpose of covering over-allotments, if any, in connection with this offering. To the extent such option is exercised, each underwriter will be obligated, subject to certain conditions, to purchase a number of additional shares approximately proportionate to such underwriter s initial purchase commitment.

We, our executive officers and directors have agreed that for a period of 90 days from the date of this prospectus, and the selling stockholders have agreed that for a period of 120 days from the date of this prospectus, we will not and they will not, without the prior written consent of Merrill Lynch, Pierce, Fenner & Smith Incorporated, on behalf of the underwriters, subject to certain exceptions, sell, offer to sell or otherwise dispose of or hedge any shares of our common stock or any securities convertible into or exercisable or exchangeable for our common stock.

In connection with the closing of the Ryan Beck acquisition, we entered into a registration rights agreement with BankAtlantic Bancorp (on its own behalf and on behalf of the holders of options to acquire shares of Ryan Beck common stock who received shares of Stifel common stock in the acquisition) relating to the registration of shares of our common stock issued as merger consideration. We registered for resale all such shares (including shares issuable upon exercise of certain warrants) held by stockholders other than BankAtlantic Bancorp within 180 days after the closing of the Ryan Beck acquisition, in July 2007. In addition, at that time we also registered an initial tranche of one-third of such shares issued to BankAtlantic Bancorp (including shares issuable upon exercise of certain warrants held by BankAtlantic Bancorp). Under the registration rights agreement, we also agreed to register two additional tranches each equal to one-third of such shares held by BankAtlantic Bancorp by the first and second anniversaries of our initial share registration. We have included the shares to be sold by BankAtlantic Bancorp in this offering pursuant to certain incidental

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registration rights in the registration rights agreement. In addition, effective upon the consummation of this offering, we have agreed to release the lock-up restrictions in the registration rights agreement on the balance of the shares issued to BankAtlantic Bancorp.

Merrill Lynch, Pierce, Fenner & Smith Incorporated in its sole discretion may release any of the securities subject to these lock-up agreements at any time without notice.

Our common stock is traded on the NYSE and the CSE under the symbol SF.

The following table shows the underwriting discount to be paid to the underwriters by Stifel and the selling stockholders in connection with this offering. These amounts are shown assuming both no exercise and full exercise of the underwriters option to purchase additional shares of common stock.

	Paid by Stifel		Paid by Selling Stockholders	
	No Exercise	Full Exercise	No Exercise	Full Exercise
Per share	$	$	$	$
Total	$	$	$	$

In connection with the offering, Merrill Lynch, Pierce, Fenner & Smith Incorporated, on behalf of the underwriters, may purchase and sell shares of common stock in the open market. These transactions may include over-allotment, syndicate covering transactions and stabilizing transactions. Over-allotment involves syndicate sales of common stock in excess of the number of shares to be purchased by the underwriters in the offering, which creates a syndicate short position. Syndicate covering transactions involve purchases of the common stock in the open market after the distribution has been completed in order to cover syndicate short positions. Stabilizing transactions consist of certain bids or purchases of common stock made for the purpose of preventing or retarding a decline in the market price of the common stock while the offering is in progress.

The underwriters also may impose a penalty bid. Penalty bids permit the underwriters to reclaim a selling concession from a syndicate member when Merrill Lynch, Pierce, Fenner & Smith Incorporated, in covering syndicate short positions or making stabilizing purchases, repurchases shares originally sold by that syndicate member.

Any of these activities may cause the price of the common stock to be higher than the price that otherwise would exist in the open market in the absence of such transactions. These transactions may be effected on the NYSE, the CSE or in the over-the-counter market, or otherwise and, if commenced, may be discontinued at any time.

We estimate that the total expenses of this offering will be approximately $325,000. The underwriters have agreed to reimburse us for approximately $100,000 of such expenses.

The representatives have performed certain investment banking and advisory services for Stifel from time to time for which they have received customary fees and expenses. The representatives may, from time to time, engage in transactions with and perform services for Stifel in the ordinary course of their business.

Stifel and the selling stockholders have agreed to indemnify the underwriters against certain liabilities, including liabilities under the Securities Act of 1933, or to contribute to payments the underwriters may be required to make in respect of any of those liabilities.

LEGAL MATTERS

Certain legal matters with regard to the shares of common stock offered by this prospectus will be passed upon by Bryan Cave LLP, St. Louis, Missouri, counsel to Stifel Financial Corp. Certain legal matters in connection with the offering will be passed upon for the underwriters by Skadden, Arps, Slate, Meagher and Flom LLP, New York, New York.

EXPERTS

The consolidated financial statements and the related financial statement schedule incorporated in this prospectus by reference from Stifel Financial Corp. s Annual Report on Form 10-K for the year ended December 31, 2007 and the effectiveness of Stifel Financial Corp. s internal control over financial reporting have been audited by Deloitte & Touche LLP, an independent registered public accounting firm, as stated in their reports, which are incorporated herein by reference. Such consolidated financial statements and financial statement schedule have been so incorporated in reliance upon the reports of such firm given upon their authority as experts in accounting and auditing.

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PROSPECTUS

STIFEL FINANCIAL CORP.

Common Stock

We may offer, issue and sell from time to time shares of our common stock.

This prospectus describes some of the general terms that may apply to these shares of common stock. Supplements to this prospectus supplements may add, update, or change information contained in this prospectus. This prospectus may not be used to offer and sell shares of common stock unless accompanied by a prospectus supplement. You should read this prospectus and the applicable prospectus supplement carefully before you make your investment decision.

We may offer and sell these shares of common stock through one or more underwriters, dealers and agents, through underwriting syndicates managed or co-managed by one or more underwriters, or directly to purchasers, on a continuous or delayed basis.

To the extent that any selling securityholder resells any shares of common stock, the selling securityholder may be required to provide you with this prospectus and a prospectus supplement identifying and containing specific information about the selling securityholder and the terms of the shares of common stock being offered.

The prospectus supplement for each offering of shares of common stock will describe the plan of distribution for that offering. Our common stock is listed on the New York Stock Exchange (NYSE) and the Chicago Stock Exchange (CSE) under the symbol SF. Each prospectus supplement will indicate if the shares of common stock offered thereby will be listed on any securities exchange.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or passed upon the adequacy or accuracy of this prospectus. Any representation to the contrary is a criminal offense.

The date of this prospectus is November 19, 2007.

ABOUT THIS PROSPECTUS

This prospectus is part of a registration statement that we filed with the Securities and Exchange Commission using a shelf registration process. Under this shelf process, we may, from time to time, sell shares of common stock, as described in this prospectus, in one or more offerings.

This prospectus provides you with a general description of the common stock we may offer. Each time we sell common stock, we will provide a prospectus supplement that will contain specific information about the terms of that offering, including the specific amounts and prices of the common stock offered. The prospectus supplements may also add, update or change information contained in this prospectus. You should read both this prospectus and any prospectus supplement together with additional information described under the heading Where You Can Find Additional Information.

To the extent that this prospectus is used by any selling securityholder to resell any common stock, information with respect to the selling securityholder and the terms of the common stock being offered will be contained in a prospectus supplement.

You should rely on the information contained or incorporated by reference in this prospectus. We have not authorized anyone to provide you with different information. If anyone provides you with different or inconsistent information, you should not rely on it. We are not making an offer to sell common stock in any jurisdiction where the offer or sale is not permitted.

You should assume that the information in this prospectus is accurate as of the date of the prospectus. Our business, financial condition, results of operations and prospects may have changed since that date.

WHERE YOU CAN FIND ADDITIONAL INFORMATION

We file annual, quarterly and current reports, proxy statements and other information with the Securities and Exchange Commission (SEC). You may read and copy these documents at the SEC s public reference room at 100 F Street, N.E., Washington, D.C. 20549. Please call the SEC at 1-800-SEC-0330 for further information on the operation of the public reference room. Our SEC filings are also available over the Internet at the SEC s website at http://www.sec.gov. Our common stock is listed on the NYSE and the CSE under the symbol SF.

The SEC allows incorporation by reference into this prospectus of information that we file with the SEC. This permits us to disclose important information to you by referencing these filed documents. Any information referenced this way is considered to be a part of this prospectus and any information filed by us with the SEC subsequent to the date of this prospectus will automatically be deemed to update and supersede this information. We incorporate by reference the following documents which we have filed with the SEC:

our Annual Report on Form 10-K for the year ended December 31, 2006 (File No. 1-9305), filed with the SEC on March 16, 2007, as amended by our Annual Report on Form 10-K/A for the year ended December 31, 2006 (File No. 1-9305), filed with the SEC on June 28, 2007;

our Definitive Proxy Statement for the 2007 Annual Meeting of Stockholders (File No. 1-9305) filed with the SEC on April 30, 2007;

our Definitive Proxy Statement for the special meeting of Stockholders (File No. 1-9305) filed with the SEC on May 22, 2007;

our Quarterly Reports on Form 10-Q for the three months ended March 31, 2007 (File No. 1-9305), filed with the SEC on May 15, 2007, for the six months ended June 30, 2007 (File No. 1-9305), filed with the SEC on August 9, 2007 and for the nine months ended September 30, 2007 (File No. 1-9305), filed with the SEC on November 9, 2007;

our Current Reports (File No. 1-9305) on Form 8-K filed with the SEC on January 9, 2007, March 1, 2007, April 5, 2007, April 5, 2007, July 5, 2007, August 13, 2007, and on Form 8-K/A filed with the

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SEC on January 12, 2007, March 6, 2007 and May 7, 2007 (except, in any such case, the portions furnished and not filed pursuant to Item 2.02, Item 7.01 or otherwise); and

the description of our common stock set forth in our Registration Statement on Form 8-A filed with the SEC on April 29, 1987.

We incorporate by reference any filings made with the SEC in accordance with Sections 13(a), 13(c), 14, or 15(d) of the Securities Exchange Act of 1934 on or after the date of this prospectus and before the termination of the offering.

We will provide a copy of the documents we incorporate by reference (other than exhibits attached to those documents, unless such exhibits are specifically incorporated by reference into the information incorporated herein), at no cost, to any person who receives this prospectus. You may request a copy of any or all of these documents, either orally or in writing, by contacting us at the following address and phone number: Stifel Financial Corp., Investor Relations, 501 N. Broadway, St. Louis, Missouri 63102, (314) 342-2000.

STIFEL FINANCIAL CORP.

Stifel Financial Corp. is a financial services holding company headquartered in St. Louis. Our principal subsidiary is Stifel, Nicolaus & Company, Incorporated (Stifel Nicolaus), a full service retail and institutional brokerage and investment banking firm. Our other subsidiaries include Century Securities Associates, Inc. (Century Securities), an independent contractor broker-dealer firm; and Stifel Bank & Trust, a commercial bank. With our century-old operating history, we have built a diversified business focused primarily on serving private clients, institutional investors and investment banking clients located across the country. We have grown both organically as well as through acquisitions, including our recent acquisitions of (1) the Capital Markets business of Legg Mason; (2) Ryan Beck, a full-service brokerage and investment banking firm; and (3) First Service Financial Company, a St. Louis-based bank holding company.

Stifel Nicolaus principal activities are: (1) private client services, including securities transactions and financial planning services; (2) institutional equity and fixed income sales and trading; and (3) investment banking, including public offerings, private placements, and mergers and acquisitions. Our proprietary, highly-regarded securities research product is important to all of these businesses.

Our private client business consists of an extensive network of financial advisors located in branch offices nationally, with a concentration in the Midwest and Mid-Atlantic regions, and with a growing presence in the Northeast, Southeast and Western United States. Our private client professionals provide retail brokerage and financial advisory services to individuals. Our institutional equity and fixed income sales and trading business provides services to institutional investors and money managers as well as municipalities and corporations in the United States. In addition, our international subsidiary, Stifel Nicolaus Limited, provides equity sales and trading services to institutional investors in Europe through our offices located in London, Geneva and Madrid. Our investment banking business focuses on middle market companies as well as on larger companies in targeted industries where we have particular expertise.

Our Century Securities subsidiary is a broker-dealer serving independent securities brokers nationwide. Through Stifel Bank & Trust we offer retail and commercial banking services to meet the needs of our clients, including personal loan programs, commercial lending programs and other banking products.

USE OF PROCEEDS

Unless otherwise set forth in a prospectus supplement, we intend to use the net proceeds of any offering of common stock sold by us for general corporate purposes, which may include acquisitions, repayment of debt, capital expenditures and working capital. The net proceeds may be invested temporarily in short-term marketable securities or applied to repay short-term debt until they are used for their stated purpose.

Unless otherwise set forth in a prospectus supplement, we will not receive any proceeds in the event that the securities are sold by a selling securityholder.

DESCRIPTION OF COMMON STOCK

As of September 30, 2007, we are authorized to issue up to 30,000,000 shares of common stock. Computershare Limited is the transfer agent and registrar for our common stock. Our common stock is listed on the NYSE and the CSE under the symbol SF.

The following is a summary of the material terms and rights associated with our common stock and certain provisions of our amended and restated certificate of incorporation and amended and restated bylaws. Since the terms of our certificate of incorporation and bylaws, and Delaware corporate law, are more detailed than the general information provided below, you should only rely on the actual provisions of those documents and Delaware law for a complete statement of the terms and rights of our common stock. If you would like to read those documents, they are on file with the SEC, as described under the heading Where You Can Find Additional Information on page 1.

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As of October 31, 2007, there were 15,145,063 shares of common stock outstanding that were held of record by approximately 4,500 stockholders. The holders of common stock are entitled to one vote for each share held of record on all matters submitted to a vote of the stockholders. Our stockholders do not have cumulative voting rights in the election of directors. Accordingly, holders of a majority of the shares voting are able to elect all of the directors. Subject to preferences that may be granted to any then outstanding preferred stock, holders of common stock are entitled to receive ratably only those dividends as may be declared by the board of directors out of funds legally available for dividends, as well as any distributions to the stockholders. In the event of our liquidation, dissolution or winding up, holders of common stock are entitled to share ratably in all of our assets remaining after we pay our liabilities and distribute the liquidation preference of any then outstanding preferred stock. Holders of common stock have no preemptive or other subscription or conversion rights. There are no redemption or sinking fund provisions applicable to the common stock.

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LEGAL MATTERS

In connection with particular offerings of shares of common stock in the future, and unless otherwise indicated in the applicable prospectus supplement, the validity of those shares of common stock will be passed upon for Stifel Financial Corp. by Bryan Cave LLP, St. Louis, Missouri.

EXPERTS

The consolidated financial statements, the related financial statement schedule, and management s report on the effectiveness of internal control over financial reporting incorporated in this prospectus by reference from Stifel Financial Corp. s Annual Report on Form 10-K/A for the year ended December 31, 2006 have been audited by Deloitte & Touche LLP, an independent registered public accounting firm, as stated in their report, which is incorporated herein by reference, and have been so incorporated in reliance upon the report of such firm given upon their authority as experts in accounting and auditing.

The audited historical consolidated financial statements of Ryan Beck Holdings, Inc. included as exhibit 99.1 of Stifel Financial Corp. s Current Report on Form 8-K/A dated May 7, 2007 have been so incorporated in reliance on the report of PricewaterhouseCoopers LLP, independent accountants, given on the authority of said firm as experts in accounting and auditing.

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2,200,000 Shares

STIFEL FINANCIAL CORP.

Common Stock

PROSPECTUS SUPPLEMENT

Stifel Nicolaus

Merrill Lynch & Co.

Keefe, Bruyette & Woods

Fox-Pitt Kelton Cochran Caronia Waller

, 2008