S&T BANCORP INC
Form DEF 14A
April 06, 2016
UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

SCHEDULE 14A INFORMATION
Proxy Statement Pursuant to Section 14(a) of the
Securities Exchange Act of 1934
(Amendment No. ___)

Filed by the Registrant x Filed by a Party other than the Registrant ¨

Check the appropriate box:

¨ Preliminary Proxy Statement

¨ Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))

x Definitive Proxy Statement

¨ Definitive Additional Materials

¨ Soliciting Material under Rule 14a-12

S&T Bancorp, Inc.
(Name of registrant as specified in its charter)

(Name of person(s) filing proxy statement, if other than the registrant)

Payment of Filing Fee (Check the appropriate box):

x No fee required.

¨ Fee computed on table below per Exchange Act Rules 14a-6(i)(4) and 0-11.

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(1) Amount Previously Paid:

(2) Form, Schedule or Registration Statement No.:

(3) Filing Party:

(4) Date Filed:

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TO THE SHAREHOLDERS OF S&T BANCORP, INC.:

Success comes from knowing who you are, what you do best, and doing it consistently while always remaining open to opportunities to grow and improve. Easy to say, not always easy to do, but that's exactly what our team at S&T Bancorp accomplished once again in 2015. In fact, we finished the year with $67.1 million in net income, a new record for our bank.

As always, we attribute our performance to traditional, long-held practices of good core banking, focused on placing people first. We know who we are - we build relationships one customer at a time.

Loan and deposit growth remains our primary focus, while also carefully controlling operating and credit expenses. The ongoing low-interest rate environment remains a challenge for expanding our net interest income, but our steady organic growth helps to mitigate the impact. We know what we do best, and we do it consistently.

Expansion into markets in southcentral Pennsylvania, northeast and central Ohio, and western New York State, bolstered by branch upgrades in our core western Pennsylvania footprint, provide opportunities to extend the S&T brand and grow business in new ways. We evaluate and act upon suitable opportunities to grow profitably and enhance shareholder value.

So, driven by strong organic growth, combined with the successful merger with Integrity Bancshares, the expansion of loan production offices (LPO), and the installation of new technology-enhanced Innovation Centers, we have been able once again to offer healthy returns to our shareholders in 2015. It remains our formula for success.

2015 Financials

Here are some of the financial highlights from 2015:

- Net income increased $9.2 million, or 16 percent, to a record $67.1 million, or $1.98 per diluted share, compared to $57.9 million, or $1.95 per diluted share for 2014.

- For 2015, return on average assets was 1.13 percent; return on average equity was 8.94 percent; and return on tangible equity was 14.39 percent.

- Net interest income increased $39.5 million, or 27 percent, to $187.6 million compared to $148.0 million in 2014, driven primarily by loan growth of $1.2 billion.

- We remain focused on running our business efficiently. During 2015, we had positive operating leverage with total revenue growth of $44.2 million, or 23 percent, while operating expenses increased $19.5 million, or 17 percent, compared to 2014.

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- Net interest margin, on a fully taxable-equivalent, or FTE, basis, increased to 3.56 percent in 2015 compared to 3.50 percent for 2014.
- Total shareholders’ equity was $792.2 million as of December 31, 2015, an increase of $183.8 million, or 30 percent, compared to the end of 2014.
- Lastly, the Board of Directors declared dividends of $0.73 per share during 2015, a 7.4 percent increase from the 2014 declared dividends per share of $0.68.

2015 Highlights

In March 2015, Integrity Bancshares became part of S&T, which expanded our geographic footprint into southcentral Pennsylvania with eight branches in Cumberland, Dauphin, Lancaster, and York Counties. Integrating the Integrity organization into ours not only gave us access to attractive new geographic markets, but it also provided a natural continuation and extension of the S&T approach to personalized banking. We discovered that we share similar philosophies and began witnessing the benefits immediately in solid loan production, customers who value access to knowledgeable bankers, and employees who mirror our people-first attitude with those customers.

Commercial banking - including the corporate and business banking segments - established itself once more in 2015 as a clear competitive differentiator, with loan production totaling $1.3 billion, attributable to a seasoned team of bankers who consistently excel in building strong and longstanding relationships with customers.

Our organic growth strategy in 2015 also manifested itself in new geographic markets beyond Pennsylvania, as we expanded Commercial lending operations with an LPO in Rochester, NY, to serve the western region of New York State. This office joins our other LPOs in Akron and Columbus, Ohio.

A number of significant developments occurred within our Retail segment, all of which helped to create another strong year. We introduced an exciting new concept this year, with the opening of two new Branch Innovation Centers - one in Indiana, PA (Indian Springs) and the other in suburban Pittsburgh (McCandless Crossings). These centers demonstrate our belief that one-to-one personalized banking services can be blended successfully with advanced technology, to create a more comprehensive and convenient delivery platform.

For example, both Branch Innovation Centers feature a “Tech Bar” where customers can use tablets and in-branch wi-fi to perform routine banking services, along with a series of “pods” to sit with bank representatives to discuss products, services, and any other areas of interest. Our philosophy regarding technology has not changed. We see it as a valuable tool - not an end unto itself, but always in the service of our customers.

The Wealth Management business had assets under management of $2.1 billion, providing brokerage and various trust services, along with serving as a registered investment advisor for private investment accounts. Our Insurance group had a solid year of new business generation in 2015, along with very high customer retention.

It’s important to state, however, that all of the results referenced in this letter happen only because of our people. We enjoy a number of admirable qualities across this organization, but the most striking - and

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the most crucial - remains the fact that S&T attracts and retains great bankers. I believe the truth and power of that statement extends from our Board and senior leadership team through every level, every location, and every individual who personifies our brand every day.

Part of what makes our team so valuable and valued can be seen in how we support our communities. From programs that promote and celebrate financial education - like Teach Children to Save, Get Smart About Credit, the Smart Start Scholarship, and My School-My Award - to holiday programs like Deck the Halls with S&T Bank - we donated nearly $1 million to various charitable and community organizations across our markets in 2015. But just as important, our employees have volunteered untold hours to help create a better quality of life in the communities we call home.

Everything we do for our customers led S&T to be selected as a 2015 Bank & Thrift Sm-All Star by Sandler O'Neill + Partners in its annual list of top-performing small-cap banks and thrifts across the nation. As one of only 34 banks in the country (from a pool of 435), our selection for the 2015 listing would be honor enough. But what makes this year's recognition even more remarkable is the fact that 2015 makes it the third consecutive year - and the fourth year overall - that Sandler O'Neill + Partners has placed us on its prestigious list, making us one of only five banks to earn this even more exclusive distinction.

I firmly believe this award stands as a testament to our people who are committed to providing strong relationship banking experiences for our customers while simultaneously carrying out our bank strategy. In much the same light, I wanted to acknowledge our Board of Directors for its staunch support and invaluable guidance, even as we mourn the loss of Fred Morelli, who served on the Board for three years prior to his passing. His wisdom and contributions to our organization will be missed.

Most of all, I join with the appreciation and gratitude of every member of our S&T team for your ongoing belief as shareholders in our formula for success - knowing who we are, consistently doing what we do best, and seizing opportunities to grow and improve. We pledge to continue on this path, with the intent of providing you with long-term value for your investment in us.

Sincerely,
Todd D. Brice
President and Chief Executive Officer

S&T Bancorp, Inc.
800 Philadelphia Street
Indiana, Pennsylvania 15701

NOTICE OF ANNUAL MEETING OF SHAREHOLDERS

May 16, 2016

To the Shareholders of
S&T Bancorp, Inc.:

Notice is hereby given that the Annual Meeting of Shareholders of S&T Bancorp, Inc. ("S&T") will be held on May 16, 2016, at 10:00 a.m. Eastern Time, at the S&T Support Center, located at Indiana West Plaza, 2416 Philadelphia Street, Indiana, Pennsylvania 15701, for the purpose of considering and voting on the following matters:

1. The election of fourteen directors to serve a one-year term until the next annual meeting of shareholders and until their respective successors are elected and qualified;
2. To ratify the selection of KPMG LLP as an independent registered public accounting firm for the fiscal year 2016;
3. To approve a non-binding advisory proposal on the compensation of S&T's executive officers; and
4. The transaction of such other business as may properly come before the meeting or any adjournment thereof.

Only shareholders of record at the close of business on March 28, 2016 are entitled to notice of and to vote at such meeting or any adjournment thereof.

By Order of the Board of Directors,

Ernest J. Draganza
Secretary
Indiana, Pennsylvania
April 6, 2016

IMPORTANT

YOUR VOTE IS IMPORTANT. IN ORDER TO ASSURE YOUR REPRESENTATION AT THE ANNUAL MEETING, PLEASE MARK, SIGN, DATE AND RETURN THE ENCLOSED PROXY AS SOON AS POSSIBLE IN THE ENCLOSED ENVELOPE. NO POSTAGE IS REQUIRED FOR MAILING IN THE UNITED STATES.
THE BOARD OF DIRECTORS UNANIMOUSLY RECOMMENDS THAT THE SHAREHOLDERS VOTE FOR THE ELECTION AS DIRECTORS OF THE NOMINEES NAMED IN THIS PROXY STATEMENT, FOR THE RATIFICATION OF THE SELECTION OF KPMG LLP AS AN INDEPENDENT REGISTERED ACCOUNTING FIRM FOR FISCAL YEAR 2016 AND FOR THE NON-BINDING ADVISORY PROPOSAL ON THE COMPENSATION OF S&T'S EXECUTIVE OFFICERS.

IMPORTANT NOTICE REGARDING THE AVAILABILITY OF
PROXY MATERIALS FOR THE 2016 ANNUAL MEETING OF SHAREHOLDERS
TO BE HELD ON MAY 16, 2016

The Securities and Exchange Commission (the "SEC") adopted the Notice and Access rule, whereby corporate issuers must make proxy materials available on a public website, and may choose to send a Notice of Internet Availability of Proxy Materials ("Notice") in place of the complete proxy package. For our 2016 Annual Meeting, to save significant printing and mailing expenses, S&T mailed a Notice to all shareholders, who had not previously elected to receive their proxy materials through the mail, to inform them of the electronic availability of the proxy materials 40 days in advance of the Annual Meeting.

S&T's Proxy Statement for the 2016 Annual Meeting of Shareholders and S&T's Annual Report on Form 10-K for the fiscal year ended December 31, 2015 in a combined document are available at http://proxyvote.com.

IMPORTANT NOTICE REGARDING DELIVERY OF SECURITY HOLDER DOCUMENTS

The SEC has adopted rules that permit companies and intermediaries (e.g., brokers) to satisfy the delivery requirements for proxy statements and annual reports with respect to two or more shareholders sharing the same address by delivering a single proxy statement addressed to those shareholders. This process is commonly referred to as "householding."

S&T has implemented "householding" in an effort to reduce the number of duplicate mailings to the same address. This process benefits both shareholders and S&T, because it eliminates unnecessary mailings delivered to your home and helps to reduce S&T's expenses. "Householding" is not being used, however, if S&T has received contrary instructions from one or more of the shareholders sharing an address. If your household has received only one annual report and one proxy statement, S&T will deliver promptly a separate copy of the annual report and the proxy statement to any shareholder who contacts S&T's transfer agent, American Stock Transfer & Trust Company ("AST"), by calling their toll-free number, 1-800-937-5449, or by mail to the attention of the Operations Center at 6201 15th Avenue, Brooklyn, NY 11219. You can also notify S&T that you would like to receive separate copies of S&T's annual report and proxy statement in the future by calling AST. Even if your household has received only one annual report and one proxy statement, S&T will continue to send a separate proxy card for each shareholder residing at your address. Please note, however, that if you also hold shares of S&T in "street name" (e.g., in a brokerage account or retirement plan account) you may continue to receive duplicate mailings.

Each proxy card should be signed, dated and returned in the enclosed self-addressed envelope. If your household has received multiple copies of S&T's annual report and proxy statement, you can request the delivery of single copies in the future by calling AST, as instructed above, or your broker, if you hold the shares in "street name."

For our 2017 Annual Meeting, you can help us save significant printing and mailing expenses by consenting to access our proxy materials and annual report electronically via the Internet. If you hold your shares in your own name (instead of "street name" through a bank, broker or other nominee), you can choose this option by following the prompts for consenting to electronic access, if voting by telephone, or by following the instructions at the Internet voting website at www.proxyvote.com, which has been established for you to vote your shares for the 2016 Annual Meeting. If you choose to receive your proxy materials and annual report electronically, then prior to next year's annual meeting you will receive notification when the proxy materials and annual report are available for on-line review via the Internet, as well as the instructions for voting electronically via the Internet. Your choice for electronic distribution will remain in effect until you revoke it by sending a written request to AST at the Operations Center at 6201 15th Avenue, Brooklyn, NY 11219. If you hold your shares in "street name" through a bank, broker or other nominee, you should follow the instructions provided by that entity if you wish to access our proxy materials electronically via the Internet.

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S&T BANCORP, INC.
PROXY STATEMENT FOR
ANNUAL MEETING OF SHAREHOLDERS
TO BE HELD MAY 16, 2016
INTRODUCTION

This Proxy Statement is being furnished to shareholders of S&T Bancorp, Inc. ("S&T") in connection with the solicitation of proxies by the Board of Directors of S&T (the "S&T Board") for use at the Annual Meeting of Shareholders, and any adjournments thereof, to be held at the time and place set forth in the accompanying notice ("Annual Meeting"). This Proxy Statement is being mailed to shareholders on or about April 6, 2016.

At the Annual Meeting, shareholders of S&T will be asked to elect fourteen directors of S&T to serve a one-year term, to approve the ratification of the selection of KPMG LLP as an independent registered public accounting firm for the fiscal year 2016 and to approve a non-binding advisory proposal on the compensation of S&T's executive officers.

All shareholders are urged to read this Proxy Statement carefully and in its entirety.

MEETING INFORMATION

Date, Time and Place

The Annual Meeting will be held on May 16, 2016, at 10:00 a.m. Eastern Time at the S&T Support Center, located at Indiana West Plaza, 2416 Philadelphia Street, Indiana, Pennsylvania 15701.

Record Date, Voting Rights

The securities that can be voted at the Annual Meeting consist of shares of common stock of S&T, par value $2.50 per share ("Common Stock"), with each share entitling its owner to one vote on all matters. Only holders of the Common Stock at the close of business on March 28, 2016 (the "Record Date") will be entitled to notice of and to vote at the Annual Meeting. There were 3,001 record holders of the Common Stock and 34,810,374 shares of Common Stock outstanding as of the Record Date.

A quorum is required for the transaction of business at the Annual Meeting. A "quorum" is the presence at the meeting, in person or represented by proxy, of the holders of the majority of the outstanding shares of Common Stock. Abstentions are counted for purposes of determining the presence or the absence of a quorum, but are not considered a vote cast under Pennsylvania law. Abstentions will not affect the outcome of a vote on a particular matter. Shares held by brokers in street name and for which the beneficial owners do not vote on a particular proposal because the brokers do not have discretionary voting power and have not received instructions from the beneficial owners to vote on that item are called "broker non-votes." Brokers and banks have discretionary authority to vote shares in absence of instructions considered "routine," such as the ratification of the appointment of the auditors. They do not have discretionary authority to vote shares in absence of instructions on "non-routine" matters, such as the election of directors and the advisory vote on the approval of executive compensation. Broker non-votes are counted to determine if a quorum is present, but are not considered a vote cast under Pennsylvania law. Broker non-votes will not affect the outcome of a vote on a particular matter.

The director nominees will be elected by a plurality of the votes cast at the Annual Meeting, which means that the fourteen nominees receiving the most votes will be elected. A withheld vote on any nominee will not affect the voting results. The ratification of the selection of KPMG LLP as an independent registered accounting firm for fiscal year 2016 and the approval of the non-binding advisory proposal on the compensation of S&T's executive officers require the affirmative vote of a majority of the votes cast at the Annual Meeting on the item to be approved.

Voting and Revocation of Proxies

If the appropriate enclosed form of proxy is properly executed and returned to S&T in time to be voted at the Annual Meeting, the shares represented thereby will be voted in accordance with the instructions marked thereon. Executed but unmarked proxies will be voted "FOR" the ratification of the selection of KPMG LLP as an independent registered accounting firm for fiscal year 2016. Except for procedural matters incident to the conduct of the Annual Meeting, S&T does

not know of any matters other than those described in the Notice of Annual Meeting that are to come before the Annual Meeting. If any other matters are properly brought before the Annual Meeting, the persons named in the accompanying proxy will vote the shares represented by the proxies in their discretion on such matters as recommended by a majority of the S&T Board.

The presence of a shareholder at the Annual Meeting will not automatically revoke such shareholder's proxy. However, a shareholder may revoke a proxy at any time prior to its exercise by filing with the Secretary of S&T a written notice of revocation, by delivering to S&T a duly executed proxy bearing a later date or by attending the Annual Meeting and voting in person.

Solicitation of Proxies

The cost of soliciting proxies in the form enclosed herewith will be borne by S&T. In addition to the solicitation of proxies by mail, S&T has engaged D.F. King & Co., Inc. to help solicit proxies for the Annual Meeting, and will pay D.F. King & Co., Inc. $7,000, plus its out-of-pocket expenses, for the solicitation of proxies. S&T may also solicit proxies personally or by telephone, through its directors, officers and regular employees. S&T also will request persons, firms and corporations holding shares of Common Stock in their names or in the name of their nominees, which are beneficially owned by others, to send proxy materials to and obtain proxies from the beneficial owners and will reimburse the holders for their reasonable expenses in so doing.

Internet Availability of Proxy Materials

S&T's Proxy Statement for the 2016 Annual Meeting of Shareholders and S&T's Annual Report on Form 10-K for the fiscal year ended December 31, 2015, are available at http://proxyvote.com.

BENEFICIAL OWNERS OF S&T COMMON STOCK

Under Section 13(d) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), a beneficial owner of a security is any person who directly or indirectly has or shares voting power or investment power over such security. Such beneficial owner under this definition need not enjoy the economic benefit of such securities. The following are the only shareholders known to S&T to be deemed to be a beneficial owner of 5% or more of Common Stock as of December 31, 2015, and S&T has relied solely on information provided in the public filings made by the holders below:

| Title of Class | Name and Address of Beneficial Owner | Amount and Nature of Beneficial Ownership | | Percent of Class | |
|---|---|---|---|---|---|
| Common Stock | BlackRock Inc.<br>55 East 52nd Street<br>New York, NY 10022 | 3,519,959 | (1) | 10.10 | % |
| Common Stock | The Vanguard Group, Inc.<br>100 Vanguard Blvd.<br>Malvern, PA 19355 | 2,688,745 | (2) | 7.72 | % |

(1) According to its Schedule 13G/A filed with the SEC on January 8, 2016, BlackRock, Inc. has sole dispositive power of 3,519,959 shares and sole voting power of 3,436,308 shares. The percentage of ownership is calculated as of the filing date of the Schedule 13G/A.

(2) According to its Schedule 13G/A filed with the SEC on February 10, 2016, The Vanguard Group, Inc. has sole dispositive power for 2,644,299 shares and shared dispositive power for 44,446 shares. The number of shares Vanguard Group, Inc. has sole power to vote or direct to vote is 42,946 and shared power to vote or direct to vote is 3,600. The percentage of ownership is calculated as of the filing date of the Schedule 13G/A.

S&T is not aware of any other person who beneficially owns more than 5% of any class of securities of S&T other than those listed above.

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BENEFICIAL OWNERSHIP OF S&T COMMON STOCK BY DIRECTORS AND OFFICERS

The following table sets forth, as of March 28, 2016, the amount and percentage of Common Stock beneficially owned by each director, each nominee for director and each of the Named Executive Officers (as defined below) of S&T, as well as the directors and executive officers of S&T as a group. Unless otherwise indicated, all persons listed below have sole voting and investment power of all shares of Common Stock. The business address of each of S&T's directors and officers is 800 Philadelphia Street, Indiana, Pennsylvania 15701.

| Name | Shares of Common Stock Beneficially Owned [(1)] | Percent Owned |
|---|---|---|
| David G. Antolik | 31,141 | * |
| Todd D. Brice | 101,948 | * |
| John J. Delaney | 72,216 | * |
| Michael J. Donnelly | 27,102 | * |
| Ernest J. Draganza | 31,078 | * |
| William J. Gatti | 26,221 | * |
| James T. Gibson | 405,410 | 1.16 |
| Jeffrey D. Grube | 22,571 | * |
| Jerry D. Hostetter | 15,003 | * |
| Frank W. Jones | 26,651 | * |
| Mark Kochvar | 48,542 | * |
| David L. Krieger | 18,046 | * |
| James C. Miller | 64,738 | * |
| Frank J. Palermo, Jr. | 14,990 | * |
| David P. Ruddock | 44,909 | * |
| Christine J. Toretti | 22,730 | * |
| Charles G. Urtin | 25,512 | * |
| Steven J. Weingarten | 81,502 | * |
| All current directors and executive officers as a group (23 persons) | 1,151,683 | 3.31 |

[(1)] May include shares held by spouse, other family members, as trustee or through a corporation. Mr. Brice disclaims beneficial ownership of 1,475 shares that are directly owned by his spouse and 4,776 shares that are directly owned by his daughters. Mr. Miller disclaims beneficial ownership of 17,760 shares that are directly owned by his spouse. Mr. Gibson disclaims beneficial ownership of 4,125 shares directly owned by his spouse.

* Less than 1% of the outstanding Common Stock.

Section 16(a) Beneficial Ownership Reporting Compliance

Section 16(a) of the Exchange Act requires S&T's directors and executive officers, and persons who own more than 10% of S&T's stock, to report to the SEC certain of their transactions with respect to S&T's Common Stock. The SEC reporting rules require that changes in beneficial ownership generally be reported on Form 4 within two business days after the date on which the change occurs. A Form 3 to report stock holdings in S&T must be filed within ten days of when a director, executive officer or person who owns more than 10% of S&T's stock becomes subject to Section 16(a) of the Exchange Act.

Officers, directors and greater than ten percent shareholders are required by SEC regulation to furnish us with copies of all Section 16(a) forms they file. To our knowledge, based solely on a review of the copies of such reports furnished to us and written representations that no other reports were required, during the fiscal year ended December 31, 2015, all Section 16(a) filing requirements applicable to our officers, directors and greater than 10% beneficial owners were filed in a timely manner, except for a late Form 4 for Mr. William Poole. The transaction occurred while Mr. Poole was an officer of S&T. The late filing was inadvertent.

PROPOSAL 1—ELECTION OF DIRECTORS

General

The By-laws of S&T provide that the number of directors constituting the S&T Board will consist of not less than nine (9) nor more than seventeen (17), with the exact number to be fixed and determined from time to time by resolution of a majority of the S&T Board. Following the death of Fred J. Morelli in December 2015, the S&T Board fixed the number of directors at fourteen (14).

The nominees were each recommended by our Nominating and Corporate Governance Committee (the "Nominating Committee") to the S&T Board. Each director nominee will serve a one-year term. All of the nominees have indicated their willingness to serve, if elected, but if any should be unable or unwilling to serve, proxies may be voted for a substitute nominee designated by the S&T Board. There are no family relationships between or among any of our directors, executive officers or persons nominated or chosen to become a director or executive officer, except that Director Delaney's son is married to Director and CEO Brice's sister. Unless otherwise instructed, the proxy holders will vote the proxies received by them for the nominees named below.

Set forth below is a brief description of the principal occupation and business experience of each of our nominees for director, as well as the summary of our views as to the qualifications of each nominee and continuing director to serve on the S&T Board and each board committee of which he or she is a member. Our views are informed not only by the current and prior employment and educational background of our directors, but also by the S&T Board's experience in working with their fellow directors. The S&T Board has had significant experience with the incumbent directors and has had the opportunity to assess the contributions that the directors have made to the S&T Board as well as their industry knowledge, judgment and leadership capabilities. The Nominating Committee continually assesses the tenure and diversity of the S&T Board and seeks opportunities, within the constraint of the size of the S&T Board, to include a mix of directors with S&T Board experience and with fresh perspectives. After the addition of Messrs. Morelli and Palermo to the S&T Board in 2013, the acquisition of Integrity Bancshares, Inc. ("Integrity") in 2015 offered the Nominating Committee the opportunity to add three additional new directors to the S&T Board to further diversify the S&T Board's industry knowledge, judgment and leadership capabilities.

Director Nominees to be Elected at the 2016 Annual Meeting:

Todd D. Brice, 53, has served as a director of S&T since 2005. Mr. Brice has been President and Chief Executive Officer of S&T and S&T Bank since 2008 and was formerly President and Chief Operating Officer of S&T and S&T Bank from 2004 until 2008 and Executive Vice President of Commercial Lending at S&T and S&T Bank from 2002 until 2004. With 30 years of banking experience, including 14 years of senior management experience at S&T, we believe that Mr. Brice's deep industry knowledge and his expertise in our operations, commercial lending and corporate strategy provides the S&T Board with significant insight across a broad range of issues critical to our business. As our Chief Executive Officer, Mr. Brice provides unique insight to the S&T Board regarding our day-to-day operations, customer information, competitive intelligence, general trends in national and local banking and issues regarding our financial results.

John J. Delaney, 74, has served as a director of S&T since 1987 and is a member of the Compensation and Benefits Committee (the "Compensation Committee") and the Nominating Committee. Mr. Delaney has been the president of Delaney Chevrolet, Inc. since 1971 and president of Riehle Chevrolet, Inc. d/b/a Star Chevrolet, Nissan, Volvo since 1983. We believe that Mr. Delaney's 44 years of experience in the retail auto industry provides the S&T Board with important experience regarding consumer lending and loan risk management. Mr. Delaney's extensive board experience during his career, including his service as a director on the board of the Indiana Chamber of Commerce, the Indiana Industrial Development Authority and the Indiana County Airport Authority Board, affords him valuable insight into the local business community. Mr. Delaney's management experience and board service, along with his deep experience as a long-standing member of the S&T Board, also qualify him to serve on our Compensation Committee and our Nominating Committee. We also believe that Mr. Delaney's experience operating a series of auto dealerships provides the Compensation Committee with experience regarding motivating our executive team through our various compensation plans and policies.

Michael J. Donnelly, 58, has served as a director of S&T since 2001 and is a member of the Compensation and Benefits Committee and the Nominating Committee. Mr. Donnelly has been president of Indiana Printing and Publishing Company, Inc. since 1993. We believe that Mr. Donnelly's deep experience in managing and operating a local business provides the S&T Board with valuable insight into the issues addressing our local corporate and consumer borrowers. Mr. Donnelly has

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spent over 26 years working with the Indiana County Chamber of Commerce and the Indiana County Development Corporation in retaining and attracting many businesses in the Indiana, PA area. Mr. Donnelly's experience in developing appropriate compensation for the executives and senior management of his company qualifies him to serve on our Compensation Committee, and his experience on the S&T Board provides him with a solid background for service on our Nominating Committee.

William J. Gatti, 74, has served as a director of S&T since 1993. Mr. Gatti is the owner of Gatti Medical Supply, Inc., a medical distribution company, and has served as the chief executive officer of Gatti LTC Pharmacy, a long term care provider since 2008. Mr. Gatti was the founder and former chief executive officer and chairman of Millennium Pharmacy Systems, Inc., a long term care provider, from 2003 until 2008. Mr. Gatti is also the founder and acting CEO of RxHealth Connect LLC, a medication management services company. Mr. Gatti was also the owner and operator of Gatti Retail Pharmacy. We believe that Mr. Gatti's experience in the medical industry offers valuable perspective and significant expertise to the S&T Board, and provides the S&T Board with a strategic outlook and management experience into operations and lending opportunities in the medical and medical care industries.

James T. Gibson, 60, has served as a director of S&T since March 2015. Mr. Gibson served as chairman, president and chief executive officer of Integrity since its inception in June 2003 until it was acquired by S&T in March 2015, and served as president and chief executive officer of Integrity Bank, a role he also held since its inception in June 2003 until it was merged into S&T Bank in May 2015. Previously, Mr. Gibson served as president and chief executive officer of Commerce Bank/Harrisburg from 1988 to 2002.We believe that Mr. Gibson's more than 37 years of banking experience and detailed knowledge about the development and operations of Integrity Bank qualify him to serve on our Board. Mr. Gibson assisted the S&T Board with transition and integration issues following the acquisition of Integrity in 2015.

Jeffrey D. Grube, 62, has served as a director of S&T since 1997 and is Chairman of the Compensation Committee and a member of the Audit Committee. Mr. Grube has served as President of B.F.G. Electroplating and Manufacturing Company as well as B.F.G. Manufacturing Service, Inc. since 1990. Mr. Grube's career as an executive in the manufacturing industry includes financial and engineering experience. Mr. Grube's extensive experience working with small and medium-sized businesses provides the S&T Board with valuable experience regarding potential borrowers and customers, customer relations, lending issues and credit risk. Mr. Grube also served as a director on the board of a privately held company that supplies compliance products for lending solutions. Mr. Grube's executive and board experience in the manufacturing sector and experience with financial institutions allow him to bring relevant insight regarding regulatory and financial compliance issues to the S&T Board, including the Audit Committee and the Compensation Committee.

Jerry D. Hostetter, 54, has served as a director of S&T since March 2015 and is a member of the Audit Committee and the Compensation Committee. Mr. Hostetter has served as a partner at Prestige Investment Group since its founding in 2012. Prior to that, Mr. Hostetter was the Vice President of Fund Development and Legislative Affairs of Ephrata Community Hospital from 2008 through 2011. Mr. Hostetter previously served on the board of Integrity from 2011 until it was acquired by S&T in March 2015. We believe that Mr. Hostetter's experience in the Pennsylvania business community and knowledge gained from his service as a director of Integrity qualify him to serve on the S&T Board and on the Audit Committee and Compensation Committee.

Frank W. Jones, 70, has served as a director of S&T since 1997 and is Chairman of the Nominating Committee and a member of the Audit Committee. In January 2015, Mr. Jones became of counsel with the law firm of Creenan & Baczkowski, PC in Murrysville, PA. Prior to joining the law firm, Mr. Jones was practicing independently in Allegheny County from 1970 to December 2014. Mr. Jones joined the S&T Board following the acquisition of People's Bank of Unity, a regional financial institution, where he served on the board of directors. Mr. Jones assisted the S&T Board with integration and strategic issues following the acquisition. Mr. Jones' legal practice, which focuses on estate administration and estate litigation, allows him to provide valuable insight to the S&T Board specifically with respect to our Wealth Management division, including on such issues as customer acquisition, marketing, strategic considerations, compliance and legal risk. We believe that Mr. Jones' experience as a director of a similar bank to S&T Bank, together with his legal experience as it relates to one of our core businesses and his years of experience on the S&T Board, qualify him to serve as a director and serve on our Audit Committee and Nominating Committee.

David L. Krieger, 72, has served as a director of S&T since 2007. Mr. Krieger is retired but was formerly Senior Executive Vice President and Commercial Lending Group Manager of S&T and S&T Bank. We believe that Mr. Krieger's 24 years of experience at S&T, including leading our commercial lending group, adds valuable experience to the S&T Board.

Mr. Krieger has deep knowledge of our lending practices and our customer base, and his commercial lending experience, both at S&T and at his prior employer, provides the S&T Board with significant operational insights regarding credit risk.

James C. Miller, 70, has served as a director since 1993. Mr. Miller served as Chairman of S&T and S&T Bank from 2004 to 2013. Mr. Miller is retired but was formerly Chief Executive Officer of S&T and S&T Bank from 1998 until 2008 and President of S&T and S&T Bank from 1993 until 2005. We believe that Mr. Miller's banking experience, including 37 years with S&T or a bank acquired by S&T and his service as our former chief executive officer, provides him with a unique perspective of our business, including our markets, customer base, senior management, key employees, potential customers, and operations and finances, and qualifies him to serve on the S&T Board.

Frank J. Palermo, 63, has served as a director since January 2013 and is Chairman of the Audit Committee and a member of the Nominating Committee. Mr. Palermo is a Certified Public Accountant and a Certified Valuation Analyst, and has been the managing shareholder of Palermo/Kissinger & Associates, P.C. since 1983. Mr. Palermo played an integral role in forming Gateway Bank of Pennsylvania ("Gateway"), where he served as chairman of the audit committee from its inception in 2004 through the date S&T acquired Gateway in 2012. Mr. Palermo's career also includes 37 years in public accounting and four years as a vice president and controller at a community bank. We believe that Mr. Palermo's background in accounting and finance, as well as his prior bank audit committee experience, bring a valuable perspective to the S&T Board both with respect to accounting, financial and strategic aspects of S&T's business and to the Audit Committee on which he serves as "audit committee financial expert." We further believe that Mr. Palermo's extensive board experience qualifies him to be a member of the S&T Board and to serve on the Audit Committee and the Nominating Committee.

Christine J. Toretti, 59, has served as Vice Chairman of S&T and S&T Bank since 2013 and a director of S&T since 1984. Ms. Toretti is a member of the Nominating Committee. Ms. Toretti has been the president of Palladio, LLC since 2011 and was the chairman and chief executive officer of S.W. Jack Drilling Company from 1990 through 2010. Ms. Toretti has been the president of The Jack Company since 1988, president of Plum Production, Inc. since 1991, and president of CJT, LLC since 2002, each of which is a natural gas investment company. Ms. Toretti is a board of director member for the EQT Corporation since October 2015. Ms. Toretti's deep industrial and energy experience provides the S&T Board with a strategic outlook regarding lending and other commercial opportunities in these sectors, her experience of leading a family business allows her to offer the S&T Board valuable management perspective and credit risk assessment with respect to our industrial and oil and gas borrowers, and her board experience, including in the role of chairman, qualifies her to serve as Vice Chairman of the S&T Board and on the Nominating Committee.

Charles G. Urtin , 69, has served as Chairman of S&T and S&T Bank since 2013 and was formerly Vice Chairman of S&T and S&T Bank from 2008 to 2013. Mr. Urtin is retired but was formerly president and chief executive officer of IBT Bancorp, Inc. and Irwin Bank. We believe that Mr. Urtin's 40 years of banking experience, including serving as chief executive officer of IBT Bancorp and Irwin Bank, provides the S&T Board with valuable industry, strategic, financial and operational insight, and his long-standing presence as a leader of a regional bank operating in our geographic market assists the S&T Board with customer acquisition, credit risk analysis and loan portfolio management. Mr. Urtin assisted the S&T Board with transition and integration issues following our acquisition of IBT Bancorp in 2008.

Steven J. Weingarten, 57, has served as a director of S&T since March 2015 and is a member of the Compensation Committee and the Nominating Committee. Mr. Weingarten has been an attorney at McNees Wallace & Nurick LLC since 1989, and a Member since 1993. Additionally, he served as Managing Partner of McNees Wallace & Nurick LLC from 2002 to 2006. Mr. Weingarten previously served on the board of Integrity from 2003 until it was acquired by S&T in March 2015. We believe that Mr. Weingarten's experience in managing McNees Wallace & Nurick LLC and in practicing real estate law and the knowledge he gained from his service as a director of Integrity qualify him to serve on the S&T Board and on the Compensation Committee and the Nominating Committee.

Board Recommendation

THE S&T BOARD RECOMMENDS A VOTE "FOR ALL" OF THE NOMINEES.

## CORPORATE GOVERNANCE

### Corporate Governance Guidelines

In 2014, the S&T Board adopted Corporate Governance Guidelines ("Guidelines") which reflect S&T's commitment to following corporate governance best practices. The Guidelines are to promote the functioning of the S&T Board and its committees and to set forth a common set of expectations as to how the S&T Board should perform its functions to enable effective corporate governance practices. These Guidelines are not intended to modify or amend S&T's Articles of Incorporation, as amended, or By-laws. In the event of a discrepancy between these Guidelines and the Articles of Incorporation or the By-laws, the Articles of Incorporation and By-laws will always govern. The Guidelines are available on S&T's website, www.stbancorp.com, under Corporate Governance.

### Director Independence

The S&T Board determines annually that a majority of directors serving on the S&T Board are independent as defined in the NASDAQ listing standards. In 2015, the S&T Board also considered all direct and indirect transactions described in "Transactions with Related Parties" and "Compensation Committee Interlocks and Insider Participation" in determining whether the director is independent. Finally, the S&T Board considered whether a director has any other material relationships with S&T and concluded that none of these directors has a relationship that impairs the director's independence. There were no other related party transactions other than those described in the aforementioned sections of this Proxy Statement. The Nominating Committee has the delegated responsibility to evaluate each director's qualifications for independence for the S&T Board and for the committees of the S&T Board. Following review of the objective measures, the Nominating Committee and S&T Board also consider on a subjective basis each director's personal, familial and/or business relationships, regardless of dollar amount.

On March 21, 2016, the S&T Board determined the following ten directors are independent under the NASDAQ listing rules: Mr. Delaney, Mr. Donnelly, Mr. Gatti, Mr. Grube, Mr. Hostetter, Mr. Jones, Mr. Palermo, Ms. Toretti, Mr. Urtin and Mr. Weingarten. As discussed below, all members of the Compensation Committee and the Nominating Committee are independent under the NASDAQ rules. In addition, the S&T Board determined that each of the members of the Audit Committee is independent under applicable SEC and NASDAQ rules.

### Board and Committee Meetings

The S&T Board has implemented a formal policy that strongly encourages director attendance at the annual meeting of shareholders. In 2015, all of S&T's directors attended the annual meeting of shareholders. Independent members of the S&T Board meet at least twice per year in regularly scheduled executive sessions with an independent Chairman of the Board presiding over all executive sessions.

During 2015, the S&T Board held ten board meetings, with the following number of meetings held by the S&T Board committees: Audit, four; Compensation and Benefits, five; Credit Risk, four; Executive, two; Nominating and Corporate Governance, five; and Trust and Revenue Oversight, four. All directors attended at least 75% of the total number of meetings of the S&T Board and committees held during 2015.

### Board Structure; Separate Roles of Chairman and Chief Executive Officer

There are currently 14 directors comprising the S&T Board and will remain fixed at 14 following the Annual Meeting. The S&T Board has established six committees: Audit, Compensation and Benefits, Credit Risk, Executive, Nominating and Corporate Governance, and Trust and Revenue Oversight.

The S&T Board believes that, as part of our efforts to embrace and adopt good corporate governance practices, different individuals should hold the positions of Chairman of the Board and Chief Executive Officer ("CEO") to aid in the S&T Board's oversight of management. The S&T Board believes that separation of the roles of Chairman and CEO is the best governance model for S&T and its shareholders at this time. Under this model, our Chairman, a non-executive position, can devote his attention to assuring that S&T has the proper governance controls in place that the S&T Board is properly structured from the standpoints of membership, size and diversity, and that management has the support it needs from the S&T Board to carry out our strategic priorities. The CEO, relieved of the duties normally performed by the Chairman, is free to focus his entire attention on growing and strengthening the business.

The duties of the non-executive Chairman of the Board include:

- presiding over all meetings of the S&T Board;
- preparing the agenda for S&T Board meetings with the Corporate Secretary and in consultation with the CEO and other members of the S&T Board;
- ensuring the S&T Board fulfills its role in overseeing and monitoring management and operations of S&T and protecting the interests of S&T and its shareholders;
- ensuring the S&T Board receives timely, accurate and complete information and the decision time necessary to make informed judgments;
- assigning tasks to the appropriate committees of the S&T Board;
- establishing a relationship of trust with the CEO, providing advice and counsel while respecting the executive responsibilities of the CEO;
- promoting effective relationships and open communication, both inside and outside the boardroom, between senior management and the S&T Board;
- communicating the S&T Board's evaluation of the CEO's annual performance together with the Compensation Committee Chairperson; and
- presiding over all meetings of shareholders.

We believe that the S&T Board, the S&T Board committees as presently constituted and the leadership structure of the S&T Board enables the S&T Board to fulfill its role in overseeing and monitoring the management and operations of S&T and protecting the interests of S&T and its shareholders.

The S&T Board's Role in Risk Oversight

Role of the S&T Board

The S&T Board oversees an enterprise-wide approach to risk management ("ERM"), designed to support the achievement of organizational objectives, including strategic objectives, to improve long-term organizational performance and to enhance shareholder value. The S&T Board regularly discusses with our Chief Risk Officer (the "CRO") our major risk exposures, their potential impact on S&T, and the steps we take to manage them. A fundamental part of risk management is not only understanding the risks a company faces in its current and future activities and what steps management is taking to manage those risks, but also understanding what level of risk is appropriate for a regional full-service financial institution, particularly as a result of recent legislative and regulatory changes. The S&T Board has ultimate responsibility for approving the risk appetite that is appropriate for S&T. The S&T Board delegates the authority and responsibility for defining the risk appetite and ensuring alignment with the strategic objectives to the management-level Enterprise Risk Management Committee ("Enterprise Risk Committee"). Under ERM, our business unit managers will identify and quantify the levels and types of inherent risk within their areas of responsibility, as well as consider the appropriateness of existing risk responses and controls for mitigating risks, based upon a standard definition of risk and risk mitigation established by the Enterprise Risk Committee. By utilizing a comprehensive and standardized view of the nature and level of risk to which we are exposed and the interaction of the various risk components identified in our ERM program, we are better able to assess and manage our risk and react to uncertainties.

Currently, the S&T Board administers its risk oversight function directly and through the Audit Committee, the Compensation Committee, the Credit Risk Committee, the Executive Committee, the Trust and Revenue Oversight Committee and the Enterprise Risk Committee (a management-level committee).

Pursuant to the terms of our Audit Committee charter, the CRO is accountable to both the Audit Committee and our CEO. The Audit Committee reviews and approves the appointment, replacement or dismissal of the CRO, and discusses the organizational structure and staffing regarding risk management, internal controls and regulatory compliance. In 2010, the Audit Committee engaged an independent consulting firm to provide a comprehensive approach to assisting the CRO in further developing an effective ERM process and environment that links corporate strategy and risk management. The independent consultant remains engaged in a co-sourcing arrangement to assist with the annual and quarterly ERM risk assessment process and to support the maintenance of a fully integrated ERM process.

The CRO, as the administrator of the ERM program, regularly meets with management, including the CEO, to discuss our various primary areas of risk identified as part of the ERM program, including credit matters and risks related to our loan and investment portfolios; liquidity and market risks; legal, regulatory and compliance risks; and operational, information technology, reputation and strategic risks. As necessary, the Audit Committee meets with the CRO to discuss and analyze risks to S&T without management present. The CRO makes a quarterly ERM presentation to the S&T Board and regularly reports on corporate governance, compliance and risk-related matters at other S&T Board meetings.

The Audit Committee is also responsible for monitoring our compliance risk with respect to regulatory and legal matters, and focuses on financial risk, including internal controls. The Audit Committee annually reviews and evaluates our internal audit function, and meets with our Chief Audit Executive ("CAE") to review and assess internal audit risks including executive sessions without management present.

Our Enterprise Risk Committee, which is comprised of members of our senior management, including the CRO, CEO, Chief Financial Officer, Chief Operating Officer, Chief Credit Officer, Chief Banking Officer, CAE, Chief Lending Officer and General Counsel, meets quarterly to discuss the risk exposures of the enterprise, reviews changes to those exposures based on internal and external events, takes action to manage and mitigate such risks, discusses significant policy changes and new products/services, reviews ERM reports before presentation to the S&T Board and promotes proper risk management practices throughout S&T. A corporate policy approved by the S&T Board governs the Enterprise Risk Committee.

The Compensation Committee is responsible for assessing and mitigating risks associated with S&T's compensation practices, both with respect to S&T's Named Executive Officers (as further defined and described in the Compensation Discussion and Analysis section of this Proxy Statement) and its employees generally. The Compensation Committee reviews the incentive compensation arrangements for S&T's Named Executive Officers with the CRO at least annually to discuss and evaluate the risk posed to S&T by its employee compensation plans and to ensure that the compensation arrangements do not encourage the Named Executive Officers to take unnecessary and excessive risks that threaten the value of S&T. The Compensation Committee meets quarterly or as often as it determines is necessary and appropriate.

Our Credit Risk Committee is responsible for reviewing the credit administration risk management practices and reporting; the performance of the independent loan review function and its assessment of the management of credit risk arising from the lending and lending related functions of S&T; the review of approved commercial loan proposals; credit policy approval; and providing guidance on pertinent credit risk matters including loan related strategies. The Credit Risk Committee meets quarterly or as often as it determines is necessary and appropriate.

Our Trust and Revenue Oversight Committee is responsible for the oversight of all trust activities consistent with the Federal Deposit Insurance Corporation's Statement of Principles of Trust Department Management and the development and implementation of strategic and tactical initiatives in support of S&T's revenue growth and shareholder value creation. The Trust and Revenue Oversight Committee meets quarterly or as often as it determines is necessary and appropriate.

The Executive Committee is responsible for coordinating S&T Board delegated risk oversight responsibilities across established S&T Board committees including monitoring industry developments and emerging risks and to exercise the authority to act on behalf of the S&T Board between meetings of the S&T Board to the fullest extent permitted by law. The Executive Committee meets at least annually or as often as it determines is necessary and appropriate.

Employee Compensation Policies and Managing Risk

We believe our approach to goal setting, setting of targets with payouts at multiple levels of performance, and evaluation of performance results assist in mitigating excessive risk-taking that could harm our value or reward poor judgment by our executives. We believe that several features of our compensation policies and programs reflect sound risk management practices, such as basing incentive awards on the achievement of a predetermined earnings per share ("EPS") goal, an audited number, and the granting of restricted stock subject to a two or three year vesting that serves the additional purpose of encouraging senior management to make decisions currently that promote long-term growth and retention combined with stock ownership guidelines. All awards granted under the 2015 incentive plans were subject to Compensation Committee review and approval based upon corporate and/or individual performance. The incentive plan for senior management, as described in the Compensation Discussion and Analysis section below, contains a "Shareholder Protection Feature," which provides that awards will not be made unless S&T maintains well capitalized capital ratio requirements, as established by applicable regulatory authorities. We believe we have allocated our compensation among base salary and short and long-term compensation target opportunities in such a way as to not encourage excessive risk-taking. The Compensation Committee also reviews compensation and benefits plans affecting employees in addition to those applicable to executive officers. Based on the review by the Compensation Committee, the S&T Board determined that it is not reasonably likely that S&T's compensation and benefit plans would have a material adverse effect on S&T.

Audit Committee

The members of the Audit Committee are Jeffrey Grube, Jerry Hostetter, Frank Jones and Frank Palermo (Chairman). All members meet the independence standards for audit committees established by the SEC and NASDAQ. A written charter approved by the S&T Board governs the Audit Committee and includes the provisions required by the NASDAQ listing standards. A copy of the charter is included on S&T's website www.stbancorp.com, under Corporate Governance. The Audit Committee has provided information regarding the functions performed by the Audit Committee and its membership in the "Report of the Audit Committee," included in this Proxy Statement on page 45.

The S&T Board has determined that Mr. Palermo meets the qualifications of an audit committee financial expert under SEC regulations adopted under the Sarbanes-Oxley Act of 2002. Mr. Palermo is a Certified Public Accountant and Certified Valuation Analyst, with 37 years in public accounting, four years as a vice president and controller at a community bank and eight years as a director of a start-up community bank. This experience and education gives Mr. Palermo an understanding of U.S. generally accepted accounting principles and financial statements; the ability to assess general applications of such principles in connection with accounting for estimates, accruals and reserves; experience preparing, auditing, analyzing or evaluating financial statements presenting a breadth and level of complexity of accounting issues that are comparable to S&T's financial statements; an understanding of internal control over financial reporting; and an understanding of audit committee functions. Mr. Palermo has been designated by the S&T Board as S&T's "audit committee financial expert."

Compensation and Benefits Committee

The members of the Compensation Committee are John Delaney, Michael Donnelly, Jeffrey Grube (Chairman), Jerry Hostetter, Frank Palermo and Steve Weingarten. The Compensation Committee's function is to recommend to the S&T Board action on executive compensation and compensation and benefit changes brought to it by management. A written charter approved by the S&T Board governs the Compensation Committee. A copy of the charter is included on S&T's website www.stbancorp.com, under Corporate Governance. The Compensation Committee is comprised entirely of independent board members, as defined by NASDAQ listing standards.

The Compensation Committee is responsible for our stated compensation strategies, goals and purposes, ensuring that there is a strong link between the economic interests of management and shareholders; that members of management are rewarded appropriately for their contributions to company growth and profitability; and that the executive compensation strategy supports organization objectives and shareholder interests. The Compensation Committee must provide clear direction to management to ensure that its policies and procedures are carried out in a manner that achieves balance and is consistent with safety and soundness. It approves any material exceptions or adjustments to the incentive compensation arrangements established for senior management, and carefully considers and monitors the effects of any approved exceptions or adjustments. It receives and reviews, on an annual or more frequent basis, an assessment by management, with appropriate input from risk management personnel, of the effectiveness of the design and operation of the organization's incentive compensation system in providing appropriate risk-taking incentives. It also reviews periodic reports of incentive compensation awards and payments relative to risk outcomes. It ensures that the incentive compensation arrangements for S&T do not encourage employees to take risks that are beyond S&T's ability to manage effectively. It also performs other related duties as defined in its written charter.

The process, policies and specific determinations of the Compensation Committee with respect to compensation of our Named Executive Officers for fiscal 2015 are described in greater detail in the Compensation Discussion and Analysis section of this Proxy Statement.

The Compensation and Benefits Committee Report is on page 34 of this Proxy Statement.

Nominating and Corporate Governance Committee

The members of the Nominating Committee are John Delaney, Michael Donnelly, Frank Jones (Chairman), Frank Palermo, Christine Toretti and Steve Weingarten. The Nominating Committee functions are to assist the S&T Board in reviewing the qualifications and independence of the members of the S&T Board and its various committees on a periodic basis as well as the composition of the S&T Board committees on a periodic basis and the composition of the S&T Board as a

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whole; to oversee the evaluation of the performance of the S&T Board and its committees as a whole; to recommend director nominees to the S&T Board to submit for election by shareholders; and to provide guidance to the S&T Board on corporate governance issues. In addition, the Nominating Committee reviews all transactions with related parties, as further described on page 43 of this Proxy Statement. The Nominating Committee oversees the S&T Director Orientation Program and the continuing education programs for all directors. To assist in remaining current with their board duties and committee responsibilities, the S&T Board participates in the Bank Director's Membership Program. This Program offers the directors access to the BankDirector.com online video training series, a wide range of in-person conferences, periodic hard copy and digital magazine, peer-based and webinar educational programs on corporate governance, committee duties, board leadership and industry developments.

A written charter approved by the S&T Board governs the Nominating Committee. A copy of the charter is included on S&T's website www.stbancorp.com, under Corporate Governance. The Nominating Committee is comprised entirely of independent board members, as defined by NASDAQ listing standards.

Director Qualifications and Nominations; Board Diversity

The Nominating Committee has adopted, and the S&T Board has ratified, a corporate policy for identifying and evaluating candidates for membership on the S&T Board. The Nominating Committee identifies potential candidates based on suggestions from directors, officers of S&T and S&T shareholders. The Nominating Committee will consider shareholder nominations for directors in accordance with the procedure set forth in Section 202 of S&T's By-laws and applicable law. The procedure provides that a notice relating to the nomination must be timely given in writing to the Corporate Secretary of S&T, at 800 Philadelphia Street, Indiana, PA 15701, prior to the annual meeting. To be timely, the notice must be delivered not earlier than the close of business on the 120th day, nor later than the close of business on the 60th day, immediately preceding the annual meeting. Such notice must be accompanied by the nominee's written consent to be named in the applicable proxy statement and contain information relating to the business experience and background of the nominee and the nominee's holdings of S&T Common Stock and information with respect to the nominating shareholder. There are no differences in the manner in which the Nominating Committee evaluates candidates for membership on the S&T Board based on whether such candidate is recommended by a shareholder, the Nominating Committee, or by any other source.

In evaluating and selecting nominees to the S&T Board, the Nominating Committee takes into account all factors and criteria it considers appropriate, which includes but is not limited to the following: high personal and professional integrity; sound judgment and exceptional ability; business experience; area of residence in relationship to S&T's geographic market; other directorship experience that would be beneficial to the S&T Board and management of S&T; diversity of experience relative to that of other S&T directors; diversity of age, gender, minority status and level and type of education; whether the candidate will be effective in serving the long-term interests of S&T's shareholders; whether the candidate has sufficient time and energy to devote to the affairs of S&T; whether the candidate possesses a willingness to challenge and stimulate management and the ability to work as part of a team; whether the candidate meets the independence requirements of the NASDAQ listing standards; whether the candidate is free from conflicts of interest with S&T; and any other factors related to the ability and willingness of a new director to serve or an existing director to continue his or her service.

The Nominating Committee may engage a third party search firm to assist it in identifying director candidates, but the Nominating Committee did not do so in 2015. S&T did not receive any timely shareholder nominations for director for consideration for this Annual Meeting. Accordingly, S&T has not rejected or refused such candidates.

Shareholder Communications with Directors

Shareholders who desire to communicate with the S&T Board or a specific director should send any communication, in writing, to S&T Bancorp, Inc., 800 Philadelphia Street, Indiana, Pennsylvania 15701, ATTN: Corporate Secretary. Any such communication should state the number of shares beneficially owned by the shareholder. S&T's Corporate Secretary will initially review all communications received in accordance with the Shareholders Communication Policy adopted by the S&T Board. The Corporate Secretary will relay all such communications to the appropriate director or directors on a periodic basis unless the Corporate Secretary determines that the communication does not relate to the business or affairs of S&T or the functioning or constitution of the S&T Board or any of its committees; relates to routine or insignificant matters that do not warrant the attention of the S&T Board; is an advertisement or other commercial solicitation or communication; is frivolous or offensive; or is otherwise not appropriate for delivery to directors. The director or directors who receive any such communication will have discretion to determine whether the subject matter of the communication should be brought to the attention of the full S&T Board or one or more of its committees and whether any response to the person sending the communication is appropriate. Any such response will be made through S&T's management and only in accordance with S&T's policies and procedures and applicable laws and regulations relating to the disclosure of information.

Code of Conduct and Ethics

The S&T Board has adopted a Code of Conduct for directors, officers and employees, which is posted on S&T's website www.stbancorp.com, under Corporate Governance. The Code of Conduct addresses the professional, honest and candid conduct of each director, officer and employee; conflicts of interest, disclosure process, compliance with laws, rules and regulations (including insider trading laws); corporate opportunities, confidentiality and fair dealing; protection and proper use of company assets; and encourages the reporting of any illegal or unethical behavior. A waiver for an executive officer or director of S&T may be made only by the S&T Board and must be promptly disclosed as required by SEC or NASDAQ rules. S&T will disclose any such waivers, as well as any amendments to the Code of Conduct, on S&T's website. Shareholders may obtain a printed copy of the Code of Conduct by contacting the Corporate Secretary at the address previously provided.

Compensation Committee Interlocks and Insider Participation

The members of the Compensation Committee during 2015 were John Delaney, Michael Donnelly, Jeffrey Grube, Fred Morelli and Frank Palermo. During 2015 S&T Bank made the following payments to members of the Compensation Committee:

S&T Bank made payments of $266,773 for the purchase of printing services and promotional items from companies owned or controlled by Director Donnelly.

S&T Bank made aggregate payments of $157,678 for the purchase and maintenance of vehicles and the lease of a parking lot from companies owned or controlled by Director Delaney. The terms of the parking lot lease agreement provided for a monthly payment of $4,000 until April 30, 2010 with additional four successive renewal options of five years each and one successive renewal option of four years. S&T exercised the first option extending the lease from May 1, 2010 to April 30, 2015. We exercised our second option extending the lease another five years from May 1, 2015 to April 30, 2020. The monthly rental increased for each renewal term based on the CPI. Taxes, insurance, utilities and maintenance are the responsibility of the Lessee. The monthly payment for the months of January through April 2015 was $4,975 and from May through December 2015 was $5,970.

In addition, S&T Bank may make extensions of credit to members of the Compensation Committee in the ordinary course of business and on the same terms as available to other non-related parties. See "Transactions with Related Parties."

No member of the Compensation Committee was at any time during fiscal 2015 an officer or employee of S&T or any of our subsidiaries, and no member has ever served as an executive officer of S&T. None of our executive officers serves or, during fiscal 2015, served as a member of the board of directors or the compensation committee of any entity that has one or more executive officers serving as a member of our Board of Directors or Compensation Committee.

Compensation Consulting and Advisory Services Fees

In October 2013, the Compensation Committee engaged Aon Hewitt to review the draft of the S&T Bancorp, Inc. 2014 Incentive Plan (the "2014 Plan"), evaluate and benchmark compensation for the top 12 executive positions at S&T, review the S&T compensation peer group, and review and update the Management Incentive Plan ("MIP") and Long-Term Incentive Plan ("LTIP") for 2014. In March 2014, the Compensation Committee engaged Aon Hewitt to review the Compensation Discussion & Analysis for the proxy statement for the 2014 annual meeting of shareholders. Aon Hewitt was also engaged to review S&T's change in control agreements with executives, including the Named Executive Officers, and to evaluate the feasibility of implementing an employee stock purchase plan. Aon Hewitt advised the Compensation Committee on the design of the 2015 MIP and 2015 LTIP.

The following shows the consulting fees paid by S&T to advisors to the Compensation Committee of the Board for the calendar year 2015:

| Compensation Consultant | Consulting fees for determining and recommending the amount or form of executive compensation | Additional services provided by Compensation Consultant |
|---|---|---|
| Aon Hewitt | $3,441 | $— |

## DIRECTOR COMPENSATION

The Nominating Committee annually reviews the S&T director compensation. S&T's director compensation is designed to align the S&T Board of directors with its shareholders and to attract, motivate and retain high performing members critical to our company's success.

The following table provides information concerning compensation paid by S&T to its non-employee directors during 2015.

Director Compensation Table for Fiscal Year 2015

| Name | Fees Earned or Paid in Cash ($) | Stock Awards ($) (1)(2) | All Other Compensation ($) (3) | Total ($) |
|---|---|---|---|---|
| John J. Delaney | 38,400 | 30,003 | 828 | 69,231 |
| Michael J. Donnelly | 38,200 | 30,003 | 828 | 69,031 |
| William J. Gatti | 42,300 | 30,003 | 828 | 73,131 |
| James T. Gibson | 35,967 | 34,515 | 475 | 70,957 |
| Jeffrey D. Grube | 43,000 | 30,003 | 828 | 73,831 |
| Jerry D. Hostetter | 35,067 | 34,515 | 475 | 70,057 |
| Frank W. Jones | 44,500 | 30,003 | 828 | 75,331 |
| Joseph A. Kirk | 13,100 | 0 | 415 | 13,515 |
| David L. Krieger | 33,900 | 30,003 | 828 | 64,731 |
| James C. Miller | 42,000 | 30,003 | 828 | 72,831 |
| Fred J. Morelli, Jr. (4) | 55,800 | 30,003 | 828 | 86,631 |
| Frank J. Palermo, Jr | 60,400 | 30,003 | 828 | 91,231 |
| Christine J. Toretti | 46,400 | 30,003 | 828 | 77,231 |
| Charles G. Urtin | 78,500 | 30,003 | 828 | 109,331 |
| Steven J. Weingarten (5) | 35,967 | 34,515 | 475 | 70,957 |

(1) The S&T Board awarded 1,117 restricted shares of Common Stock to each director on the S&T Board on May 20, 2015, with such shares vesting in full on May 19, 2016. An additional 168 restricted shares of Common Stock were awarded to Messrs. Gibson, Hostetter and Weingarten in recognition of the prorated portion of time serving on the S&T Board from the date of the Integrity merger on March 4, 2015 through May 20, 2015. The fair market value of the Common Stock granted on May 20, 2015 was $26.86 per share. The values for stock awards in this column represent the grant date fair value of the restricted shares granted in 2015, computed in accordance with FASB ASC Topic 718. Information about the assumptions used to value these awards can be found in Note 20 "Incentive and Restricted Stock Plan and Dividend Reinvestment Plan" in our Annual Report on Form 10-K for the year ended December 31, 2015. This column includes the value of these stock awards, all of which were issued under the 2014 Plan.

(2) As of December 31, 2015, each director had restricted stock awards of 1,117 shares except for Mr. Kirk, who retired from the S&T Board effective May 20, 2015, and Messrs. Gibson, Hostetter and Weingarten (McNees Wallace & Nurick), who had 1,285 shares.

(3) Each director was paid quarterly dividends for their restricted shares of Common Stock.

(4) Mr. Morelli passed away in December 2015. Under the terms of the Plan Document, his outstanding restricted shares will continue to vest until May 19, 2016, at which time, the shares will transfer to his estate.

(5) As a partner in McNees Wallace & Nurick, Mr. Weingarten is required by the firm's policy to have his director compensation, including shares of Common Stock, paid to McNees Wallace & Nurick. Therefore, all compensation, except for an initial cash payment of $6,367, reported as earned by Mr. Weingarten in the table was paid to McNees Wallace & Nurick.

Directors Compensation

Employee members of the S&T Board receive no additional compensation for participation on the S&T Board. In 2015, our non-employee directors received compensation for attending board and committee meetings, or training sessions, in the amounts described below.

| Directors | |
|---|---|
| Annual Cash Retainer | $25,000 |
| Stock Award [(1)] | 30,003 |
| Board Committee Fee (except Audit) | 900 |
| Audit Committee Fee | 1,200 |
| Board Committee and Audit Committee Fee (phone) | 500 |
| Training/Seminar Fee | 1,000 |

| Committee Chairperson Retainer Fee | |
|---|---|
| Chairman Retainer | $30,000 |
| Vice Chairman Retainer | 10,000 |
| Audit | 15,000 |
| Audit Committee Financial Expert | 10,000 |
| Compensation and Benefits | 7,500 |
| Credit Risk | 7,500 |
| Nominating and Corporate Governance | 7,500 |
| Trust and Revenue Oversight | 7,500 |

(1) The number of shares granted is based on the fair market value of the Common Stock on the date of grant. The S&T Board awarded 1,117 restricted shares of Common Stock on May 20, 2015 with 100% vesting on May 19, 2016. The fair market value of Common Stock on May 20, 2015 was $26.86 per share. An additional 168 restricted shares of Common Stock were awarded to Messrs. Gibson, Hostetter and Weingarten in recognition of the prorated portion of time serving on the S&T Board from the date of the Integrity Bancshares merger on March 4, 2015 through May 20, 2015.

## PROPOSAL 2: RATIFICATION OF THE SELECTION OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM FOR FISCAL YEAR 2016

The Audit Committee of the S&T Board appointed the firm of KPMG LLP, independent registered public accounting firm, to audit and report on S&T's financial statements for the fiscal year ending December 31, 2016. Action by shareholders is not required by law in the appointment of independent accountants. However, the S&T Board considers this selection to be an important issue and, therefore, is submitting the selection of KPMG LLP for ratification by the shareholders. If the shareholders do not ratify this selection, the selection will be reconsidered by the Audit Committee.

KPMG LLP has no direct or indirect financial interest in S&T or in any of its subsidiaries, nor has it had any connection with S&T or any of its subsidiaries in the capacity of promoter, underwriter, voting trustee, director, officer or employee. Representatives of KPMG LLP will be present at the Annual Meeting and will be afforded an opportunity to make a statement if they desire to do so. It is also expected they will be available to respond to appropriate questions.

### Fees Paid to Independent Registered Public Accounting Firm

During the fiscal years ended December 31, 2015 and December 31, 2014, KPMG LLP served as S&T's independent registered public accounting firm ("Independent Accountants").

Fees for professional services provided by our Independent Accountants in each of the last two fiscal years in each of the following categories are:

| | 2015 | 2014 |
|---|---|---|
| Audit Fees | $939,862 | $800,580 |
| Audit-Related Fees | 0 | 5,350 |
| Tax Fees | 0 | 0 |
| All Other Fees | 1,650 | 1,650 |
| | $941,512 | $807,580 |

"Audit Fees" includes fees for audit services associated with the annual audit, the reviews of S&T's quarterly reports on Form 10-Q, accounting, consultations and SEC registration statements. The 2015 and 2014 fees include services rendered in connection with S&T's acquisition of Integrity, such as assistance with and consent to the Form S-4 registration statement and other acquisition related costs. The 2015 fees also include assistance with and consent to the Form S-3 shelf registration statement.

The 2014 "Audit-Related Fees" includes fees billed for a student lending audit.

"All Other Fees" for 2015 and 2014 represents subscription fees for an accounting and auditing research tool.

All 2015 and 2014 fees were paid to KPMG LLP.

### Pre-Approval Policies and Procedures

The Audit Committee is responsible for the approval of all services performed by the Independent Accountants. All services provided by the Independent Accountants in 2015 were pre-approved by the Audit Committee. The Audit Committee is required to pre-approve all audit and non-audit services performed by the Independent Accountants to assure that the provision of such services does not impair the Independent Accountant's independence. In addition, any proposed services exceeding pre-approved cost levels will require specific pre-approval by the Audit Committee. The Audit Committee may delegate pre-approval authority to one or more of its members. The member or members to whom such authority is delegated will report any pre-approval decisions to the Audit Committee at its next scheduled meeting for ratification. The Audit Committee does not delegate its responsibilities to pre-approve services performed by the Independent Accountants to management.

### Board Recommendation

THE S&T BOARD RECOMMENDS A VOTE "FOR" THE RATIFICATION OF THE SELECTION OF KPMG LLP AS AN INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM FOR FISCAL YEAR 2016.

## PROPOSAL 3: ADVISORY VOTE ON S&T'S EXECUTIVE COMPENSATION

S&T believes that our overall executive compensation program, as described in the Compensation Discussion and Analysis (the "CD&A") elsewhere in this Proxy Statement, is designed to pay for performance and directly aligns the interest of our executive officers with the long-term interests of our shareholders.

The Dodd–Frank Wall Street Reform and Consumer Protection Act ("Dodd-Frank Act") enables our shareholders to vote to approve, on a non-binding basis, the compensation of our Named Executive Officers ("NEOs") as disclosed in this Proxy Statement in accordance with the SEC's rules. This vote is not intended to address any specific item of compensation or the compensation of any particular officer, but rather the overall compensation of our NEOs and our compensation philosophy, policies and practices. Previously, pursuant to the Dodd-Frank Act, the S&T Board recommended, and the shareholders subsequently approved, that this advisory proposal be submitted to shareholders annually.

Accordingly, S&T is presenting the following advisory proposal, commonly known as the "say-on-pay proposal," for shareholder approval:

"Resolved, that the shareholders hereby approve the compensation of our Named Executive Officers as reflected in this Proxy Statement and as disclosed pursuant to the compensation disclosure rules of the Securities and Exchange Commission, which disclosure includes the compensation discussion and analysis, the compensation tables and all related material."

Because your vote is advisory, it will not be binding upon the S&T Board. In the event this non-binding proposal is not approved by our shareholders, then such a vote shall neither be construed as overruling a decision by the S&T Board or the Compensation Committee, nor create or imply any additional fiduciary duty by the S&T Board or our Compensation Committee, nor further shall such a vote be construed to restrict or limit the ability of our shareholders to make proposals for inclusion in proxy materials related to executive compensation. Notwithstanding the foregoing, the S&T Board and the Compensation Committee will consider the non-binding vote of our shareholders on this proposal when reviewing compensation policies and practices in the future.

### Board Recommendation

THE S&T BOARD RECOMMENDS A VOTE "FOR" APPROVAL OF THIS ADVISORY PROPOSAL ON EXECUTIVE COMPENSATION.

EXECUTIVE OFFICERS OF THE REGISTRANT

As of April 6, 2016, the executive officers of S&T are:

| Named Executive Officer | Age | Principal Occupation During Past 5 Years | Officer of Corporation Since |
|---|---|---|---|
| Todd D. Brice | 53 | President and Chief Executive Officer of S&T and S&T Bank, since April 2008. | 2002 |
| Mark Kochvar | 55 | Senior Executive Vice President and Chief Financial Officer, since February 2010. | 2008 |
| David G. Antolik | 49 | Senior Executive Vice President, Chief Lending Officer, since January 2008. | 2004 |
| George Basara | 57 | Executive Vice President, General Counsel and Human Resources Director, since January 2015; Prior to joining S&T, Shareholder of Buchanan Ingersoll & Rooney PC, from September 1995 to December 2014. | 2015 |
| Ernest J. Draganza | 51 | Senior Executive Vice President, Chief Risk Officer and Secretary, since January 2012; Executive Vice President, Chief Risk Officer and Secretary, from February 2010 to December 2011. | 2010 |
| Patrick J. Haberfield | 49 | Senior Executive Vice President, Chief Credit Officer, since July 2013; Executive Vice President, Chief Credit Officer, from May 2010 to June 2013. | 2010 |
| Melanie A. Lazzari | 36 | Senior Vice President, Controller, since February 2010. | 2015 |
| David P. Ruddock | 54 | Senior Executive Vice President, Chief Operating Officer, since April 2013; Senior Executive Vice President, Chief Administrative Officer for Market Sales, Bank Operations and Corporate Technology from January 2011 to March 2013. | 2004 |
| Thomas J. Sposito, II | 53 | Senior Executive Vice President since March 2015; Executive Vice President of Integrity Bank from September 2012 to March 2015. Previously served as Integrity Bank Chief Operating Officer and Chief Revenue Officer. Prior to joining Integrity Bank, Executive Vice President, Central Pennsylvania Market Manager for PNC Bank, N.A., from 2007 to 2012. | 2015 |
| Rebecca A. Stapleton | 53 | Senior Executive Vice President, Chief Banking Officer, since June 2014; Executive Vice President, Human Resources and Employee Communications, from January 2012 to May 2014; Senior Vice President, Employee Services Manager, from January 2009 to December 2011. | 2012 |

## COMPENSATION DISCUSSION AND ANALYSIS

This section of the Proxy Statement is divided into the following sections:

- Introduction
- Executive Summary
- Say on Pay and Shareholder Engagement
- Overview of the Compensation Program for Named Executive Officers
- Components of the Compensation Program
  - Base Salary
  - Management Incentive Awards
  - Long-Term Incentive Plan
  - Certain Other Benefits
- Process for Determining Named Executive Officer Compensation
- Pay for Performance
- 2015 Named Executive Officer Compensation Decisions and Performance Considerations
- Change in Control
- Other Compensation-Related Provisions
- Effect of Taxation on Compensation Programs
- Compensation and Benefits Committee Report

## INTRODUCTION

As the Compensation and Benefits Committee (the “Compensation Committee”), we provide the following overview of S&T’s executive compensation principles, specific executive compensation programs and pay decisions that we have made in 2015 and early 2016. In addition, we describe the process that we oversee and in which we participate to arrive at specific compensation policies and decisions involving program design and pay for S&T’s Named Executive Officers (“NEOs”), who are listed below.

| Name | Title |
|---|---|
| Todd Brice | President and Chief Executive Officer |
| Mark Kochvar | Senior Executive Vice President and Chief Financial Officer |
| David Antolik | Senior Executive Vice President and Chief Lending Officer |
| David Ruddock | Senior Executive Vice President and Chief Operating Officer |
| Ernest Draganza | Senior Executive Vice President and Chief Risk Officer |
| David Richards [1] | Executive Vice President and Market Executive |

[1] Mr. Richards was an executive officer of the Company until November 16, 2015, at which time the S&T Board reassessed the officers defined as executive officers for S&T. Mr. Richards would have been an NEO in 2015, except for the S&T Board’s change in designation of its executive officers.

## EXECUTIVE SUMMARY

S&T experienced a year of strong performance in 2015:

- Net income improved to a record $67.1 million, an increase of 15.8% compared to 2014.
- Return on average assets was 1.13% and return on average equity was 8.94%.
- Net loan charge-offs remained historically low at 0.22% of average loans.
- Assets now exceed $6.3 billion.

S&T also extended its footprint through acquisition and expansion resulting in total loan growth of $1.2 billion, including $370 million through organic growth and $789 million through acquisition of Integrity, which closed on March 4, 2015.

As disclosed in the Compensation Discussion and Analysis section from the proxy statement for the 2015 Annual Shareholders Meeting, we evaluated and approved the following pay adjustments and awards for NEOs for 2015:

- Average salary increase of 6.9%.
- An annual cash incentive award with a target of 35% and 30% of base salary for the CEO and the other NEOs, respectively, under the terms of the 2015 Management Incentive Plan ("2015 MIP").
- A long-term incentive award with a target of 40% and 35% of base salary for the CEO and the other NEOs, respectively, granted in the form of time and performance-based restricted shares under the terms of the 2015 Long-Term Incentive Plan ("2015 LTIP").

For 2016, we evaluated and approved the following pay adjustments for the NEOs:

- Average salary increase of 3.9%.
- An annual incentive award with a target of 35% and 30% of base salary for the CEO and the other NEOs, respectively, under the terms of the 2016 Management Incentive Plan ("2016 MIP").
- A long-term incentive award with a target of 40% and 35% of base salary for the CEO and the other NEOs, respectively, granted in the form of time and performance-based restricted shares under the terms of the 2016 Long-Term Incentive Plan ("2016 LTIP").

## SAY ON PAY AND SHAREHOLDER ENGAGEMENT

S&T is required to provide a separate non-binding shareholder advisory vote on the compensation of S&T's executive officers. At the 2015 Annual Shareholder Meeting, the holders of 21,986,000 shares of Common Stock, or 93.39% of the shares voting on the proposal, voted to approve the non-binding, advisory proposal on the compensation of S&T's executive officers. Because not all shareholders voted their shares, this amounted to 63.1% of the then outstanding shares of Common Stock.

The vote reflects support for S&T's executive compensation policies and practices among shareholders. As a consequence, the Compensation Committee expects to continue to adhere to the compensation policies, principles and programs described below in future years.

## OVERVIEW OF THE COMPENSATION PROGRAM FOR NAMED EXECUTIVE OFFICERS

S&T designs its management compensation programs to optimize their alignment with S&T's strategic direction and business environment within which it must create value for shareholders. The primary program objectives have been and continue to be as follows:

- The pay package is structured to cost efficiently attract, retain and reinforce engagement among the leadership team and S&T key contributors;
- Compensation programs are aligned with shareholder interests for an appropriate balance between risk and reward;
- Both individual plan features and the overall pay program are built on principles of sound risk management and effective controls critical to successful navigation of an uncertain environment for financial services companies; and
- Reward programs are designed to emphasize adherence to strong pay for performance principles.

The Compensation Committee continues to support a pay program with four major program components to help guide compensation decisions:

- Base Salary: A base salary position near the median of relevant competitive practices (i.e., calibrated to be consistent with base salary levels for comparable positions in other similar enterprises of similar scope).
- Management Incentive Plan ("MIP"): An annual incentive plan with an incentive opportunity that is moderate relative to competitive practices for similar positions at potential competitors for talent. Target annual incentives should drive desired positioning for total compensation to the middle of the market.
- Long-Term Incentive Plan ("LTIP"): A long-term incentive program that serves two purposes: (1) to help ensure leadership retention and management continuity as S&T continues to execute its longer-term strategic plan; and (2) to reward management for strong sustained value creation and financial performance.
- Supplemental Benefits: Limited additional supplemental benefits that are either consistent with those provided to other employees, or directly created to reinforce a singular commitment from the management team to S&T and its business imperatives.

The Compensation Committee considers overall corporate performance as well as individual initiative and achievements when reviewing and approving all compensation decisions relating to S&T's NEOs: the CEO, the CFO and the other executive officers named in the Summary Compensation Table. The policy of the Compensation Committee is to provide compensation that is competitive within the banking industry of financial institutions of similar size and product offerings.

The Compensation Committee is actively involved in the oversight of not only NEO compensation but all remuneration programs that have a material cost profile, that could materially affect S&T's risk profile or influence the focus of key contributors on achievement of strategic and tactical objectives.

For NEOs, the Compensation Committee reviews a number of analyses of compensation practices to help facilitate its executive compensation decisions. These include:

- Pay mix representing the effectiveness of balancing long-term versus short-term performance imperatives;
- Wealth accumulation opportunities in light of existing programs and outstanding rewards;
- Current pay relative to peer group practices;
- Selective review of compensation data for positions of similar scope and focus; and
- Detailed formal review of overall performance and specific performance contributions made to S&T by each NEO.

Total Direct Compensation Position

S&T's target pay mix is built on competitive base salaries, with generally moderate annual and long-term incentive targets. The moderate positioning of annual incentives and long-term incentives reflects our commitment to introducing pay program modifications that are both sensitive to S&T Bank's proactive risk management culture while, at the same time, responding appropriately to the importance of retaining a strong and committed leadership team at S&T Bank. The Compensation Committee reviews this posture periodically with the help of outside advisors, and continues to believe that the opportunities provided under the incentive plans reflect an appropriate balance between risk and reward, and provide sufficient incentives to align management to achieving S&T's short-term and longer-term objectives.

COMPONENTS OF THE COMPENSATION PROGRAM

Base Salary

The purpose of base salary is to provide competitive and fair base compensation that recognizes the executives' roles, responsibilities, contributions, experiences and performance. Base salary represents a fixed and guaranteed element of compensation that reflects executives' long-term performance and market pay level for the role. S&T's base salary policy targets the median of relevant competitive practices. Relevant competitive practices are determined using both a proprietary survey of pay practices at community and regional banks similar in size and scope to S&T and an examination of Peer Bank executive pay practices. The Peer Banks are listed on page 28 of this Compensation Discussion and Analysis ("CD&A"). The Compensation Committee sets each executive's individual pay annually to reflect individual experiences, expertise, performance and contributions in the role. As such, actual base salaries range above and below the median of relevant competitive practices in recognition of these factors, including tenure in role, historical performance and specific bank needs.

Management Incentive Awards

The purpose of the MIP is to align management's interests to the achievement of S&T's financial, operational and strategic objectives for the year. The MIP provides senior management with an annual cash incentive opportunity designed to: (i) create focus on specific planned performance goals, (ii) deliver a portion of a competitive pay package in a form that is not fixed but varies in relation to the performance of S&T and (iii) serve as a vehicle for recruitment and retention.

For 2015, we adopted the 2015 MIP, with the following features:

- The target annual incentive payout was 35% and 30% of base salary for the CEO and the other NEOs, respectively.
- The incentive payout was 23% and 20% of base salary for the CEO and the other NEOs, respectively.
- 70% of each participant's award was earned based on corporate results, and 30% was based on performance relative to individual/unit goals.
- Corporate results were determined based on EPS and Deposit Growth (defined as the total net increase in nonbroker deposits in the plan year).
- Each participant had multiple individual goals against which individual performance is evaluated. The framework for establishing these goals was based largely on execution of elements of S&T's strategic plan, including activities centered around multi-faceted growth, profit improvement, operational effectiveness, corporate culture, effective brand and enterprise risk management (i.e., balanced risk and reward).

The formula used to determine awards is defined as follows:

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Award Earned | = | Calendar Year Base Salary | × | Target Incentive Opportunity as a % of Salary | × | S&T's Financial Results To Goals Performance Factor | + | Individual Objectives Performance Factor |

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The corporate performance measures for 2015, EPS and Deposit Growth, were each assigned specific weighting factors, and actual earnings opportunities were based on the Performance Level actually achieved relative to the performance ranges shown in the table below:

| Performance Level | Payout Level Percentage |
|---|---|
| Below Threshold | 0% of Allocated Target |
| Threshold | 25% of Allocated Target |
| Target | 100% of Allocated Target |
| Distinguished | 150% of Allocated Target |

- Allocated Target equals the participant's MIP incentive target multiplied by the weighting for each performance category (i.e., 60% for EPS, 10% for customer deposit growth, and 30% for individual objectives.)
- The Deposit Growth Performance Measure is an "all-or-nothing" performance standard in which 100% of the Allocated Target is earned only if the Target Performance Level is met.
- The Payout Level Percentages relating to the EPS Performance Measure vary depending on Actual Performance, and its payout curve rises continuously from Threshold to Target and from Target to Distinguished. Therefore, to determine awards between Threshold and Target and Target and Distinguished, linear interpolation would be utilized.

To further strengthen the linkage between the MIP award, risk management and shareholder value creation, the MIP contains a "Shareholder Protection Feature" in which payouts will not occur for any plan year if S&T falls below "well capitalized" capital ratio requirements established by regulatory authorities, determined as of and up to the date that any payment would ordinarily occur pursuant to the MIP's provisions. In addition to the Shareholder Protection Feature of the MIP, the MIP is operational only if S&T achieves Return on Average Equity ("ROAE") for the plan year of at least 5% (the "Minimum Gateway Requirement"). The Compensation Committee believes that these features, coupled with the clawback requirements and the use of multiple performance measures, provide for substantial protection against excessive or unnecessary risk-taking by any plan participant.

The Compensation Committee has approved the 2016 MIP, which has similar provisions to the 2015 MIP. The corporate performance measures are each assigned specific weighting factors, and actual payouts will be based on the Performance Level actually achieved as follows:

| Performance Level | Payout Level Percentage |
|---|---|
| Below Threshold | 0% of Allocated Target |
| Threshold | 25% of Allocated Target |
| Target | 100% of Allocated Target |
| Distinguished | 150% of Allocated Target |

- Allocated Target equals the participant's MIP incentive target multiplied by the weighting for each performance category (i.e., 60% for EPS, 10% for Deposit Growth, and 30% for individual objectives.)
- The Deposit Growth Performance Measure is an "all-or-nothing" performance standard in which 100% of the Allocated Target is earned only if the Target Performance Level is met.
- The Payout Level Percentages relating to the EPS Performance Measure vary depending on Actual Performance, and its payout curve rises continuously from Threshold to Target and from Target to Distinguished. Therefore, to determine awards between Threshold and Target and Target and Distinguished, linear interpolation would be utilized.

Award opportunities for 2016 for the NEOs are shown in the table below and reflect the amount payable to NEOs if S&T were to achieve target financial results and the NEOs achieve 100% of their individual objectives for 2016.

| Named Executive Officer | MIP Target % of Base Salary | MIP Target $ of Base Salary |
|---|---|---|
| Todd Brice, President, President and Chief Executive Officer | 35% | $213,500 |
| Mark Kochvar, Senior Executive Vice President and Chief Financial Officer | 30% | 98,250 |
| David Antolik, Senior Executive Vice President and Chief Lending Officer | 30% | 108,300 |
| David Ruddock, Senior Executive Vice President and Chief Operating Officer | 30% | 92,500 |
| Ernest Draganza, Senior Executive Vice President and Chief Risk Officer | 30% | 90,510 |
| David Richards, Executive Vice President and Market Executive [1] | N/A | N/A |

[1] Mr. Richards participates in the State College Market Growth Incentive Plan (the "State College Plan") in lieu of the MIP. The objective of the State College Plan is to grow the lending portfolio in the State College, PA market and to recruit a banking team to service that market. Payment is based on the outstanding loan balance portfolio developed by the participant over six month intervals. All payouts are subject to senior management approval and are capped at pre-established amounts. Also, in 2016, Mr. Richards will not be an NEO because he is not an executive of S&T.

Long-Term Incentive Plan

The LTIP is designed to: (i) create focus on specific long-term goals aligned with shareholder interests, (ii) deliver a portion of a competitive pay package in a form that is not fixed but varies in relation to the long-term performance of S&T and (iii) serve as a vehicle for recruitment and retention.

The 2015 LTIP included the following features:

- The target incentive payout was 40% and 35% of base salary for the CEO and other NEOs, respectively.
- The incentive payout is denominated in restricted stock by dividing the target incentive by a grant date share value.
- One half of the shares will be earned based on remaining with S&T for three years (time-based restricted share awards vest on the second and third anniversaries of their grant date).
- The other half will be earned based on performance relative to the Peer Banks and is referred to as the Performance-Based Restricted Share (“PBRS”) Target.
- The number of PBRSs earned may rise to 150% of the PBRSs originally granted to a participant if Return on Average Equity performance is at the “distinguished” level (see below) and Total Shareholder Return is above half the Peer Banks. The number of PBRSs can fall to zero shares if performance is below the threshold level. If the number of shares earned exceeds the number of PBRSs issued to a participant (because performance is above target) S&T issues additional unrestricted shares upon vesting so that the participant receives the full number of shares earned.

The 2015 LTIP contains the same Shareholder Protection Feature and Minimum Gateway Requirement as described earlier for the 2015 MIP. The Compensation Committee believes that these features, coupled with the restricted stock and clawback requirements, provide for substantial protection against excessive or unnecessary risk-taking by any plan participant. The 2015 LTIP puts a greater focus on performance and serves to create a balance between long-term and short-term performance imperatives, beyond that offered by the annual cash incentive under the MIP.

Two metrics are used to determine the percentage of the PBRS Target earned through vesting of the PBRS awards (also referred to as performance shares):

(1) Return on Average Equity ("ROAE") for 2015 through 2017 relative to Peer Banks

Participants can earn from 0% to 120% of their PBRS Target based on this metric as summarized below:

| Performance Level | ROAE for 3-year Performance Period Relative to Peer Banks | Vesting Percentage [(a)] |
|---|---|---|
| Below Threshold | Below the 40 th percentile of the Peer Banks | 0% of Target |
| Threshold | 40 th percentile of the Peer Banks | 25% of Target |
| Target | 60 th percentile of the Peer Banks | 100% of Target |
| Distinguished | 75 th percentile of the Peer Banks | 120% of Target |

[(a)]The Vesting Percentage for ROAE will vary depending on actual performance. The payout curve rises continuously from Threshold to Target and from Target to Distinguished. Therefore, to determine awards between Threshold and Target and Target and Distinguished, linear interpolation would be utilized.

(2) Cumulative Total Shareholder Return for 2015 through 2017 relative to Peer Banks

Participants can earn an additional 30% of their PBRS Target if S&T's cumulative Total Shareholder Return ("TSR") for the three year performance period exceeds the cumulative TSR for more than half of S&T's peers (i.e. exceeds 50th percentile of the Peer Banks).

The Compensation Committee has approved the 2016 LTIP, which has similar provisions to the 2015 LTIP, and has a three-year performance period of January 1, 2016 through December 31, 2018.

Certain Other Benefits

S&T provides other benefits, or perquisites, to the NEOs that are comparable to the other benefits provided at the Peer Banks. The Compensation Committee believes that perquisites should be appropriately limited in scope and value. The primary perquisites for the NEOs are the company contributions to a qualified defined contribution plan and a nonqualified deferred compensation plan, a defined benefit program, a company car or car allowance, payment of the initiation fees and dues for social or country club memberships and a welfare benefit plan.

S&T maintains the Thrift Plan for Employees of S&T Bank (the "Thrift Plan"), which is a qualified defined contribution plan. All employees may participate in the Thrift Plan with elective salary deferrals, or 401(k) contributions. During 2015, S&T made matching contributions equal to 100% of the first 1% of the employees' eligible compensation and 50% of the next 5% of the employees' eligible compensation, up to a maximum of 3.5% of the employees' eligible compensation. S&T considers the matching contributions to the Thrift Plan as an important incentive for employees to contribute toward their own retirement savings. In 2015, S&T made the following matching contributions to the Thrift Plan for each NEO: Mr. Brice, $9,275; Mr. Kochvar, $8,400; Mr. Antolik, $6,300; Mr. Ruddock, $9,275; Mr. Draganza, $8,400 and Mr. Richards, $9,275.

S&T established the S&T Bancorp, Inc. Supplemental Savings and Make-Up Plan (the "Nonqualified Plan") in 1995 in order to provide certain management employees, including executives, the ability to make up for certain benefits that would normally be provided under S&T's qualified plans except for federal tax laws setting annual compensation limits for qualified plans and additional limitations related to highly-compensated employees. The Nonqualified Plan was amended for compliance with Section 409A of the Internal Revenue Code of 1986, as amended (the "Code"), and the regulations and other guidance promulgated thereunder ("Section 409A") in December 2008, and again in 2012 to allow for employer discretionary contributions. S&T makes employer contributions to this plan that cannot be made to the qualified plans due to the aforementioned limits. During 2015, S&T contributed to the Nonqualified Plan for Mr. Brice $16,358; Mr. Kochvar, $0; Mr. Antolik, $9,902; Mr. Ruddock, $0; Mr. Draganza, $0, and Mr. Richards, $250,000. The contribution to Mr. Richards was a discretionary contribution which is scheduled to vest 50% upon completion of his fifth year of service and 10% annually after completion of each of the next five years.

S&T maintains a defined benefit pension program for eligible employees hired before January 1, 2008, including NEOs hired before that date. The NEOs' defined benefit pension benefit is determined from two sources: (1) the qualified defined benefit retirement plan; and (2) a nonqualified supplemental plan. The benefits provided under these two sources are described beginning on page 39 of this Proxy Statement. The value of such defined benefit pension benefits changes as

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compensation, service length, discount rate and mortality assumptions change. Consequently, the value credited to each NEO in the Summary Compensation Table on page 36 of this Proxy Statement as Change in Pension Value is a function of a number of assumptions required to calculate the present value of benefits. The present value of the pension can change without the accrual of additional benefits to the NEO, but as a result of a change in interest rates. More specifically, in 2013, interest rates rose, resulting in a negative Change in Pension Value for the NEOs, except for Mr. Kochvar who had a $16,200 Change in Pension Value due to his compensation increases over the past five years. A negative Change in Pension Value is treated as a zero change for purposes of the Summary Compensation Table. For 2014, 49.5% of the increase in the Change in Pension Value amount shown in the Summary Compensation Table is attributable to a 75 basis point decrease in interest rates. For 2015, the increase was primarily due to the accrual of additional service and increases in compensation. This increase was partially offset by a 25 basis point increase in interest rates.

S&T's executives frequently drive vehicles on company business. Therefore, S&T provides either a company car or a car allowance to executives. Executives are responsible for reporting the amount of personal use of company cars to S&T, so that the taxable income from such use can be reported in the executives' compensation. Executives who do not have a company car receive an annual car allowance of $6,000 or $7,200, depending upon the frequency that the executive drives. The car allowance is fully taxable compensation.

S&T pays for certain members of senior management to belong to one or more private clubs, if the member of management has significant customer contact and involvement in the community. S&T considers a social or country club to be an appropriate venue to entertain customers and to participate in various community functions. Expenses of a personal nature or related to a spouse are not paid by S&T.

Other benefits generally provided to all officers and full-time employees include the S&T Bank Welfare Benefit Plan. This plan has provisions for medical reimbursement, dental coverage, vision care coverage, long-term disability income, a flexible spending account, a health savings account and life insurance. If S&T hires or initiates a transfer of an employee, including an NEO, with special skills and requires a relocation of more than 35 miles, the employee may be eligible for reimbursement of the costs of house hunting trips, closing on the sale of the old home and the purchase of the new home, temporary living quarters and moving household goods and furniture. In these circumstances S&T will also gross up taxable relocation reimbursements for federal taxes.

## PROCESS FOR DETERMINING NAMED EXECUTIVE OFFICER COMPENSATION

### Compensation Approval Process

Executive compensation decisions are made by the Compensation Committee. Each member of the Compensation Committee is a non-employee director and qualifies as an independent director under the NASDAQ listing standards. The Compensation Committee independently decides the compensation that S&T will pay the CEO. For the remaining executive officers, the CEO makes recommendations to the Compensation Committee, which reviews, approves or adjusts the recommendations. The Compensation Committee meets in an executive session to discuss and finalize its decisions regarding the CEO's compensation. The S&T Board reviews all decisions relating to the compensation of executive officers, except for decisions about awards under the S&T Bancorp, Inc. 2014 Incentive Plan (the "2014 Plan"), the MIP and the LTIP, which are made solely by the Compensation Committee with input from the CEO on all other NEOs. The Compensation Committee may delegate to its chairperson such power and authority as the Compensation Committee deems to be appropriate, except such powers and authorities required by law or regulation to be exercised by the whole Compensation Committee or a subcommittee of at least two members.

The Compensation Committee operates under a written charter approved by the S&T Board, which it reviews, modifies as necessary and reaffirms on an annual basis. The Compensation Committee charter is available in the Corporate Governance section of our website at: www.stbancorp.com.

### Role of the Executive Compensation Advisor to the Compensation and Benefits Committee

During 2014 and early 2015, the Compensation Committee engaged Aon Hewitt to serve as an advisor to the Compensation Committee for executive compensation, including compensation of the NEOs. The Compensation Committee has monitored the relationship with Aon Hewitt carefully and has determined that the advice provided on NEO pay meets the highest standards of internal and external defensibility for such advice and that Aon Hewitt is independent and that there were no conflicts of interest resulting from retaining Aon Hewitt for such engagement. In reaching these conclusions, the Compensation Committee considered the factors set forth in both SEC rules and

NASDAQ listing standards.

Role of Management (CEO)

The Compensation Committee reviews and approves the salary of Mr. Brice, the President and Chief Executive Officer, annually. The salaries for the other NEOs are reviewed by Mr. Brice, and are presented for approval to the Compensation Committee on an annual basis, typically in December. For 2013, 2014 and 2015, the Compensation Committee accepted the CEO’s salary recommendation for executives, including the NEOs.

Use of Competitive Data

The Compensation Committee reviews comparisons of the compensation programs established by peer banks for executives having similar responsibilities to S&T’s executives to establish competitive benchmarks for S&T’s compensation program. Aon Hewitt prepared the comparisons for 2013 and 2014, respectively. The Compensation Committee retained the same peers in 2015 as in 2014, due to its consideration that the peer banks continued to be appropriate. The peer banks are based on similar size and scope to S&T, operating both inside and outside S&T’s geographic market, and include the following banks for pay comparison purposes (collectively, the “Peer Banks”):

- 1st Source Corporation
- BancFirst Corporation
- Berkshire Hills Bancorp, Inc.
- Chemical Financial Corporation
- City Holding Company
- Community Bank System, Inc.
- First Busey Corporation
- First Commonwealth Financial Corporation
- First Merchants Corporation
- Independent Bank Corporation
- NBT Bancorp, Inc.
- Peoples Bancorp, Inc.
- Renasant Corporation
- Sandy Spring Bancorp, Inc.
- Univest Corporation of Pennsylvania
- Union First Market Bankshares
- WesBanco, Inc.
- WSFS Financial Corporation

For 2013, F.N.B. Corporation was included in the Peer Group, but was excluded for 2014 and 2015 due to its larger asset size.

PAY FOR PERFORMANCE

Pay for Performance Alignment

As described in the preceding discussions of the MIP and LTIP, the Compensation Committee approved incentive opportunities under the MIP and the LTIP for executives in 2015. The executives also continued to have opportunities to benefit from corporate financial performance through performance-based restricted stock awards under the 2014 LTIP.

2015 NAMED EXECUTIVE OFFICER COMPENSATION DECISIONS AND PERFORMANCE CONSIDERATIONS

The following summarizes the pay actions and decisions made for 2015 for each component of pay for each NEO.

Base Salary Decisions

When appropriate, the Compensation Committee increases base salaries both to ensure consistency with market competitive practices and to recognize the critical value of each senior executive's management of S&T. In 2015 and 2016, the Compensation Committee approved salary increases that recognized each NEO's success in 2014 and 2015, respectively, in executing our key strategic initiatives of loan growth, improving asset quality and expense control. The following table summarizes base salary decisions made for NEOs for 2015 and 2016.

| Name | 2014 Salary (Effective 1/01/2014) | 2015 Salary (Effective 1/01/2015) | % Increase | | 2016 Salary (Effective 1/01/2016) | % Increase | |
|---|---|---|---|---|---|---|---|
| Todd Brice | $550,000 | $585,000 | 6.36 | % | $610,000 | 4.27 | % |
| Mark Kochvar | 295,000 | 315,000 | 6.78 | % | 327,500 | 3.97 | % |
| David Antolik | 322,000 | 347,000 | 7.76 | % | 361,000 | 4.03 | % |
| David Ruddock | 279,000 | 298,000 | 6.81 | % | 308,500 | 3.52 | % |
| Ernest Draganza | 273,000 | 291,500 | 6.78 | % | 301,700 | 3.50 | % |
| David Richards (1) | 236,000 | 236,000 | 0.00 | % | 243,000 | 2.97 | % |

(1) Mr. Richards was hired on March 3, 2014.

Summary of Management Annual Incentive Decisions for 2015 Performance

Our 2015 EPS result of $1.98 was under the $2.05 Target Performance Level, resulting in a Payout Level Percentage of 65% of the 60% Allocated Target. The Deposit Growth Performance Measure was not met; therefore, none of the 10% Allocated Target was earned. Based on achieving the between the Threshold and Target Performance Levels of EPS and the level of achievement of individual/unit goals, but not achieving the Customer Deposit Growth Performance Goal, at its meeting on March 21, 2016, the Compensation Committee approved the following cash awards under the 2015 MIP to each NEO:

| Named Executive Officer | Award |
|---|---|
| Todd Brice, President, President and Chief Executive Officer | $134,521 |
| Mark Kochvar, Senior Executive Vice President and Chief Financial Officer | 59,535 |
| David Antolik, Senior Executive Vice President and Chief Lending Officer | 71,829 |
| David Ruddock, Senior Executive Vice President and Chief Operating Officer | 59,540 |
| Ernest Draganza, Senior Executive Vice President and Chief Risk Officer | 58,701 |
| David Richards, Executive Vice President and Market Executive (1) | N/A |

(1) Mr. Richards participates in the State College Plan, in lieu of the MIP. Under that plan, he earned $72,036 in 2015. The award amounts are disclosed in the Summary Compensation Table on page 36 of this Proxy Statement.

2015 Long-Term Incentive Awards

On March 16, 2015, the Compensation Committee awarded the NEOs equity denominated long-term incentive awards under the 2015 LTIP. Grants were made at a grant price equal to $29.12 per share, which was the average of the high and low price of S&T Common Stock for the ten trading days ending on the grant date. Each NEO's target award consists of the following:

- Half in the form of performance-based restricted shares which are earned over a three-year period based on return on average equity performance relative to S&T's Peer Banks (identified on page 28 of this Proxy Statement); and
- Half in the form of time-based restricted shares which vest in equal amounts on the second and third anniversaries of their grant date.

If an NEO terminates employment prior to full vesting of any incentive award under the 2015 LTIP for any reason other than death or disability, or retirement in the case of time-based restricted shares, the award, to the extent not previously vested, shall be forfeited.

The following awards were granted under the 2015 LTIP to the NEOs:

| Named Executive Officer | Value of 2015 LTIP Award | Number of Time-Based Shares | Number of Performance-Based Shares |
|---|---|---|---|
| Todd Brice, President, President and Chief Executive Officer | 234,000 | 4,018 | 4,017 |
| Mark Kochvar, Senior Executive Vice President and Chief Financial Officer | 110,250 | 1,893 | 1,893 |
| David Antolik, Senior Executive Vice President and Chief Lending Officer | 121,450 | 2,085 | 2,085 |
| David Ruddock, Senior Executive Vice President and Chief Operating Officer | 104,300 | 1,791 | 1,790 |
| Ernest Draganza, Senior Executive Vice President and Chief Risk Officer | 102,025 | 1,752 | 1,751 |
| David Richards, Executive Vice President and Market Executive | 59,000 | 1,013 | 1,013 |

As of March 31, 2016 and projected as of December 31, 2016, NEOs have the following outstanding restricted shares under the 2014 and 2015 LTIP:

| Named Executive Officer | Outstanding Restricted Shares March 31, 2016 | Outstanding Restricted Shares December 31, 2016 |
|---|---|---|
| Todd Brice | | $ 0.31 |

**9. Quarterly Dividend Policy**

At their meeting on May 11, 2004, our Board of Directors initiated a quarterly cash dividend policy and announced an initial quarterly dividend of $0.02 per share.

Each quarter, the Board will decide whether to declare a dividend. At their meeting on May 11, 2004, the Board announced an initial quarterly dividend of $0.02 per share, which was paid on June 15, 2004 to shareholders of record as of June 1, 2004. The total amount paid to stockholders was $428,000. Subsequently, at their next quarterly meeting on July 29, 2004, our Board of Directors once again declared a cash dividend of $0.02 per share, which will be paid on August 31, 2004 to shareholders of record as of August 16, 2004.

Our Credit and Security Agreement with J.P. Morgan Business Credit Corporation contained a prohibition against our payment of cash dividends throughout the term of the agreement. However, on June 15, 2004, the parties signed an amendment allowing us to pay up to $2.5 million per year in cash dividends throughout the remaining term of the agreement.

**10. Comprehensive Income**

Net income was our only component of comprehensive income for the three and six month periods ended June 30, 2004 and 2003.

**Item 2.** **Management s Discussion and Analysis of Financial Condition and Results of Operations**

**FORWARD LOOKING STATEMENTS**

The following discussion should be read in conjunction with our Annual Report on Form 10-K for the year ended December 31, 2003. The Private Securities Litigation Reform Act of 1995 provides a safe harbor for forward-looking statements. Certain information included in this Quarterly Report on Form 10-Q and other materials filed or to be filed by us with the Securities and Exchange Commission (as well as information included in oral statements or other written statements made or to be made by us) contain statements that are or will be forward-looking, such as statements relating to acquisitions and other business development activities, future capital expenditures and the effects of future regulation and competition. Such forward-looking information involves important risks and uncertainties that could significantly affect anticipated results in the future and, accordingly, such results may differ from those expressed in any forward-looking statements made by us, or on our behalf. These risks and uncertainties include, but are not limited to, uncertainties affecting our businesses and our franchisees relating to acquisitions and divestitures (including continuing obligations with respect to completed transactions), sales and renewals of franchises, government and regulatory policies (including federal, state and local efforts to reform the delivery of and payment for healthcare services), general economic conditions (including economic conditions affecting the healthcare industry in particular), the pricing and availability of equipment and services, technological developments and changes in the competitive environment in which we operate.

**OVERVIEW**

We provide pharmacy services to patients on behalf of managed care organizations and other third party payors. We contract with payors to provide specialty pharmacy services, infusion pharmacy and other related healthcare services to patients at home or at other alternate-site settings, such as physicians offices or infusion suites at our pharmacy locations. Our services are provided through our national network of company-owned and franchise-owned pharmacies.

We have three service lines: specialty pharmacy services, infusion and related healthcare services, and other. Specialty pharmacy services involve the distribution of injectible and infused pharmaceuticals to treat a wide range of chronic health conditions. The pharmaceuticals can be directly distributed to the patient s home or to their physician s office for in-office administration. These pharmaceuticals may require refrigeration during shipping as well as special handling to prevent potency degradation. Patients receiving treatment usually require special counseling and education regarding their condition and treatment program. Infusion and related services primarily involves the intravenous administration of medications at the patient s home or other non-hospital site such as one of our infusion suites. Infusion pharmacy services treat a wide range of acute and chronic health conditions, including infections, dehydration, cancer, pain and nutritional deficiencies. All of our company-owned pharmacies provide infusion therapies. Some of these pharmacies also provide related healthcare services, such as home health nursing, home hospice services, respiratory therapy services and durable medical equipment. Other revenue consists of royalties and other fees generated from our franchised pharmacy network and the software licensing and support revenue generated by our subsidiary, MBI.

Summarized information about revenues and gross profit for each service line is provided in the following tables (amounts in thousands):

REVENUE

| | Three months ended June 30, | | | | Six months ended June 30, | | | |
|---|---|---|---|---|---|---|---|---|
| | 2004 | | 2003 | | 2004 | | 2003 | |
| | **Revenue** | **% of total** | **Revenue** | **% of total** | **Revenue** | **% of total** | **Revenue** | **% of total** |
| Specialty pharmacy services | $ 58,407 | 59.2% | $ 48,172 | 56.8% | $ 123,339 | 61.1% | $ 105,206 | 59.3% |
| Infusion and related healthcare services | 37,450 | 38.0% | 34,126 | 40.3% | 72,396 | 35.9% | 67,199 | 37.9% |
| Other | 2,794 | 2.8% | 2,484 | 2.9% | 6,065 | 3.0% | 4,939 | 2.8% |
| Total revenue | $ 98,651 | 100.0% | $ 84,782 | 100.0% | $ 201,800 | 100.0% | $ 177,344 | 100.0% |

GROSS PROFIT

| | Three months ended June 30, | | | | Six months ended June 30, | | | |
|---|---|---|---|---|---|---|---|---|
| | 2004 | | 2003 | | 2004 | | 2003 | |
| | **Gross profit** | **Gross profit margin%** | **Gross profit** | **Gross profit margin%** | **Gross profit** | **Gross profit margin%** | **Gross profit** | **Gross profit margin%** |
| Specialty pharmacy services | $ 10,059 | 17.2% | $ 10,533 | 21.9% | $ 20,585 | 16.7% | $ 21,567 | 20.5% |
| Infusion and related healthcare services | 16,334 | 43.6% | 14,814 | 43.4% | 31,363 | 43.3% | 28,693 | 42.7% |
| Other | 2,645 | 94.7% | 2,308 | 92.9% | 5,787 | 95.4% | 4,675 | 94.7% |
| Total gross profit | $ 29,038 | 29.4% | $ 27,655 | 32.6% | $ 57,735 | 28.6% | $ 54,935 | 31.0% |

The majority of our revenue is generated from managed care contracts and other agreements with commercial third party payors. Our principal managed care contract is with Blue Cross Blue Shield of Florida for the provision of specialty pharmacy services and infusion pharmacy services to their members. For the three and six months ended June 30, 2004, 16% and 15% of our revenue was generated from this contract. In the prior year, for the three and six months ended June 30, 2003, 17% of our revenue was generated from this contract. As of June 30, 2004 and December 31, 2003, 9% of our accounts receivable was due from Blue Cross Blue Shield of Florida. The contract is terminable by either party on 90 days notice and, unless terminated, renews annually each September for an additional one-year term.

We also generate revenue from government healthcare programs such as Medicare and Medicaid. For the three and six months ended June 30, 2004, 20% of our revenue was generated from these programs. In the prior year, for the three and six months ended June 30, 2003, 19% of our revenue was generated from government healthcare programs. As of June 30, 2004 and December 31, 2003, respectively, 17% and 20% of our total accounts receivable was due from these government healthcare programs.

Many of the pharmaceuticals we provide are reimbursed at some percentage of the Average Wholesale Price (AWP) for those pharmaceuticals. AWP for most pharmaceuticals is compiled and published by private companies, including First DataBank, Inc. In recent years, we have seen reductions to AWP for certain of the pharmaceuticals that we provide to patients in the aftermath of government investigations and other legal and regulatory actions. Any modifications to the AWP system or reductions in AWP for the products we provide to patients could narrow our gross profit margins.

The Medicare Prescription Drug, Improvement and Modernization Act of 2003 changed the way in which covered outpatient drugs are reimbursed by the Medicare program. In January 2004, payment for most drugs covered by Medicare decreased to 85% of the AWP, determined as of April 1, 2003. Beginning in 2005, reimbursement for non-self administered drugs furnished to patients in conjunction with other Medicare covered services will be set at either 106% of the average sales price (ASP) or through a competitive acquisition program to be phased in beginning in 2006. The competitive acquisitions program will be established by the Center for Medicare and Medicaid Services (CMS) and will enable physicians in designated competitive acquisition areas to purchase drugs through contractors that have successfully bid for that right. Each physician will elect annually whether to obtain drugs through the competitive acquisition program. CMS will re-bid the contracts at least every three years. For infusion drugs administered in connection with covered durable medical equipment, the payment rate generally will continue to be 95% of the AWP as of October 1, 2003, until such drugs are subject to the implementation of the competitive acquisition program discussed above. While the majority of our revenue is reimbursed by managed care organizations and other non-government payors, these changes to the way in which Medicare pays for outpatient drugs and biologicals may have some impact on us or our franchisees. In addition, as CMS implements the ASP reimbursement model, managed care organizations may push for adoption of ASP as the basis of pharmaceutical reimbursement as well. If managed care organizations do adopt the ASP model, our future financial condition and results of operations could be materially affected based on our ability to renegotiate pricing using the ASP methodology.

**CRITICAL ACCOUNTING POLICIES AND ESTIMATES**

Management s discussion and analysis of our financial condition and results of operations are based upon our consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses and their related disclosures. On an ongoing basis, we evaluate our estimates and judgments based on historical experience and various other factors that are believed to be reasonable. Actual results may vary from these estimates under different assumptions or conditions. We annually review our financial reporting and disclosure practices and accounting policies to ensure that our financial reporting and disclosures provide accurate and transparent information relative to our financial condition and results of operations, as well as our current business environment. Management believes that of our significant accounting policies, the following policies involve a higher degree of judgment and/or complexity: revenue recognition and contractual adjustments; accounts receivable and allowances for doubtful accounts; goodwill and other intangible assets; and computer software development costs. For a complete discussion of these accounting policies, please refer to our Annual Report on Form 10-K for the year ended December 31, 2003.

**RESULTS OF OPERATIONS**

The following table shows the results of our operations for the three and six months ended June 30, 2004 and 2003, expressed in amounts and percentages of revenue (amounts in thousands):

| | Three months ended June 30, | | | | Six months ended June 30, | | | |
|---|---|---|---|---|---|---|---|---|
| | 2004 | | 2003 | | 2004 | | 2003 | |
| | Amount | % of Revenue | Amount | % of Revenue | Amount | % of Revenue | Amount | % of Revenue |
| Revenue: | | | | | | | | |
| Specialty pharmacy services | $ 58,407 | 59.2% | $ 48,172 | 56.8% | $ 123,339 | 61.1% | $ 105,206 | 59.3% |
| Infusion and related healthcareservices | 37,450 | 38.0% | 34,126 | 40.3% | 72,396 | 35.9% | 67,199 | 37.9% |
| Other | 2,794 | 2.8% | 2,484 | 2.9% | 6,065 | 3.0% | 4,939 | 2.8% |
| Total revenue | 98,651 | 100.0% | 84,782 | 100.0% | 201,800 | 100.0% | 177,344 | 100.0% |
| Cost of revenue: | | | | | | | | |
| Cost of goods sold | 58,997 | 59.8% | 47,001 | 55.4% | 122,805 | 60.9% | 101,825 | 57.4% |
| Cost of services provided | 10,616 | 10.8% | 10,126 | 12.0% | 21,260 | 10.5% | 20,584 | 11.6% |
| Total cost of revenue | 69,613 | 70.6% | 57,127 | 67.4% | 144,065 | 71.4% | 122,409 | 69.0% |
| Gross profit | 29,038 | 29.4% | 27,655 | 32.6% | 57,735 | 28.6% | 54,935 | 31.0% |
| Selling, general and administrative expenses | 19,200 | 19.5% | 18,177 | 21.5% | 38,449 | 19.1% | 36,208 | 20.4% |
| Provision for doubtful accounts | 1,462 | 1.5% | 2,330 | 2.7% | 3,021 | 1.5% | 4,208 | 2.4% |
| Depreciation and amortization | 569 | 0.5% | 684 | 0.8% | 1,250 | 0.6% | 1,352 | 0.8% |
| Total operating expenses | 21,231 | 21.5% | 21,191 | 25.0% | 42,720 | 21.2% | 41,768 | 23.6% |
| Operating income | 7,807 | 7.9% | 6,464 | 7.6% | 15,015 | 7.4% | 13,167 | 7.4% |
| Interest income (expense), net | 34 | % | (6) | % | 35 | % | (106) | (0.1%) |
| Other income (expense), net | (12) | % | (84) | (0.1%) | (79) | % | (91) | % |
| Income before income taxes | 7,829 | 7.9% | 6,374 | 7.5% | 14,971 | 7.4% | 12,970 | 7.3% |
| Income tax provision | 3,128 | 3.1% | 2,563 | 3.0% | 5,985 | 2.9% | 5,194 | 2.9% |
| Net income | $ 4,701 | 4.8% | $ 3,811 | 4.5% | $ 8,986 | 4.5% | $ 7,776 | 4.4% |
| Net income per share - diluted | $ 0.21 | | $ 0.18 | | $ 0.41 | | $ 0.37 | |

**Three and Six Months Ended June 30, 2004 and 2003**

During the quarter ended June 30, 2004, we achieved significant revenue growth from both our specialty pharmacy and infusion pharmacy services. Our increased focus on marketing our core infusion therapies resulted in infusion pharmacy revenue of $32.2 million during the quarter, an increase of 11.3% over the corresponding prior year quarter and 8.7% above the quarter ended March 31, 2004. For the six months ended June 30, 2004, infusion pharmacy services increased 10.1% over the corresponding prior year period. Specialty pharmacy services revenue increased primarily due to increased sales of Xolair®, Synagis® and human growth hormone. Our specialty pharmacy services revenue increased by 21.2% and 17.2% in the quarter and six months ended June 30, 2004, respectively, compared to the corresponding prior year periods. As a result of our growth in revenue, our net income increased to $0.22 per diluted share in the quarter and $0.42 for the six month period ended June 30, 2004, increases of 22.2% and 13.5% over the corresponding prior year periods.

Our days sales outstanding (DSO) was 61 days as of June 30, 2004, a slight increase compared to our DSO of 57 days as of March 31, 2004 but consistent with our DSO at December 31, 2003. This increase since March 31, 2004 was primarily due to routine variations in the payment cycle for a large managed care customer within our specialty pharmacy business. In the quarter ended June 30, 2004, we continued to generate positive operating cash flow, ending the quarter with $12.8 million in cash reserves compared to $6.6 million at March 31, 2004 and $4.0 million at December 31, 2003. At June 30, 2004, we had no outstanding balance on our credit facility and virtually no debt.

Throughout the remainder of 2004, we plan to build on our positive operating results for the quarter ending June 30, 2004, continuing to leverage the strengths of our people, processes and delivery model to increase market penetration for our infusion pharmacy and specialty pharmacy services. We will also continue to evaluate strategic acquisition opportunities in order to enhance our growth in revenue and net income.

**Revenue:**

We report our operating results in one segment, consisting of three service lines: specialty pharmacy services; infusion and related healthcare services; and other. Revenue for the quarter ended June 30, 2004 was $98.7 million, representing an increase of $13.9 million, or 16.4%, over the prior year quarter. Revenue for the six months ended June 30, 2004 was $201.8 million, exceeding revenue for the corresponding prior year period by $24.5 million, or 13.8%. These increases in revenue resulted from two main factors: refocused sales efforts which produced increases in both infusion pharmacy and specialty pharmacy revenue; and sales of a new specialty drug, Xolair®.

**Specialty pharmacy services revenue:**

For the quarter ended June 30, 2004, our specialty pharmacy services revenue was $58.4 million, representing an increase of $10.2 million, or 21.2%, over the prior year quarter. For the six months ended June 30, 2004, specialty pharmacy services revenue was $123.3 million, which was $18.1 million, or 17.2%, higher than in the corresponding prior year period. We continued to see increases in sales of Xolair®, a new specialty drug for the treatment of moderate to severe allergic asthma, which we began selling late in 2003. In addition, our Florida specialty pharmacies also produced increased revenue compared to the prior year periods, producing increases of $2.4 million and $3.6 million for the three and six months ended June 30, 2004, respectively, compared to the prior year periods. Also, our human growth hormone revenue also increased in the quarter and six months ended June 30, 2004 compared to the prior year periods. Our Synagis® revenue for the quarter ended June 30, 2004 was consistent with the prior year quarter. However, on a year-to-date basis, Synagis® revenue was $2.3 million higher than the prior year period.

**Infusion and related healthcare services revenue:**

For the quarter ended June 30, 2004, infusion and related healthcare services revenue was $37.5 million, an increase of $3.3

million, or 9.7%, over the corresponding prior year quarter. For the six months ended June 30, 2004, infusion and related healthcare services revenue was $72.4 million, representing an increase of $5.2 million, or 7.7%, over the prior year period. These increases were primarily related to our increased focus on driving sales of our infusion pharmacy services. In 2004, we increased our focus on marketing our core infusion pharmacy services, resulting in increased revenues across most infusion therapies. On a sequential quarterly basis, our infusion pharmacy revenue reached $32.2 million, an increased of 8.7% over the quarter ended March 31, 2004.

**Other revenue:**

Other revenue consists of two primary elements: (1) revenue generated from our franchise network, consisting of royalties, franchise fees and vendor rebates earned through our franchises purchases under our contracts, and; (2) software licensing and support services provided by our wholly-owned subsidiary, MBI. Other revenue was $2.8 million for the quarter ended June 30, 2004 compared to $2.5 million in the corresponding prior year quarter. This increase was primarily due to revenue recognized from amortization of a non-compete agreement with the buyers of a former franchise. For the six months ended June 30, 2004, other revenue was $6.1 million, representing an increase of $1.1 million over the prior year period. Revenue from the aforementioned non-compete agreement was the largest factor in this increase. Additionally, software licensing and support fees revenue increased as a result of sales of MBI s new iEmphsys software.

**Cost of revenue:**

Cost of revenue consists of the cost of goods sold and the cost of service provided. For the quarter ended June 30, 2004, our cost of revenue increased by $12.5 million, or 21.9%, over the corresponding quarter of the prior year. For the six months ended June 30, 2004, cost of revenue increased by $21.7 million, or 17.7%, over the prior year period. These increases were the result of our increases in revenue in the current year periods.

Cost of goods sold for the quarter ended June 30, 2004 was $59.0 million, or 59.8% of revenue, compared to $47.0 million, or 55.4% of revenue, in the prior year quarter. For the six months ended June 30, 2004, cost of goods sold was $122.8 million, or 60.9% of revenue, compared to $101.8 million, or 57.4% of revenue, for the corresponding prior year period. The increase in cost of goods as a percentage of revenue in the current year periods was due to our increases sales of specialty pharmaceuticals such as Xolair® and Synagis®. These high-cost specialty drugs tend to increase our overall cost of goods percentage as revenue from their sale increases.

Cost of service consists of the wages and related costs for employees directly involved in patient care, including pharmacists, nurses, therapists and delivery drivers. Cost of service also includes the cost of shipping or delivering products and services to the patient. Our cost of service for the quarter ended June 30, 2004 was $10.6 million, or 10.8% of revenue, compared to $10.1 million, or 12.0% of revenue, for the quarter ended June 30, 2003. For the six months ended June 30, 2004, our cost of service was $21.3 million, or 10.5% of revenue, compared to $20.6 million, or 11.6% of revenue, for the prior year period. The declines in cost of service as a percentage of revenue was anticipated due to our increase in specialty pharmacy revenue, which has a very small service component, along with the decline in home health nursing services, which has a much higher service component.

**Gross profit margin.** The following table sets forth the gross profit margin for each of our three service lines: specialty pharmacy services; infusion and related healthcare services; and other:

| | Three months ended June 30, 2004 | 2003 | Six months ended June 30, 2004 | 2003 |
|---|---|---|---|---|
| Gross profit margin: | | | | |
| Specialty pharmacy services | 17.2% | 21.9% | 16.7% | 20.5% |
| Infusion and related healthcare services | 43.6% | 43.4% | 43.3% | 42.7% |
| Other | 94.7% | 92.9% | 95.4% | 94.7% |
| Overall gross profit margin | 29.4% | 32.6% | 28.6% | 31.0% |

Our overall gross profit margin for the quarter ended June 30, 2004 was 29.4% compared to 32.6% in the prior year quarter. For the six months ended June 30, 2004, our overall gross profit margin was 28.6% compared to 31.0% for the corresponding prior year period. These declines in overall margin were primarily due to a shift in service mix toward specialty pharmacy services, which produce a lower gross profit margin than our other services, and also due to a shift in mix of products within our specialty pharmacy service line. In the current year periods, revenue has increased from the sale of Synagis®, Xolair® and human growth hormone. These high-cost products produce a lower gross profit margin than most of our other specialty pharmaceutical products, accounting for much of the current year declines in our specialty pharmacy gross profit margin, as well as the declines in our overall gross profit margin. For infusion and related healthcare services, our gross profit margin has remained stable. Other revenue, which consists of franchise-related revenues and software sales and support, has minimal direct costs and therefore produces a gross profit margin near 100%.

**Selling, general and administrative expenses:**

For the quarter ended June 30, 2004, selling, general and administrative ( SG&A ) expenses were $19.2 million, or 19.5% of revenue, compared to $18.2 million, or 21.5% of revenue, for the prior year quarter. For the six months ended June 30, 2004, SG&A expenses were $38.4 million, or 19.1% of revenue, compared to $36.2 million, or 20.4% of revenue for the corresponding prior year period. Of the $1.0 million increase in SG&A expenses in the quarter ended June 30, 2004 over the prior year quarter, $800,000 was in wages and related costs. For the six months ended June 30, 2004 compared to the prior year period, $1.1 million of the $2.5 million increase was related to wages and related costs. Other SG&A expense categories that increased in the year-to-date periods included building rent and recruiting expenses. The overall declines in SG&A expenses as a percentage of revenue were due to our increases in revenue in the current year periods and our continuing cost containment efforts.

**Provision for doubtful accounts:**

For the quarter ended June 30, 2004, our provision for doubtful accounts was $1.5 million, or 1.5% of revenue, compared to $2.3 million, or 2.7% of revenue, for the prior year quarter. For the six month period ended June 30, 2004, our provision for doubtful accounts was $3.0 million, or 1.5% of revenue, compared to $4.2 million, or 2.4% of revenue, for the corresponding prior year period. The reduction in expense in the current year was due to two main factors: (1) a shift in our mix of business toward products with lower reimbursement risk, and (2) operational improvements that have reduced our bad debt provision requirements at our Texas pharmacies and elsewhere. Due to the manner of billing and reimbursement for many of the specialty drugs we sell, our risk of non-collection of the related accounts receivable is small. As our mix of business has shifted toward specialty pharmacy services, our provision for doubtful accounts has decreased accordingly. In addition to this factor, we have improved and standardized our billing and collection practices throughout our network of company-owned pharmacies, particularly our Texas pharmacies, which has reduced our anticipated incidence of bad debt write-offs. In the prior year periods, we had recorded much higher provisions in these pharmacies than in the current year periods.

**Depreciation and amortization:**

For the quarter ended June 30, 2004, depreciation and amortization expense was $600,000 compared to $700,000 for the quarter ended June 30, 2003. For the six months ended June 30, 2004, depreciation and amortization was $1.3 million compared to $1.4 million for the prior year period. The small declines in the current year periods are due to a reduction in amortization of intangible assets acquired through prior years acquisitions as those assets become fully amortized.

The depreciation expense contained within this line item only relates to non-revenue producing assets, such as furniture and fixtures and leasehold improvements. Depreciation for revenue-producing equipment such as rental medical equipment and delivery vehicles is included in cost of goods sold and cost of services, respectively.

**Operating income:**

Our operating income for the quarter ended June 30, 2004 was $7.8 million, representing an increase of 20.8% over the prior year quarter. Operating income for the six months ended June 30, 2004 was $15.0 million, which is an increase of 14.0% over the corresponding prior year period. The increases in operating income were the result of our revenue growth in both infusion pharmacy and specialty pharmacy services in the current year, compared to the prior year, along with ongoing cost-containment efforts.

**Interest Income/(Expense):**

Throughout the quarter ended June 30, 2004 we had a net positive cash balance, did not borrow against our credit facility, and had minimal total debt. Our interest income in the quarter ended June 30, 2004 was $34,000, compared to net interest expense of $6,000 in the prior year quarter. For the six months ended June 30, 2004, we have earned a net $35,000 in interest income compared to $106,000 of interest expense in the prior year period. Our interest expense in the prior year periods was due to borrowings against our credit facility to finance acquisition activities. Subsequent positive operating cash flows have allowed us to pay off this debt balance and accumulate cash reserves.

**Income taxes:**

For the quarter ended June 30, 2004, our provision for income taxes was $3.1 million compared to $2.6 million in the prior year quarter. Our provision for income taxes for the six months ended June 30, 2004 was $6.0 million, compared to $5.2 million in the corresponding prior year period. Our tax provision rate for the quarter and six months ended June 30, 2004 was 40.0%, which is approximately equal to our tax provision rate in the prior year periods.

**Net income:**

Our net income for the quarter ended June 30, 2004 was $4.7 million, which is 23.4% higher than our net income of $3.8 million in the prior year quarter. For the six months ended June 30, 2004, our net income was $9.0 million, which is 15.6% higher than our net income of $7.8 million for the corresponding prior year period. These increases in net income were the result of our intensified focus on selling our infusion pharmacy and specialty pharmacy services, supported by our clinical expertise and flexible service distribution model.

**Diluted shares & earnings per share:**

For the quarter ended June 30, 2004, our diluted earnings were $0.22 per share, an increase of $0.04 per share, or 22.2%, over the prior year quarter. For the six months ended June 30, 2004, diluted earnings were $0.42 per share, which is an increase of $0.05 per share, or 13.5%, over the corresponding prior year period. Total diluted shares were 21.7 million for the quarter ended June 30, 2004 compared to 21.2 million for the prior year quarter. For the six months ended June 30, 2004, total diluted shares were 21.6 million, compared to 21.2 million in the prior year period. The increases in diluted shares were due to issuance of new shares for employee stock option exercises and stock purchases under our employee stock purchase plan, partially offset by our purchase of treasury stock in January 2004. The 101,000 shares of treasury stock acquired in December 2003 and January 2004 were retired in the quarter ended June 30, 2004.

**LIQUIDITY AND CAPITAL RESOURCES**

During the quarter ended June 30, 2004, we financed our operations through current cash flows and the use of cash reserves. We continue to generate positive operating cash flows and ended the quarter with $12.8 million in cash.

Recognizing our strong cash position and our reduced need for borrowed capital, on June 15, 2004 we signed an amendment to our Credit and Security Agreement with J.P. Morgan Business Credit Corporation to reduce our overall credit facility from $60 million to $20 million.

The amendment to our Credit and Security Agreement also removed the prohibition against payment of cash dividends, allowing us to distribute up to $2.5 million in cash per year to our shareholders in the form of dividends. The change was agreed to in light of our Board of Directors approval of a quarterly dividend policy and their declaration of a $0.02 per share dividend, which was paid on June 15, 2004 to shareholders of record as of June 1, 2004.

**Operating Cash Flows:**

Operations provided $11.9 million of positive cash flow during the six months ended June 30, 2004 compared to $12.7 million provided by operations during the corresponding prior year period. The primary causes of our positive operating cash flow for the six months ended June 30, 2004 were our net income during the period and our solid collections of accounts receivable. Focused sales and marketing efforts produced higher revenue and net income, and consistent cash collections during the period allowed us to maintain our DSO at 61 days. Our operating cash flows in the six months ended June 30, 2004 also benefited from the income tax overpayment we carried over from the prior year.

**Investing Cash Flows.**

During the six months ended June 30, 2004, investing activities used $3.7 million in cash compared to $14.2 million used in the corresponding prior year period. Of the current year expenditure of $3.7 million, $2.6 million was used to acquire equipment and other fixed assets. Of this total, approximately $1.5 million was spent on infusion pumps and other revenue-generating medical equipment, $600,000 was spent on infrastructure items such as furniture, fixtures and computer equipment, and $500,000 was spent on externally-developed and internally-developed software programs. In addition to the $2.6 million used to acquire equipment and other fixed assets, we used $1.1 million during the period to complete two small business acquisitions, one an Option Care franchised pharmacy in the Philadelphia area and the other an RT/DME provider in central Missouri. In the prior year, our primary use of cash for investing activities was to acquire the 40% minority interest of a specialty pharmacy business for which we had acquired a 60% interest a year earlier.

**Financing Cash Flows:**

We generated $600,000 in cash from financing activities during the six months ended June 30, 2004, compared to $1.3 million generated in the prior year period.  In the current year, we generated $2.4 million from the issuance of stock to employees exercising stock options and from employee payroll withholdings for our 2004 employee stock purchase plan.  We used $900,000 in cash to purchase treasury stock, and used $400,000 for payment of a cash dividend to our stockholders.  We also used $400,000 for scheduled payments on capital leases and other fixed-rate debt.  In the current year period, there was no net activity under our credit facility, as we began and ended the period with no outstanding balance.

**Credit Facility:**

On March 29, 2002, Option Care signed a $60 million revolving Credit and Security Agreement with J.P. Morgan Business Credit Corp., JPMorgan Chase Bank and LaSalle Bank N.A.  On June 15, 2004, we signed an amendment to this agreement to reduce the overall facility from $60 million to $20 million.   The agreement has a scheduled expiration date of March 29, 2005.

Availability under this facility is related to percentages of our outstanding accounts receivable and inventory balances, less certain ineligible amounts, as defined in the agreement.  The agreement requires us to comply with various financial covenants on a quarterly basis.  As of June 30, 2004 and December 31, 2003, we had no outstanding balance under this facility.  We had borrowing availability of $17.0 million as of June 30, 2004 and $37.7 million as of December 31, 2003 based on our accounts receivable and inventory balances on those dates, and based on the size and terms of the overall facility at those dates.

On October 23, 2003, the parties agreed to an amendment to the Credit and Security Agreement to address the $6.8 million special provision for doubtful accounts recorded in the quarter ended September 30, 2003 related to our Texas accounts receivable. The amendment allowed us to exclude the $6.8 million charge when calculating our fixed charge coverage ratio the quarter ended September 30, 2003 and the following three quarters.  With this amendment, we were able to remain in compliance with all our financial covenants for the quarters ended September 30, 2003 and December 31, 2003.  For the quarters ended March 31, 2004 and June 30, 2004, we were in compliance with all financial covenants before consideration of this amendment.

**Accounts Receivable:**

The following table sets forth information regarding our accounts receivable as of the dates indicated (dollar amounts in thousands):

| | June 30,2004 | | December 31, 2003 | |
|---|---|---|---|---|
| Accounts receivable | $ | 68,713 | $ | 70,692 |
| Less allowance for doubtful accounts | | (7,952) | | (8,502) |
| Accounts receivable, net of allowance for doubtful accounts | $ | 60,761 | $ | 62,190 |
| Days sales outstanding (DSO)(1) | | 61 | | 61 |

(1) DSO is calculated using the exhaustion method based on accounts receivable net of allowance for doubtful accounts, and considers only our specialty pharmacy service line and infusion and related healthcare services line.

Our accounts receivable, net of bad debt reserves, was $60.8 million as of June 30, 2004 compared to $62.2 million as of December 31, 2003. This 2.3% decrease in accounts receivable was primarily due to the seasonal reduction in revenue and accounts receivable from sales of Synagis®.

The following table sets forth the percentage breakdown of our trade accounts receivable by aging category and by major payor as of the dates indicated:

| | **June 30, 2004** | **December 31, 2003** |
|---|---|---|
| By Aging Category (2): | | |
| Aged 0-90 days | 68.4% | 72.4% |
| Aged 91-180 days | 15.0% | 12.5% |
| Aged 181-365 days | 9.8% | 10.7% |
| Aged over 365 days | 6.8% | 4.4% |
| Total | 100.0% | 100.0% |
| By Major Payor: | | |
| Medicare and Medicaid | 17% | 20% |
| Blue Cross and Blue Shield of Florida | 9% | 9% |
| All other payors | 74% | 71% |
| Total | 100% | 100% |

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(2) Accounts receivable by aging category considers only accounts of our specialty pharmacy service line and infusion and related healthcare service line.

Our days sales outstanding (DSO) was 61 days as of June 30, 2004 which was equal to our DSO at December 31, 2003. Our billing and collections performance has improved as we re-focused on training and adherence to policies late in 2003 and throughout the first six months of 2004. We continue to pursue electronic billing and other methods and practices to shorten our collection cycle.

As of June 30, 2004, we had cash and cash equivalents of approximately $12.8 million, an increase of $8.8 million over the balance at December 31, 2003. Strong net income and operating cash flows allowed us to increase our cash reserves even though we used $1.1 million in cash for acquisitions and another $900,000 to buy treasury stock during the period. We believe that cash flow from operations and amounts available under our revolving credit facility will be sufficient to meet our operating cash needs for the immediate future, including any interest due on our credit facility or other debts. In the event that additional capital is required, management cannot assure that such capital can be obtained from other sources on terms acceptable to us, if at all.

Our business strategy includes the selective acquisition of additional local pharmacy facilities and specialty pharmacy operations. Accordingly, we may require additional capital in order to complete these acquisitions. It is impossible to predict the amount of capital that may be required for acquisitions, and there is no assurance that sufficient financing for these activities will be available on terms acceptable to us, if at all.

**Goodwill and Other Intangible Assets**

As of June 30, 2004, we had net goodwill and other intangible assets totaling $66.5 million, consisting of $65.7 million of goodwill and $800,000 of other intangible assets such as non-compete agreements and managed care contracts. As of December 31, 2003, net goodwill and other intangible assets equaled $66.1 million, consisting of $65.0 million of goodwill and $1.1 million of other intangible assets. During the six months ended June 30, 2004, goodwill increased $700,000 as a result of two acquisitions completed in January 2004. Other intangible assets increased $100,000 as a result of these acquisitions, offset by amortization of $400,000 during the period.

As required by Statements of Financial Accounting Standards No. 142, *Goodwill and Other Intangible Assets (SFAS No. 142)*, we do not amortize goodwill, but test our goodwill for impairment annually each October 1st, or whenever we identify events or conditions that could potentially result in impairment of our goodwill. During the quarter ended June 30, 2004, no impairment of goodwill was identified.

**Regulatory and Other Developments**

***Health Insurance Portability and Accountability Act of 1996 (HIPAA).*** To improve the efficiency and effectiveness of the health care system, the Health Insurance Portability and Accountability Act (HIPAA) of 1996, Public Law 104-191, included Administrative Simplification provisions that required the Department of Health and Human Services (HHS) to adopt national standards for electronic health care transactions. At the same time, Congress recognized that advances in electronic technology could erode the privacy of health information. Consequently, Congress incorporated provisions into HIPAA that mandated the adoption of Federal privacy protections for individually identifiable health information.

In response to the HIPAA mandate, in December 2000, HHS published a final regulation in the form of the Privacy Rule, which became effective on April 14, 2001. This Privacy Rule set national standards for the protection of health information, as applied to the three types of covered entities: health plans, health care clearinghouses, and health care providers who conduct certain health care transactions electronically. In March 2002, HHS published proposed modifications to the Privacy Rule, to improve workability and avoid unintended consequences that could have impeded patient access to delivery of quality health care. Following another round of public comment, in August 2002, HHS adopted final modifications necessary to ensure that the Privacy Rule worked as intended. Pursuant to the Privacy Rule, as of April 14, 2003, covered entities were required to have standards in place to protect and guard against the misuse of individually identifiable health information. (Small health plans had until April 14, 2004 to implement such standards.) Failure to timely implement these standards may, under certain circumstances, trigger the imposition of civil or criminal penalties.

The Privacy Rule establishes a foundation of Federal protections for the privacy of protected health information. The Privacy Rule does not replace Federal, State, or other laws that grant individuals even greater privacy protections, and covered entities are free to retain or adopt more protective policies or practices. We have implemented the standards set forth in the Privacy Rule, and these standards were in place on April 14, 2003. We believe that we and all of our franchisees are in compliance with the Privacy Rule or any more stringent federal or state laws relating to privacy.

Additionally, the Administrative Simplification provisions address electronic health care transactions and the security of electronic health information systems. Providers are required to comply with the standards by specific compliance dates established by HHS. For standards relating to electronic health care transactions, the compliance date was originally set for October 16, 2002. If the covered entity filed for an extension, the compliance date was postponed until October 16, 2003. We were materially compliant with these standards by the applicable compliance date. The security standards applicable to individually identifiable health information maintained electronically must be implemented by April 21, 2005. The standards for a unique national health identifier for providers used in connection with the electronic healthcare transactions must be implemented by May 23, 2007. We expect to be able to materially comply with these regulations by their applicable compliance dates.

Penalties for non-compliance with the Privacy Rule and other HIPAA Administrative Simplification provisions range from a civil penalty of $100 for each violation (which can total up to $25,000 per person per year), to criminal penalties, including up to $50,000 and/or one year imprisonment, up to $100,000 and/or five years imprisonment if the offense is committed under false pretenses and up to $250,000 and/or ten years imprisonment for violating a standard with the intent to sell, transfer or use individually identifiable health information for commercial advantage, personal gain or malicious harm.

In addition to regulating privacy of individual health information and other provisions relating to Administrative Simplification, HIPAA includes several anti-fraud and abuse laws, extends criminal penalties to private health care benefit programs and, in addition to Medicare and Medicaid, to other federal health care programs, and expands the Office of Inspector General s authority to exclude persons and entities from participating in the Medicare and Medicaid programs.

***Medicare Prescription Drug, Improvement and Modernization Act of 2003.*** The Medicare Prescription Drug, Improvement and Modernization Act of 2003 changes the way in which covered outpatient drugs are reimbursed by the Medicare program. In January 2004, payment for most drugs covered by Medicare decreased to 85% of the Average Wholesale Price (AWP) determined as of April 1, 2003. Beginning in 2005, reimbursement for non-self administered drugs furnished to patients in conjunction with other Medicare covered services will be set at either 106% of the average sales price (ASP) or through a competitive acquisition program to be phased in beginning in 2006. The competitive acquisitions program will be established by CMS and will enable physicians in designated competitive acquisition areas to purchase drugs through contractors that have successfully bid for that right. Each physician will elect annually whether to obtain drugs through the competitive acquisition program. CMS will re-bid the contracts at least every three years. For infusion drugs administered in connection with covered durable medical equipment (DME), the payment rate generally will continue to be 95% of the AWP as of October 1, 2003, until such drugs are subject to the implementation of the competitive acquisition program discussed above.

While the majority of our revenue is reimbursed by managed care organizations and other non-government payors, these changes to the way in which Medicare pays for outpatient drugs and biologicals may have some impact on us or our franchisees. In addition, as CMS implements the ASP model of reimbursement, it may affect our current AWP based reimbursement structure with our managed care customers. If managed care organizations adopt an ASP-based reimbursement model, our future financial position and results of operations could be materially affected by our ability to renegotiate pricing based on the new methodology.

**ITEM 3. Quantitative and Qualitative Disclosures About Market Risk**

We are subject to market risk from exposure to changes in interest rates based on our financing and cash management activities. We utilize a mix of debt maturities along with both fixed-rate and variable-rate debt to manage our exposure to changes in interest rates. Although there can be no assurances that interest rates will not change significantly, we do not expect changes in interest rates to have a material effect on income or cash flows in 2004. As of June 30, 2004, our fixed-rate debt was $100,000 and we had no variable rate debt.

**ITEM 4. Controls and Procedures**

We carried out an evaluation, under the supervision and with the participation of our management, including our chief executive officer and chief financial officer, of the effectiveness of the design and operation of our disclosure controls and procedures, (as defined in Rules 13a-15(e) under the Securities Exchange Act of 1934 (the Exchange Act)) as of June 30, 2004. Based upon that evaluation, the chief executive officer and chief financial officer concluded that our disclosure controls and procedures are effective. Disclosure controls and procedures are controls and procedures that are designed to ensure that information required to be disclosed in our reports filed or submitted under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission s rules and forms.

In addition, no change in our internal control over financial reporting (as defined in Rule 13a-15(f) under the Exchange Act) occurred during our fiscal quarter ended June 30, 2004 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

**PART II. OTHER INFORMATION**

**ITEM 1. Legal Proceedings**

We are subject to claims and legal actions that may arise in the ordinary course of business. However, we maintain insurance to protect against such claims or legal actions. We are not aware of any litigation either pending or filed that we believe are likely to have a material adverse effect on our results of operation or financial condition.

We were named as a defendant in a lawsuit filed on December 31, 2002 in the District Court, Bexar County, State of Texas under the caption *Candace Booker, et. al. vs. Option Care, Inc. et. al,* No. 2002 CI 18401. Plaintiffs alleged that we negligently prepared a prescription resulting in a fatal injury. We recently entered into an agreement with the plaintiffs to settle this case. The settlement amount fell within the limits of our general and professional liability insurance coverage for this claim and will be paid by our insurer. Our obligation will be limited to the $25,000 deductible applicable to this claim.

**ITEM 2. Changes in Securities and Use of Proceeds**

None.

**ITEM 3. Defaults Upon Senior Securities**

None.

**ITEM 4. Submission of Matters to a Vote of Securities Holders**

We held our annual meeting of stockholders on May 11, 2004. At that meeting, our stockholders were asked to consider and vote upon the following matters:

1. Election of one member to the Board of Directors to hold office for a three-year term or until his successor is duly elected and qualified. The nominee, who was listed in our proxy statement, was elected for a three-year term, with the results of voting as follows:

| | VOTES FOR | VOTES AGAINST | ABSTAIN |
|---|---|---|---|
| Jerome F. Sheldon | 18,513,188 | — | 287,487 |

2. Ratification of the appointment of Ernst & Young, LLP as our independent auditors for the fiscal year 2004. The proxy voting results were as follows:

| VOTES FOR | VOTES AGAINST | ABSTAIN |
|---|---|---|
| 18,793,400 | 4,150 | 3,125 |

3. To consider and vote upon an amendment to our Amended and Restated Stock Incentive Plan to increase the annual grant of options to eligible non-employee directors from 9,375 to 10,000 options. The amendment was passed, with the results of voting as follows:

| VOTES FOR | VOTES AGAINST | ABSTAIN |
|---|---|---|
| 13,798,409 | 1,790,958 | 293,337 |

**ITEM 5. Other Information**

None.

**ITEM 6(a). Exhibits**

See Exhibit Index.

**ITEM 6(b). Reports on Form 8-K**

We filed the following Form 8-Ks during the quarter ended June 30, 2003 and subsequently through July 30, 2004.

On April 19, 2004, we filed a current report on Form 8-K regarding a press release we issued on April 15, 2004 to announce our anticipated operating results for the quarter ended March 31, 2004.

On May 10, 2004, we filed two current reports on Form 8-K. The first contained the text of our press release, dated May 4, 2004, announcing our earnings for the quarter ended March 31, 2004. The second contained the transcript of our quarterly conference call with investors, which took place on May 4, 2004, to announce and discuss our operating results for the quarter ended March 31, 2004.

On May 19, 2004, we filed a current report on Form 8-K regarding a press release we issued on May 13, 2004 to announce that our Board of Directors had approved a quarterly dividend policy and declared a $0.02 per share dividend payable of June 15, 2004 to shareholders of record on June 1, 2004.

On July 14, 2004, we filed a current report on Form 8-K regarding a press release we issued on July 13, 2004 to announce our anticipated operating results for the quarter ended June 30, 2004.

**SIGNATURE**

Pursuant to the requirements of the Securities Exchange Act of 1934, the Company has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

| | | |
|---|---|---|
| | OPTION CARE, INC. | |
| Date: August 9, 2004 | By: | /s/ Paul Mastrapa |
| | | *Chief Financial Officer* |
| | | *(Principal Accounting Officer and Principal Financial Officer)* |

**EXHIBIT INDEX**

| Exhibit Number | |
|---|---|
| 3.1 | Certificate of Incorporation of the Registrant, together with Certificate of Amendment thereto filed February 18, 1992. Filed as Exhibit 3(a) to Option Care s Registration Statement (No. 33-45836) dated April 15, 1992 and incorporated by reference herein. |
| 3.2 | Certificate of Amendment to Certificate of Incorporation of the Registrant filed March 25, 1992. Filed as Exhibit 3(c) to Option Care s Registration Statement (No. 33-45836) dated April 15, 1992 and incorporated by reference herein. |
| 3.3 | Certificate of Amendment to Certificate of Incorporation of the Registrant filed with the Delaware Secretary of State on June 18, 2002 and incorporated by reference herein. |
| 3.4 | Restated By-laws of the Registrant dated June 1, 1994. Filed as Exhibit 10.5 to Option Care s Annual Report on Form 10-K for the year ending December 31, 1994 and incorporated by reference herein. |
| 10.5 | Option Care, Inc. 401(k) Profit Sharing Plan. Filed as Exhibit 10(b) to Option Care s Registration Statement (No. 33-45836) dated April 15, 1992 and incorporated by reference herein. |
| 10.6 | Amendment to the 1992 401(k) Profit Sharing Plan of the Registrant dated January 1, 1996. Filed as Exhibit 10.3(a) to Option Care s Annual Report on Form 10-K for the year ending December 31, 1997 and incorporated by reference herein. |
| 10.8 | Form of Franchise Agreement. Filed as Exhibit 10.5 to Option Care s Annual Report on Form 10-K for the year ending December 31, 1996 and incorporated by reference herein. |
| 10.10 | Consulting Agreement between the Registrant and EJ Financial Enterprises, Inc. Filed as Exhibit 10(o) to Option Care s Registration Statement (No. 33-45836) dated April 15, 1992 and incorporated by reference herein. |
| 10.22 | Amendment No. 1 to the Consulting Agreement By and Between EJ Financial Enterprises, Inc. and Option Care, Inc., dated October 1, 1999. Filed as Exhibit 10.30 to Option Care s Annual Report for the year ended December 31, 1999 and incorporated by reference herein. |
| 10.24 | 2001 Employee Stock Purchase Plan. Filed as Exhibit A to the registrants definitive proxy statement for the 2000 Annual Shareholders Meeting and incorporated by reference herein. * |
| 10.26 | Participation Agreement between Health Options, Inc. and Option Care, Inc. effective as of June 1, 1997. 2001. Filed as Exhibit 10.26 to Option Care s Amendment No. 1 to its Annual Report on Form 10-K/A filed September 10, 2001 and incorporated by reference herein. |
| 10.27 | Prescription Drug Agreement among Blue Cross and Blue Shield of Florida, Inc., Health Options, Inc. and Option Care, Inc. dated March 8, 2000. Filed as Exhibit 10.27 to Option Care s Amendment No. 1 to its Annual Report on Form 10-K/A filed September 10, 2001 and incorporated by reference herein. |
| 10.28 | Amendment to Participation Agreement between Health Options, Inc. and Option Care, Inc. dated April 1, 2001. ** |
| 10.29 | Deferred Compensation Plan for certain Executives, effective as of January 1, 2001. ** |
| 10.32 | Injectable Drugs Agreement effective as of September 5, 2001 between Health Option, Inc. and OptionMed, Inc. Filed on October 10, 2001 as Exhibit 10.1 to Form 8-K/A and incorporated herein by reference. |

| Exhibit Number | |
|---|---|
| 10.33 | Credit and Security Agreement, dated March 29, 2002, by and among Option Care, Inc. and the domestic subsidiaries of Option Care party thereto, as Borrowers, the Lending Institutions party thereto, as Lenders, J.P. Morgan Business Credit Corp., as Advisor, and JPMorgan Chase Bank, as Administrative and Collateral Agent and Arranger, and LaSalle Bank National Association, as Co-Agent. Filed as Exhibit 10.21 to Option Care s Current Report on Form 8-K filed May 15, 2002 and incorporated by reference herein. |
| 10.34 | Employment Agreement between Richard M. Smith and Option Care, Inc., dated May 7, 2003. Filed as Exhibit 10.34 to our Quarterly Report on Form 10-Q for the quarter ended June 30, 2003 and incorporated by reference herein. * |
| 10.35 | Employment Offer Letter between Option Care, Inc. and Paul Mastrapa, dated January 18, 2002. Filed as Exhibit 10.35 to our Quarterly Report on Form 10-Q for the quarter ended June 30, 2003 and incorporated by reference herein. * |
| 10.36 | Employment Offer Letter between Option Care, Inc. and Joseph P. Bonaccorsi, dated December 31, 2001. Filed as Exhibit 10.36 to our Quarterly Report on Form 10-Q for the quarter ended June 30, 2003 and incorporated by reference herein. * |
| 10.37 | Fourth Amendment to Credit and Security Agreement, dated October 23, 2003, by and among Option Care, Inc. and the domestic subsidiaries party thereto, as Borrowers, the Lending Institutions party thereto, as Lenders, J.P. Morgan Business Credit Corp., as Advisor, and JPMorgan Chase Bank, as Administrative and Collateral Agent and Arranger, and LaSalle Bank National Association, as Co-Agent. Filed as Exhibit 10.37 to our Quarterly Report on Form 10-Q for the quarter ended September 30, 2003. |
| 10.38 | Fifth Amendment to Credit and Security Agreement, dated June 15, 2004, by and among Option Care, Inc. and the domestic subsidiaries party thereto, as Borrowers, the Lending Institutions party thereto, as Lenders, J.P. Morgan Business Credit Corp., as Advisor, and JPMorgan Chase Bank, as Administrative and Collateral Agent and Arranger, and LaSalle Bank National Association, as Co-Agent. Filed as Exhibit 10.38 to this Quarterly Report on Form 10-Q. |
| 31.1 | Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. |
| 31.2 | Certification of Senior Vice President and Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. |
| 32.1 | Certifications of Chief Executive Officer and Senior Vice President and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, and Exchange Act Rule 13a-14(b). |

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* Management contracts and compensatory plans and arrangements.

** Portions of this Exhibit are subject to a Confidential Treatment Request pursuant to Rule 24b-2 under the Securities and Exchange Act of 1934, as amended, filed with the SEC on September 10, 2001 and amended October 10, 2001.