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

FORM 8-K

CURRENT REPORT
Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

Date of Report (Date of earliest event reported): March 15, 2010

BIOSCRIP, INC.

(Exact name of Registrant as specified in its charter)

Delaware	**0-28740**	**05-0489664**
(State of Incorporation)	**(Commission File Number)**	**(I.R.S. Employer Identification No.)**

100 Clearbrook Road, Elmsford, New York	**10523**
(Address of principal executive offices)	**(Zip Code)**

Registrant's telephone number, including area code: (914) 460-1600

N/A
(Former name or former address, if changed since last report)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

o Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)

o Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)

o Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))

o Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

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Item 8.01 Other Events.

BioScrip, Inc. (the "Company") is filing this Current Report on Form 8-K to file as exhibits the audited consolidated financial statements of Critical Homecare Solutions Holdings, Inc. ("CHS"), and the notes thereto, as of and for the fiscal year ended December 31, 2009 (the "CHS 2009 Audited Financial Statements"), the related "Management's Discussion and Analysis of Financial Condition and Results of Operations of CHS" and the Company's unaudited pro forma combined financial information, which reflects the CHS 2009 Audited Financial Statements, which are included as Exhibits 99.1, 99.2 and 99.3, respectively. As previously disclosed, the Company entered into an agreement and plan of merger, dated as of January 24, 2010, pursuant to which the Company agreed to acquire CHS (the "Acquisition"). The Acquisition is subject to the satisfaction of certain closing conditions, including the receipt of certain approvals of the Company's stockholders, as described in the Company's definitive proxy statement filed with the Securities and Exchange Commission on February 24, 2010.

Item 9.01 Financial Statements and Exhibits.

(d) Exhibits

Exhibit No.	Description
23.1	Consent of PricewaterhouseCoopers LLP
99.1	Critical Homecare Solutions Holdings, Inc. audited consolidated financial statements as of and for the year ended December 31, 2009
99.2	Management's Discussion and Analysis of Financial Condition and Results of Operations of Critical Homecare Solutions Holdings, Inc.
99.3	Unaudited Pro Forma Combined Financial Information of BioScrip, Inc.

SIGNATURES

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

BIOSCRIP, INC.

Date: March 15, 2010

By: /s/ Barry A. Posner
Barry A. Posner
Executive Vice President, Secretary and General Counsel

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EXHIBIT INDEX

Exhibit 23.1

Consent of Independent Registered Public Accounting Firm

We hereby consent to the incorporation by reference in the Registration Statements on Form S-8 (Nos. 333-107306, 333-107307, 333-123701, 333-123704 and 333-150985) of BioScrip, Inc. of our report dated March 10, 2010, relating to the consolidated financial statements of Critical Homecare Solutions Holdings, Inc. and subsidiaries which appears in this Current Report on Form 8-K of BioScrip Inc., dated March 15, 2010.

/s/ PricewaterhouseCoopers LLP

Philadelphia, Pennsylvania
March 15, 2010

PricewaterhouseCoopers LLP
Two Commerce Square, Suite 1700
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Philadelphia PA 19103-7042
Telephone (267) 330 3000
Facsimile (267) 330 3300
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Report of Independent Auditors

To the Board of Directors of
Critical Homecare Solutions Holdings, Inc.
and Subsidiaries:

In our opinion, the accompanying consolidated balance sheet and the related consolidated statements of operations, stockholders' equity, and cash flows present fairly, in all material respects, the financial position of Critical Homecare Solutions Holdings, Inc. and Subsidiaries (the "Company") at December 31, 2009, and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit of these statements in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

/s/ PricewaterhouseCoopers LLP

March 10, 2010

CRITICAL HOMECARE SOLUTIONS HOLDINGS, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEET
(In thousands, except share amounts)

		December 31, 2009
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$	10,103
Accounts receivable — net of allowance for doubtful accounts of $5,117 on December 31, 2009		42,146
Inventories		3,938
Deferred tax assets		2,140
Prepaids and other current assets		2,250
Total current assets		60,577
PROPERTY AND EQUIPMENT — Net		7,044
GOODWILL		220,371
INTANGIBLE ASSETS — Net		21,517
DEFERRED FINANCING FEES — Net		1,441
OTHER ASSETS		1,908
TOTAL ASSETS	$	312,858
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Accounts payable	$	1,651
Accrued expenses		19,834
Current portion of long-term debt		10,917
Current portion of capital lease obligations		134
Total current liabilities		32,536
Long-term debt, net of current portion		129,540
Long-term capital lease obligations, net of current portion		220
Deferred tax liabilities		5,907
Total liabilities		168,203
COMMITMENTS AND CONTINGENCIES (Note 11)		
Preferred stock, $0.001 par value — 5,000,000 shares authorized; 25,036 issued and outstanding as of December 31, 2009 (with a liquidation preference of $27,198 as of December 31, 2009)		25,036
STOCKHOLDERS' EQUITY:		
Common stock, $0.001 par value — 125,000,000 shares authorized; 90,898,079 issued and outstanding as of December 31, 2009		91
Additional paid-in capital		96,934
Retained earnings		22,594
Total stockholders' equity		119,619
TOTAL EQUITY		144,655
TOTAL LIABILITIES AND EQUITY	$	312,858

See accompanying notes to consolidated financial statements.

CRITICAL HOMECARE SOLUTIONS HOLDINGS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF OPERATIONS
(In thousands, except per share amounts)

	Year Ended December 31, 2009
NET REVENUE	$ 254,067
COSTS AND EXPENSES:	
Cost of goods (excluding depreciation and amortization)	81,995
Cost of services provided	42,768
Selling, distribution and administrative expenses	88,392
Provision for doubtful accounts	5,790
Depreciation and amortization	3,904
Total costs and expenses	222,849
OPERATING INCOME	31,218
INTEREST AND OTHER FINANCING COSTS	(7,337)
OTHER INCOME (EXPENSE) — NET	57
INCOME BEFORE INCOME TAXES	23,938
PROVISION FOR INCOME TAXES	9,208
NET INCOME	14,730
CUMULATIVE PREFERRED STOCK DIVIDENDS	(1,918)
INCOME AVAILABLE TO COMMON STOCKHOLDERS	$ 12,812
BASIC EARNINGS PER COMMON SHARE	$ 0.14
DILUTED EARNINGS PER COMMON SHARE	$ 0.12
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING:	
Basic	90,898
Diluted	105,132

See accompanying notes to consolidated financial statements.

CRITICAL HOMECARE SOLUTIONS HOLDINGS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY
(In thousands)

	Common Stock		Additional Paid-in	Retained	
	Shares	Amount	Capital	Earnings	Total
BALANCE — December 31, 2008	90,898	$ 91	$95,474	$ 7,864	$ 103,429
Compensation expense related to issuance of stock options	—	—	1,460	—	1,460
Net income	—	—	—	14,730	14,730
BALANCE — December 31, 2009	90,898	$91	$96,934	$22,594	$ 119,619

See accompanying notes to consolidated financial statements.

CRITICAL HOMECARE SOLUTIONS HOLDINGS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CASH FLOWS
(In thousands)

	Year Ended December 31, 2009
CASH FLOWS FROM OPERATING ACTIVITIES:	
Net income	$ 14,730
Adjustments to reconcile net income to net cash provided by (used in) operating activities:	
Provision for doubtful accounts	5,790
Depreciation and amortization	3,904
Amortization of deferred financing fees	780
Provision for deferred taxes	956
Loss on fixed asset dispositions	359
Compensation expense related to issuance of stock options	1,460
Change in operating assets and liabilities — net of effects of acquisitions:	
Accounts receivable	5,229
Inventories	866
Prepaids and other current assets	(680)
Other assets	(231)
Accounts payable and accrued expenses	(5,243)
Net cash provided by operating activities	27,920
CASH FLOWS FROM INVESTING ACTIVITIES:	
Payments for business acquisitions, net of cash acquired	(6,233)
Repayment of amounts due to sellers	(177)
Cash paid for property and equipment	(3,175)
Proceeds from disposition of fixed assets	55
Net cash used in investing activities	(9,530)
CASH FLOWS FROM FINANCING ACTIVITIES:	
Repayment of long-term debt and capital lease obligations	(13,416)
Payment of deferred financing fees	(135)
Proceeds from issuance of preferred stock	5,000
Net cash used in financing activities	(8,551)
NET INCREASE IN CASH AND CASH EQUIVALENTS	9,839
CASH AND CASH EQUIVALENTS — Beginning of period	264
CASH AND CASH EQUIVALENTS — End of period	$ 10,103
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:	
Cash paid during the year for:	
Interest	$ 6,208
Income taxes	$ 7,372
SUPPLEMENTAL DISCLOSURES OF NON-CASH TRANSACTIONS:	
Note payable issued to acquire business	$ 2,250
Capital lease obligations incurred to acquire property and equipment	$ 156

See accompanying notes to consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2009

1. OVERVIEW, BASIS OF PRESENTATION, AND SIGNIFICANT ACCOUNTING POLICIES

Critical Homecare Solutions Holdings, Inc. and subsidiaries ("CHS" or the "Company") provides infusion therapy and home nursing services through a network of company-owned locations. The Company contracts with managed care organizations and physicians to become their specialty and infusion pharmacy, dispensing and delivering pharmaceuticals, assisting with clinical compliance information, and providing pharmacy consulting services. The Company also contracts with managed care organizations, third-party payors, hospitals, physicians, and other referral sources to provide pharmaceuticals and complex compounded solutions to patients for intravenous delivery in the patients' homes or other non-hospital settings. Many of the Company's locations provide other healthcare services, such as nursing, respiratory therapy, and durable medical equipment rentals and sales.

The Company commenced operations on September 1, 2006 and is primarily owned by certain investment funds managed by Kohlberg and Co, L.L.C. ("Kohlberg"). In addition, certain members of the Company's management own shares of the Company, the total of which represents less than one percent of the total outstanding shares as of December 31, 2009. The Company did not declare any dividends during the year ended December 31, 2009.

In connection with its formation, on September 1, 2006, the Company acquired all of the stock of Specialty Pharma, Inc. ("SPI") and its wholly owned subsidiary, Professional Home Care Services, Inc. ("PHCS"), and all of the stock of New England Home Therapies, Inc. ("NEHT"). In 2007, the Company acquired the stock of Deaconess Enterprises, Inc. ("DEI"), Infusion Solutions, Inc. ("ISI"), Applied Health Care, Ltd. ("AHC"), Option Care of Brunswick, Inc. ("Infusion Partners of Brunswick" or "IPB"), Option Care of Melbourne, Inc. ("Infusion Partners of Melbourne" or "IPM") and East Goshen Pharmacy, Inc. ("EGP"). In 2008, the Company acquired the stock of Wilcox Medical, Inc. ("WC"), Scott-Wilson, Inc. ("Infusion Partners of Lexington" or "IPL") and National Health Infusion, Inc. ("NHI"). In 2009, the Company acquired the stock of Option Health, Ltd. ("OH"). See Note 2 for further discussion regarding the Company's acquisitions. The financial position and operating results of the acquired operations are included in the accompanying consolidated financial statements of the Company since the respective dates of acquisition.

As of December 31, 2009, the Company operated 68 locations servicing 22 states.

Basis of Presentation — The accompanying consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America and include the accounts of the Company and its wholly-owned subsidiaries. All intercompany accounts and transactions have been eliminated in consolidation.

Subsequent events have been evaluated through March 10, 2010, the date these financial statements were issued.

Cash and Cash Equivalents — Cash and cash equivalents include cash on deposit with various financial institutions. The Company considers all highly liquid investments with original maturities of three months or less to be cash equivalents. The Company's cash equivalents are stated at cost, which approximates market value.

Financial Instruments — The Company has cash and cash equivalents, short-term receivables and payables, and long-term debt obligations, including capital leases. The carrying value of cash and cash equivalents, accounts receivables, and accounts payables approximate their fair value. Borrowings under the Company's secured credit facilities and other long-term debt obligations (see Note 6) include debt with variable interest rates totaling $138.2 million at December 31, 2009. The Company believes the carrying value of its long-term debt approximates current market value.

Accounts Receivable and Allowance for Doubtful Accounts — The Company's accounts receivable consist of amounts owed by various governmental agencies, insurance companies and private patients. Management performs periodic analyses to evaluate accounts receivable balances to ensure that recorded amounts reflect net realizable values. The Company does not believe there are any significant credit risks associated with the receivables from Medicare and Medicaid and other state administered programs.

Accounts receivable are reported net of contractual adjustments. Generally, the Company bills third-party payors based on the contractual charges or usual and customary charges for goods and services provided and then adjusts the revenue down to the anticipated collectible amount. The adjustment is based on interpretation of the terms of the applicable managed care contract, fee schedule or other arrangement with the payor.

The Company has established an allowance for doubtful accounts to report accounts receivable at the estimated net realizable amounts to be received from third-party payors and patients. Increases to this reserve are reflected as a provision for doubtful accounts in the accompanying consolidated statements of operations. The Company generates accounts receivable aging reports from its billing systems and utilizes these reports to monitor the condition of outstanding receivables and evaluate the performance of billing and reimbursement staff. The Company also utilizes these aging reports, combined with historic write-off statistics generated from the billing systems, to determine the allowance for doubtful accounts. The Company regularly performs an analysis of the collectability of accounts receivable and considers factors such as prior collection experience and the age of the receivables.

The Company does not require its patients or other payors to carry collateral for any amounts owed for services provided. Other than as discussed below, the Company's concentration of credit risk relating to accounts receivable is limited due to the diversity of patients and payors. Further, the Company generally does not provide charity care.

Inventories — Inventories, which consist primarily of pharmaceuticals and medical supplies, are stated at the lower of cost (determined using the first-in, first-out method) or market. The largest component of inventory is pharmaceuticals, which have fixed expiration dates. The Company normally obtains next day delivery of the pharmaceuticals that it orders. The Company's pharmacies monitor inventory levels and check expiration dates regularly. Pharmaceuticals that are approaching expiration and are deemed unlikely to be used before expiration are returned to either the vendor or manufacturer for credit, or are transferred to another Company pharmacy that needs them. If the pharmaceuticals cannot be either returned or transferred before expiration, the Company's policy requires them to be disposed of immediately and in accordance with Drug Enforcement Administration guidelines. Due to the high rate of turnover of the Company’s pharmaceutical inventory and the policies related to handling expired or expiring items, the Company’s pharmacies typically do not carry obsolete inventory.

Prepaids and Other Current Assets — Prepaid expenses and other current assets consist primarily of prepaid insurance, rent, and other current assets.

Property and Equipment — Net — Property and equipment are carried at cost. Expenditures for major improvements are capitalized. Maintenance and repairs are expensed as incurred. Upon retirement or disposal of an asset, the related cost and accumulated depreciation are removed from the respective accounts and any gain or loss is recorded in current earnings. Property and equipment under capital leases are stated at the lesser of fair value or the present value of future minimum lease payments at inception of the lease. Depreciation is recognized on a straight-line basis. Estimated useful lives for the principal asset categories are as follows:

	Useful Life
Medical equipment	13 months to 5 years
Leasehold improvements	Base term of lease or useful life, whichever is shorter
Equipment, vehicles, and other assets	3 to 5 years
Building	20 years

Property and equipment are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to estimated undiscounted future cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated future cash flows, an impairment charge is recognized for the amount by which the carrying amount of the asset exceeds the fair value of the asset. The Company did not recognize any impairment losses during the year ended December 31, 2009.

Goodwill and Intangible Assets — Goodwill represents the excess of the cost of acquisitions over the fair value of net assets acquired. In accordance with the Intangibles — Goodwill and Other Topic of the Financial Accounting Standards Board (“FASB”) Accounting Standards Codification, goodwill is not amortized and is reviewed annually at a reporting unit level for impairment utilizing a two-step process. Generally accepted accounting principles require goodwill to be tested for impairment annually and when an event occurs or circumstances change such that it is reasonably possible that an impairment may exist. There were no impairment losses recognized during the year ended December 31, 2009.

Intangible assets consist primarily of non-compete agreements, trademarks related to brand names arising from acquisitions, licenses and certificates of need. The Company records intangible assets at their estimated fair value at the date of acquisition and amortizes the related cost of the asset over the period of expected benefit. The fair value of intangible assets assigned during the first year subsequent to an acquisition is based on a preliminary determination and is subject to adjustment pending a final determination of purchase price and a final valuation of the assets acquired and liabilities assumed. Definite-lived intangibles are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable from estimated future cash flows.

Intangible assets with indefinite lives are reviewed for impairment annually or when an event occurs or circumstances change such that it is reasonably possible that an impairment may exist. There were no impairment losses recognized during the year ended December 31, 2009.

Non-compete agreements are amortized on a straight-line basis over the estimated life of each agreement, which ranges from one to five years. The ISI trademark and certain of the trademarks associated with DEI have limited lives of two and five years, respectively. These trademarks are being amortized over the estimated useful lives. Trademarks with indefinite lives are not amortized but are periodically reviewed for impairment. Licenses are being amortized over a period of one to two years. Certificates of need have indefinite lives and are not amortized but are periodically reviewed for impairment.

Deferred Financing Fees — Net — Deferred financing fees are stated at cost and are amortized using a method that approximates the effective interest method over the expected life of the related debt instrument. Amortization of the deferred financing fees is recorded as interest and other financing costs in the accompanying consolidated statements of operations. In the event of debt modification, the unamortized balance of deferred financing fees is tested for debt extinguishment treatment in accordance with GAAP.

Revenue Recognition — The Company generates almost all of its revenue from reimbursement by government and other third-party payors for services provided to patients. The Company receives payment for services and medications from a number of sources, including managed care organizations, government sources, such as Medicare and Medicaid programs, and commercial insurance. For the year ended December 31, 2009, the Company had a payor mix of 52% from managed care organizations and other third party payors, 24% from Medicare and 24% from Medicaid. At December 31, 2009, Medicare and Medicaid represented 21% and 20% of accounts receivable, respectively.

Patient revenue is recorded in the period during which the services are provided and is directly offset by appropriate allowances to give recognition to third-party payor arrangements. Net revenue recognition and allowances for uncollectible billings require the use of estimates. Once known, any changes to these estimates are reflected in the results of operations.

In the Company’s home infusion segment, infusion therapy and related health care services revenue is reported at the estimated net realizable amounts from patients and third-party payors for goods sold and services rendered. The Company’s agreements with payors occasionally specify receipt of a “per-diem” payment for infusion therapy services that are provided to patients. This “per-diem” payment includes multiple components of care provided to the patient, including, but not limited to, rental of medical equipment, care coordination services, delivery of goods to the patient and medical supplies. “Per-diem” revenue is recognized over the course of the period the components of care are provided.

In certain situations, revenue components are recorded separately. In other situations, revenue components are billed and reimbursed on a per-diem or contract basis whereby the insurance carrier pays the Company a combined amount for treatment. Because the reimbursement arrangements in these situations are based on a per-diem or contract amount, the Company does not maintain records that provide a breakdown between the revenue components. Due to the nature of the industry and the reimbursement environment in which the Company operates, certain estimates are required to record net revenue and accounts receivable at their net realizable values. Inherent in these estimates is the possibility that they will have to be revised or updated as additional information becomes available. Specifically, the complexity of many third-party billing arrangements and the uncertainty of reimbursement amounts for certain services from certain payors may result in adjustments to amounts originally recorded. Such adjustments are typically identified and recorded at the point of cash application, claim denial or account review.

In the Company’s home nursing segment, revenue represents the estimated net realizable amounts from patients, third-party payors and others for patient services rendered and products provided. Such revenue is recognized as the treatment plan is administered to the patient and is recorded at amounts estimated to be received under reimbursement or payment arrangements with payors. Net revenues to be reimbursed by contracts with third-party payors are recorded at an amount to be realized under these contractual arrangements.

Under the prospective payment system for Medicare reimbursement, net revenues are recorded based on a reimbursement rate which varies based on the severity of the patient’s condition, service needs and certain other factors. Revenue is recognized ratably over a 60-day episode period and is subject to adjustment during this period if there are significant changes in the patient’s condition during the treatment period or if the patient is discharged but readmitted to another agency within the same 60-day episodic period. Medicare billings under the prospective payment system are initially recognized as deferred revenue and are subsequently recognized as revenue over the 60-day episode period. The process for recognizing revenue under the Medicare program is based on certain assumptions and judgments, the appropriateness of the clinical assessment of each patient at the time of certification, and the level of adjustments to the fixed reimbursement rate relating to patients who receive a limited number of visits, have significant changes in condition or are subject to certain other factors during the episode.

Deferred revenue of $3.2 million relating to the home nursing Medicare Prospective Payment System (PPS) program and to certain infusion monthly equipment rentals was recorded in accrued expenses in the consolidated balance sheet as of December 31, 2009.

Multiple Deliverables — The Multiple-Element Arrangements Subtopic of the FASB Accounting Standards Codification addresses situations in which multiple products and/or services are delivered at different times under one arrangement with a customer and provides guidance in determining whether multiple deliverables should be viewed as separate units of accounting. The Company provides a variety of therapies to patients, the majority of which have multiple deliverables, such as the delivery of drugs and supplies and the provision of related nursing services to train and monitor patient administration of the drugs. After applying the criteria from the final model in the Multiple-Element Arrangements Subtopic of the FASB Accounting Standards Codification, the Company concluded that separate units of accounting do exist in its revenue arrangements with multiple deliverables.

The Company’s revenue recognition policy is designed to recognize revenue when each deliverable is provided to the patient. For example, revenue from drug sales is recognized upon confirmation of the delivery of the products, and revenue from nursing services is recognized upon receipt of nursing notes confirming the service has been provided. In instances in which the amount allocable to the delivered item is contingent upon delivery of additional items, the Company recognizes revenue after all the deliverables in the arrangement have been provided. In instances that a per-diem is provided for daily usage of supplies and equipment, revenue is recognized on a pro rata basis.

Cost of Goods and Cost of Services Provided — Cost of goods consists of the actual cost of pharmaceuticals and other medical supplies dispensed to patients. Cost of services provided consists of certain operating costs related to pharmacy operations, nursing and respiratory services. These costs include employee salary and benefits and contract labor directly involved in providing service to the patient.

Distribution Expenses — Distribution expenses are included in selling, distribution and administrative expenses in the accompanying consolidated statements of operations and totaled $7.0 million for the year ended December 31, 2009. Such expense represents the delivery costs related to the end user. Included are salary and benefit costs related to drivers and dispatch personnel and amounts paid to courier and other outside shipping vendors.

Income Taxes — The Company uses the liability method of accounting for income taxes in accordance with the Income Taxes Topic of the FASB Accounting Standards Codification. Accordingly, deferred tax liabilities and assets are determined based on the difference between the financial statement and tax bases of assets and liabilities, using enacted tax rates in effect for the year in which the differences are expected to reverse. The Company recognizes accrued interest and penalties related to unrecognized tax benefits as a component of tax expense. Current income taxes are based on the year's taxable income for federal and state income tax reporting purposes.

As required by the Income Taxes Topic of the FASB Accounting Standards Codification, the Company recognizes the financial statement benefit of a tax position only after determining that the relevant tax authority would more likely than not sustain the position following an audit. For tax positions meeting the more-likely-than-not threshold, the amount recognized in the financial statements is the largest benefit that has a greater than 50 percent likelihood of being realized upon ultimate settlement with the relevant tax authority.

Self Insurance — The Company is self-insured up to certain limits for workers' compensation costs and employee medical benefits. The Company has purchased stop-loss coverage to limit its exposure to significant individual workers' compensation or employee medical claims. Self-insured losses are accrued for known and anticipated claims based upon certain actuarial assumptions and historical claim payment patterns.

Use of Estimates — The preparation of consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses in the accompanying consolidated financial statements.

Significant items subject to such estimates and assumptions include but are not limited to revenue recognition, goodwill and intangibles, the allowance for doubtful accounts, the valuation of stock option grants, and self-insurance reserves for workers' compensation costs and employee medical benefits. Actual results could differ from those estimates.

New Accounting Pronouncements — In October 2009, the FASB issued guidance under Accounting Standards Update No. 2009-13, *Multiple-Deliverable Revenue Arrangements* ("ASU 2009-13"), which updates ASC 605-25, *Multiple Elements Arrangements* ("ASC 605-25"). ASU 2009-13 provides new guidance on how to determine if an arrangement involving multiple deliverables contains more than one unit of accounting, and if so allows companies to allocate arrangement considerations in a manner more consistent with the economics of the transaction. ASU 2009-13 is effective for the Company, prospectively, for revenue arrangements entered into or materially modified in fiscal years beginning on or after June 15, 2010; early application is permitted. The Company is currently evaluating the impact of adopting ASU 2009-13 on its financial position, results of operations or cash flows.

In June 2009, the FASB issued guidance under ASC 105, *Generally Accepted Accounting Principles* ("ASC 105"), which establishes the FASB Accounting Standards Codification as the sole source of authoritative generally accepted accounting principles. Pursuant to the provisions of ASC 105, the Company has updated references to GAAP in its financial statements issued for the years ended December 31, 2009. The adoption of this statement did not have a material effect on the Company's financial position, results of operations or cash flows.

In May 2009, the FASB issued guidance under ASC 855, *Subsequent Events* ("ASC 855"). This guidance establishes general standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. This guidance is effective for interim and annual fiscal periods ending after June 15, 2009. The Company adopted the provisions of ASC 855 effective June 30, 2009. The adoption of this statement did not have a material effect on the Company's financial position, results of operations or cash flows.

In April 2009, the FASB issued guidance under ASC 825-10, *Financial Instruments* ("ASC 825-10"). This guidance requires disclosures about fair value of financial instruments for interim reporting periods that were previously only required in annual financial statements. This guidance is effective for interim periods ending after June 15, 2009. The Company adopted the provisions of ASC 825-10 effective June 30, 2009. The adoption of this statement did not have a material effect on the Company's financial position, results of operation or cash flows.

In April 2008, the FASB issued guidance under ASC 350-30, *Intangible Goodwill and Other* ("ASC 350-30"). ASC 350-30 amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset under the Intangibles — Goodwill and Other Topic of the FASB Accounting Standards Codification. The intent of ASC 350-30 is to improve the consistency between the useful life of a recognized intangible asset under ASC 350 and the period of expected cash flows used to measure the fair value of the asset under ASC 805, *Business Combinations* ("ASC 805") and other applicable accounting literature. The Company adopted the provisions of ASC 350-30 effective January 1, 2009. The adoption of this statement did not have a material effect on the Company's financial position, results of operations or cash flows.

In March 2008, the FASB issued guidance under ASC 815-10, *Disclosures about Derivative Instruments and Hedging Activities* ("ASC 815-10"). ASC 815-10 amends and expands derivatives and hedging disclosure requirements, including, reasons for the use of derivative instruments, related accounting, and affect on the consolidated financial statements. The Company adopted the provisions of ASC 815-10 effective January 1, 2009. The adoption of this statement did not have a material effect on the Company's financial position, results of operations or cash flows.

In December 2007, the FASB issued guidance under ASC 805, *Business Combinations*. ASC 805 changes the accounting for business combinations by requiring an acquiring entity to recognize all the assets acquired and liabilities assumed in a transaction at the acquisition-date fair value with limited exceptions. In addition, ASC 805 requires acquisition costs to be expensed as incurred, in-process research and development to be recorded at fair value as an indefinite-lived intangible asset at the acquisition date, restructuring costs associated with a business combination to be generally expensed subsequent to the acquisition date and changes in deferred tax asset valuation allowances and income tax uncertainties after the acquisition date generally to affect income tax expense. ASC 805 also includes a substantial number of new disclosure requirements. The Company adopted the provisions of ASC 805 effective January 1, 2009. The adoption of this statement did not have a material effect on the Company's financial position, results of operations or cash flows.

2. ACQUISITIONS

On June 10, 2009, the Company acquired all of the outstanding stock of OH, a provider of home infusion and nursing services with one location in the state of Illinois. The total consideration to complete the acquisition was $9.5 million, financed with cash of $6.3 million, a note payable of $2.3 million and the assumption of $892,000 of liabilities. The effective date of the OH acquisition was June 1, 2009. The purchase agreement allows for an additional earnout payment to the former owner that may range between $0 and $1 million based on the operating results of the acquired business during the one-year period beginning 60 days following the acquisition. The transition consulting agreement allows for additional bonus payments to the former owner that may range between $0 and $85,000 based on the operating results of the acquired business during the one-year period following the acquisition. On June 1, 2009, the Company recorded a payable to the former owner of OH and increased goodwill by $900,000 and $75,000 to account for the fair market value of the earnout payment liability and the bonus payment liability, respectively.

The OH acquisition was performed to expand the Company's geographic footprint and increase the Company's offerings of services. The acquisition was recorded under the purchase method of accounting, and accordingly, the financial position and operating results of the acquired operations are included in the consolidated financial statements of the Company subsequent to the date of the acquisition.

The initial purchase price has been allocated to assets acquired and liabilities assumed based on estimated fair values. The purchase price allocations for OH are preliminary and are subject to adjustment, which may be material, pending a final determination of working capital and income tax allocations. In accordance with business combinations accounting, measurement period adjustments related to OH will be retrospective in nature. The allocated fair value of assets acquired and liabilities assumed as of December 31, 2009 is summarized in the table below (in thousands).

Amounts due to sellers for cash represents the Company's liability for the seller's cash, which is due to the sellers as of the effective date of the transaction, per the terms of the purchase agreement.

Cash	$ 78
Accounts receivable	1,262
Inventories	224
Other assets	66
Property and equipment	353
Intangible assets	51
Goodwill	8,737
Total identifiable assets	10,771
Accounts payable and accrued expenses	892
Contingent purchase price obligations	975
Note payable	2,250
Deferred income taxes	256
Total identifiable net assets	6,398
Amounts due to sellers for cash	78
Cash purchase price	$ 6,320

Changes in the allocated fair market value from the initial allocation to the current allocation as of December 31, 2009 relate primarily to adjustments to certain liabilities and adjustments to deferred taxes.

Interest expense, net of taxes, of $10,000 has been recognized in the consolidated financial statements of the Company for the year ended December 31, 2009, relative to the imputed interest on the purchase price from the effective date to the closing date.

The above acquisition is included in the Company's Home Infusion segment; therefore, all of the goodwill recorded in the acquisition has been allocated to that segment. The goodwill recognized is attributable primarily to expected synergies and the assembled workforce. As the above acquisition was for stock, the goodwill arising from the transaction is generally not deductible for tax purposes.

3. PROPERTY AND EQUIPMENT — NET

As of December 31, 2009, property and equipment consisted of the following (in thousands):

Medical equipment	$ 9,557
Leasehold improvements	1,362
Equipment, vehicles, and other assets	5,573
Total property and equipment — gross	16,492
Less accumulated depreciation and amortization	(9,448)
Property and equipment — net	$ 7,044

Included in property and equipment are equipment and vehicles that are held under capital lease arrangements as of December 31, 2009, as follows (in thousands):

Medical equipment	$ 104
Equipment, vehicles, and other assets	675
Total property and equipment — gross	779
Less accumulated depreciation and amortization	(410)
Property and equipment — net	$ 369

Depreciation expense was $3.5 million for the year ended December 31, 2009.

4. GOODWILL AND INTANGIBLE ASSETS

As of December 31, 2009, goodwill consists of the following (in thousands):

Balance — December 31, 2008	$ 210,737
Goodwill acquired	8,737
Measurement period adjustments relating to 2008 acquisitions	897
Balance — December 31, 2009	$ 220,371

As of December 31, 2009, intangible assets consist of the following (in thousands):

Trademarks — nonamortizable	$15,329
Certificates of need — nonamortizable	5,486
Non-compete agreements — amortizable	690
Trademarks — amortizable	1,220
Other intangibles — amortizable	65
Accumulated amortization:	
Noncompete agreements	(446)
Trademarks	(780)
Other intangibles	(47)
Intangible assets-net	$21,517

The weighted average remaining life as of December 31, 2009 of non-compete agreements is 1.7 years, trademarks is 1.8 years and other intangibles is less than 1.0 year, with the total weighted average remaining life of all intangible assets of 1.7 years.

Amortization expense on intangible assets was $397,000 for the year ended December 31, 2009. Amortization expense on intangible assets in each of the next five years is expected to be the following (in thousands):

2010	$339
2011	304
2012	39
2013	17
2014	3
2015 and thereafter	—
	$702

5. ACCRUED EXPENSES

As of December 31, 2009, accrued expenses consisted of the following (in thousands):

Accrued accounting and legal fees	$ 635
Accrued payroll expenses	5,185
Deferred revenue	3,186
Accrued refunds payable	3,760
Accrued seller earnout	940
Other accrued expenses	3,669
Accrued workers' compensation	1,129
Accrued benefits	734
Accrued interest	596
Accrued expenses	$19,834

6. LONG-TERM DEBT AND CAPITAL LEASE OBLIGATIONS

Long-term debt and capital lease obligations consist of the following (in thousands):

	December 31, 2009
First Lien Facilities and Second Lien Facility	$ 138,207
Note payable	2,250
Capital lease obligations	354
	140,811
Less — obligations maturing within one year	11,051
Long-term debt — net of current portion	$ 129,760

The weighted-average interest rate for the year ended December 31, 2009 was 4.35%. The effective interest rate, after considering amortization of deferred financing fees, approximated 4.88% for the year ended December 31, 2009.

First Lien Facilities and Second Lien Facility

Components of the facility include a first-priority senior secured $116.0 million Term Loan A facility ("Term Loan A"), a first-priority senior secured $20.0 million revolving credit facility (the "Revolver" and, collectively with Term Loan A, the "First Lien Facilities"), and a second-priority senior secured $34.0 million Term Loan B facility ("Term Loan B" or "Second Lien Facility").

Term Loan A matures in January 2012 and principal is repayable in quarterly installments of $2.2 million each in 2010 that escalate to $2.9 million in 2011, with the balance due at maturity. Interest on Term Loan A is based on the bank's Alternative Base Rate (as defined by the respective agreement) plus the applicable margin of 1.5% to 2.5%, or the LIBOR rate plus the applicable margin of 2.75% to 3.75%. The applicable margin is subject to varying increments based on changes in leverage.

Term Loan B matures in January 2013, and is not subject to scheduled amortization. Interest on the Term Loan B is based on the bank's Alternative Base Rate (as defined by the respective agreement), plus the applicable margin of 5.25%, or the LIBOR rate plus the applicable margin of 6.50%.

The Revolver includes a facility for up to $4.0 million of standby letters of credit. A commitment fee is payable quarterly at 0.5% per annum of the undrawn portion of the Revolver. The Revolver is a component of the First Lien Facilities and bears interest at the rates established in the related first lien agreements.

Amounts borrowed on the Term Loan A and Term Loan B that are repaid or prepaid may not be re-borrowed. Amounts repaid under the Revolver may be re-borrowed.

Borrowings under the First Lien Facilities are secured by substantially all of the Company's assets. Second Lien Facility borrowings are secured on a second-priority basis, subordinate only to the First Lien Facilities, by substantially all the assets of the Company.

The Company is required under the terms of the First Lien Facilities and the Second Lien Facility to maintain certain financial ratio covenants, including minimum adjusted EBITDA, maximum total leverage and fixed charge coverage. The Company was in compliance with these covenants as of December 31, 2009.

In April 2007, the Company entered into a $67.0 million notional interest rate cap on the First Lien Facilities for a cost of $42,000. In August 2007, the Company amended the interest rate cap to cover an additional $8.0 million of additional principal for an additional cost of $8,000. The agreement effectively placed a ceiling on interest relating to $75.0 million of debt at a rate of 6% for a period of two years. The Company did not designate this cap as a hedging instrument, and accordingly, any unrealized gain or loss on the interest rate cap has been recorded as a component of earnings. The impact of the interest rate cap on the consolidated statement of operations for the year ended December 31, 2009 was insignificant. The notional interest rate cap terminated in April 2009.

Note Payable

In June 2009, the Company issued a $2.25 million 8% note due on December 31, 2010. Interest is payable quarterly in arrears. The note is subordinated in right of payment to all existing senior indebtedness. The note was used as partial consideration for the purchase of Option Health, Ltd.

Letters of Credit

As of December 31, 2009, the Company has letters of credit against the First Lien Facilities securing its performance on its worker's compensation insurance policies which total $2.3 million. The letters of credit expire on January 8, 2010, and have an automatic extension of one year.

As of December 31, 2009, the Company has a letter of credit against the First Lien Facilities of $75,000 securing its performance under a vehicle lease agreement. The letter of credit expires on August 7, 2010.

Future Maturities of Debt Outstanding

Maturities of debt outstanding, including capital lease obligations, in each of the next five years is as follows (in thousands):

2010	$ 11,051
2011	11,673
2012	84,062
2013	34,025
2014	—
2015 and thereafter	—
	$ 140,811

7. EARNINGS PER COMMON SHARE

Basic earnings per common share is calculated based on income or loss available to common shareholders divided by the weighted-average number of common shares outstanding during the period. Diluted earnings per common share assumes exercise of all contingently issuable shares into common shares at the beginning of the period or date of issuance, unless the contingently issuable shares are antidilutive. There were no antidilutive shares excluded from earnings per share during the year ended December 31, 2009.

There were no common shares issued upon the exercise of options during the year ended December 31, 2009.

The calculation of basic and diluted earnings per common share is presented below (in thousands, except per share amounts):

Basic earnings per share computation:	
Numerator — net income	$ 14,730
Cumulative preferred stock dividends	(1,918)
Income available to common shareholders	$ 12,812
Denominator — weighted-average number of common shares outstanding	90,898
Basic earnings per common share	$ 0.14
Diluted earnings per share computation:	
Numerator — net income	$ 14,730
Cumulative preferred stock dividends	(1,918)
Income available to common shareholders	$ 12,812
Denominator:	
Weighted-average number of common shares outstanding	90,898
Weighted-average additional shares assuming exercise of stock options and conversion of preferred stock	14,234
Total weighted average common shares outstanding-diluted basis	105,132
Diluted earnings per common share	$ 0.12

8. EQUITY

Common Stock — The Company has 125,000,000 shares of common stock authorized for issuance subject to limitations described by Delaware law and the Company's certificate of incorporation. During 2009, the Company increased the number of shares of common stock authorized for issuance by 25,000,000.

Preferred Stock — The Company has 5,000,000 shares of preferred stock authorized for issuance at the discretion of the Board of Directors, subject to limitations prescribed by Delaware law and the Company's certificate of incorporation. The Board of Directors is expressly authorized to set the terms for the establishment or issuance of any series of preferred stock, the designation of such series, and the powers, preferences and rights of such series, and the qualifications, limitations or restrictions thereof.

During the year ended December 31, 2009, the Company raised $5.0 million through the placement of Series A Convertible Preferred Stock.

As of December 31, 2009, the Company had outstanding the following convertible preferred stock:

Date of Issue	Issue	Amount	Shares	Liquidation Preference	Dividend Rate	Redeemable	Exchangeable
4/22/08	Series A	$ 4,000,000	4,000	$ 1,000	11%*	At any time with the consent of over 75% of the preferred shareowners	At any time into shares of Common Stock
9/22/08	Series A	$ 6,000,000	6,000	$ 1,000	11%*	At any time with the consent of over 75% of the preferred shareowners	At any time into shares of Common Stock
9/23/08	Series A	$ 36,500	36	$ 1,000	11%*	At any time with the consent of over 75% of the preferred shareowners	At any time into shares of Common Stock
12/19/08	Series A	$ 10,000,000	10,000	$ 1,000	11%*	At any time with the consent of over 75% of the preferred shareowners	At any time into shares of Common Stock
6/9/09	Series A	$ 5,000,000	5,000	$ 1,000	11%*	At any time with the consent of over 75% of the preferred shareowners	At any time into shares of Common Stock

* The dividend rate is 4% per year during the six-month period following the issuance date and eleven percent per year thereafter. The dividends, which accrue on the liquidation preference, are payable when, as and if declared by the Company’s board of directors.

The Series A Convertible Preferred Stock has preferential rights over the Common Stock with respects to rights to receive dividends and rights on liquidation, dissolution, or winding up.

According to the preferred stock agreement, the rate at which the preferred stock is convertible into common stock is the quotient of (A) the sum of the Series A Liquidation Preference (the original purchase price) plus all accrued and unpaid dividends as of the date of conversion to the extent not included in the Series A Liquidation Preference as of such date divided by (B) the Fair Market Value of the Common Stock as of the business day immediately preceding the date of conversion. Fair Market Value is defined as the amount that a willing buyer, under no compulsion to buy, would pay a willing seller, under no compulsion to sell, in an arm’s length transaction (assuming no consideration is given for minority investment discounts or discounts related to illiquidity or restrictions in transferability).

Stock Based Compensation — The Company’s 2006 Equity Incentive Plan (the “Plan”), which is shareholder approved, authorizes the grant of share options of up to 13 million common shares to executives and key employees. Option awards are granted with an exercise price equal to the fair value of the Company’s stock at the date of the grant, generally vest over a four-year period, and are generally exercisable for 10 years from the date of the grant. The Plan allows for the settlement of the options through the issuance of common shares.

The fair values of the stock options granted by the Company under the Plan were determined using the Black-Scholes option-pricing model. Use of a valuation model requires management to make certain assumptions with respect to the selected model inputs. Because the Company’s stock was not publicly traded during the period, the historical weighted average volatility of the Company’s peer group within the healthcare sector was used. The peer group included two public companies that provide home infusion services and two public companies that provide home nursing services. The calculation of volatility was based on 6.25 years, which is consistent with the expected term of the awards. The grant life was based on the "simplified method" for "plain vanilla" option permitted by the Compensation — Stock Compensation Topic of the FASB Accounting Standards Codification. The risk-free interest rate is based on U.S. Treasury zero-coupon issues with a remaining term which approximates the estimated life assumed at the date of grant.

The following assumptions have been used in the determination of the fair value for options granted during the year ended December 31, 2009.

Risk-free interest rate	1.99%
Expected term	6.25
Expected volatility	44.65%
Dividend yield	—

A summary of stock option activity under the Plan as of and during the year ended December 31, 2009 is presented below:

	Options	Average Exercise Price	Grant Date Fair Value
Outstanding — December 31, 2008	8,780,000	$ 1.05	$ 0.55
Grants	2,653,750	1.95	0.90
Forfeitures	(686,500)	1.43	0.49
Outstanding — December 31, 2009	10,747,250	$ 1.25	$ 0.63
Vested and exercisable — December 31, 2009	4,855,625	$ 1.04	$ 0.55

Exercise prices for options outstanding as of December 31, 2009 range from $1.00 to $1.95. The weighted average remaining contractual life of the options outstanding and exercisable at December 31, 2009 was 7.6 and 7.1 years, respectively.

As of December 31, 2009, there was approximately $2.8 million of total unrecognized compensation cost related to unvested stock options granted under the Plan that the Company had not recorded. That cost is expected to be recognized over a weighted average period of 2.0 years. Compensation expense of $1.5 million was recognized during the year ended December 31, 2009, and is included in selling, distribution and administrative expenses in the accompanying consolidated statements of operations. There have been no exercises of stock option awards since inception of the Plan. As of December 31, 2009, the aggregate intrinsic value of the options outstanding was $7.5 million and the aggregate intrinsic value of the options exercisable was $4.4 million.

During June 2007, the Company amended the Plan to allow for immediate vesting of unvested awards upon filing of an initial public offering or upon a change in control, as defined. There has been no accounting recognition for this modification in the accompanying consolidated financial statements.

9. INCOME TAXES

For the year ended December 31, 2009, the income tax provision consisted of the following (in thousands):

Current:	
Federal	$5,583
State and local	1,228
	6,811
Deferred:	
Federal	2,116
State and local	281
	2,397
Income tax provision	$9,208

As of December 31, 2009, deferred tax assets and liabilities consist of the following (in thousands):

Deferred tax assets:	
Inventory	$ 33
Loss carryforward	2,396
Accrued liabilities	1,780
Stock options	1,528
Transaction costs	585
Accounts receivable	2,077
Deferred tax assets before valuation allowance	8,399
Valuation allowance	(2,256)
Net deferred tax assets	6,143
Deferred tax liabilities:	
Prepaid expense	49
Deferred revenue	656
Property, plant and equipment	635
Intangibles	8,570
Deferred tax liabilities	9,910
Net deferred tax liabilities	$ 3,767

For the year ended December 31, 2009, income taxes computed using the federal statutory income tax rate differs from the Company's effective tax rate primarily due to the following (in thousands):

Federal tax at statutory rate	$8,378
Nondeductible meals and entertainment	87
Other Adjustments	(336)
State tax provision — net of federal benefit	1,079
Income tax provision	$9,208

The Company's deferred tax assets and liabilities were valued based on the estimated tax rates in effect when the assets and liabilities are expected to reverse. With the exception of certain state net operating losses, management believes it is more likely than not that the results of future operations will generate sufficient taxable income to realize the net deferred tax assets. As of December 31, 2009, the Company had state net operating loss carryforwards for tax purposes of approximately $39.4 million that expire from 2014 through 2028. At December 31, 2009, the Company had a valuation allowance for certain state net operating loss carryforwards where it was uncertain whether the carryforward would be utilized. The valuation allowance did not materially change from the amount recorded at December 31, 2008.

Uncertain Tax Positions — The total amount of unrecognized tax benefits as of December 31, 2009, was $474,000, none of which would impact the effective rate if recognized. During the year ended December 31, 2009, no accrued interest and penalties were reported in the consolidated statements of operations. There was no accrued interest and penalties at December 31, 2009.

The following table summarizes the activity related to the Company's unrecognized tax benefits, excluding interest and penalties, for the year ended December 31, 2009 (in thousands):

Balance — December 31, 2008	$474
Additions and reductions based on tax positions related to the current year	—
Additions and reductions for tax positions of prior years	—
Settlements with taxing authorities	—
Expiration of the statute of limitations for the assessment of taxes	—
Balance — December 31, 2009	$474

The Company does not anticipate the balance of gross unrecognized tax benefits at December 31, 2009, to significantly change during the next twelve months.

As of December 31, 2009, the Company's 2007 consolidated federal tax return is under examination. The Company is not aware of any significant proposed audit adjustments. The Company is also subject to U.S. federal income tax examinations for the consolidated tax years 2006 and 2008, and state income tax examinations for the consolidated tax years 2006 through 2008. In addition, many of the Company's subsidiaries have filed separate state tax returns that are still subject to examination.

10. LEASE COMMITMENTS

The Company leases their administrative and operating facilities, certain vehicles, medical equipment, and office equipment under various operating and capital leases. Lease terms range from one to ten years with renewal options on certain leases for additional periods. At December 31, 2009, future minimum annual payments, excluding executory costs such as property taxes, insurance and maintenance, under long-term capital leases and non-cancelable operating leases were as follows (in thousands):

	Capital Leases	Operating Leases
2010	$ 148	$ 3,188
2011	125	2,189
2012	84	1,513
2013	21	721
2014	—	18
2015 and thereafter	—	—
Total minimum lease payments	378	$ 7,629
Less amounts representing interest	24	
Present value of net minimum payments under capital leases	354	
Less current portion	134	
	$ 220	

For the year ended December 31, 2009, the Company recognized rent expense and executory costs under operating leases of $4.0 million, which is included in selling, distribution, and administration expenses in the consolidated statements of operations.

11. COMMITMENTS AND CONTINGENCIES

The Company is subject to claims and legal actions that may arise in the ordinary course of business. However, the Company maintains insurance to protect against such claims or legal actions. The Company is not aware of any litigation either pending or filed that it believes is likely to have a material adverse effect on the results of operations, cash flows or financial condition.

12. SEGMENT INFORMATION

Based on types of services performed and consistent with the Company's internal financial reporting structure and performance assessment, the Company has identified two reportable segments: Home Infusion and Home Nursing. The Home Infusion segment delivers complex intravenous pharmaceutical products and corresponding clinical support services. The Home Nursing segment provides skilled nursing and other therapy services, including occupational therapy, medical social work and home health aide services. Financial information by segment as of and for the year ended December 31, 2009 is as follows (in thousands):

	Home Infusion	Nursing	Corporate	Consolidated
Net Revenue	$ 187,894	$66,173	$ —	$ 254,067
Operating Income	$ 30,851	$10,119	$ (9,752)	$ 31,218
Reconciliation to Net Income:				
Interest and other financing costs				(7,337)
Other income (expense) — net				57
Provision for income taxes				(9,208)
Net Income	$ 30,851	$10,119	$ (9,752)	$ 14,730
Total Assets	$ 223,590	$72,434	$ 16,834	$ 312,858
Goodwill	$ 167,102	$53,269	$ —	$ 220,371
Purchases of Property and Equipment	$ 3,214	$ 79	$ 38	$ 3,331

13. RELATED PARTY TRANSACTIONS

Kohlberg provides certain management and advisory services to the Company under a management agreement dated September 19, 2006. The agreement has an initial term of five years, with one-year automatic renewals thereafter, unless either party provides 30-day advance notice of its intent not to renew the agreement. The annual base management fee increased from $250,000 in 2006 to $500,000 on January 8, 2007, and is payable in arrears in quarterly installments, plus reimbursement of certain expenses, including travel and legal fees pertaining to the Company. The Company incurred base management fees of $500,000 and reimbursed Kohlberg for certain expenses totaling $9,000 during the year ended December 31, 2009.

Accounts payable to Kohlberg at December 31, 2009 were $125,000.

14. SUBSEQUENT EVENTS

On January 24, 2010, the Company entered into an agreement and plan of merger with BioScrip, Inc. ("BioScrip"), a publicly traded company. Pursuant to the terms of the transaction, BioScrip will acquire all of the outstanding common stock of the Company for approximately $343 million, subject to certain adjustments as set forth in the stock purchase agreement. The closing of the transaction is subject to certain conditions including BioScrip shareholder approval. Assuming requisite shareholder approval and all other conditions are met, the Company anticipates the transaction will be consummated in the first half of 2010. In connection with the proposed transaction, the Company's management agreement with

Kohlberg will terminate, and all outstanding borrowings under the Company’s bank credit facilities will be satisfied at closing.

In March 2010, the Company amended its First Lien Facilities and Second Lien Facility to modify certain debt covenants and the applicable margin on the interest rate. The First Lien Facilities and Second Lien Facility are discussed in more detail in Note 6 to the consolidated financial statements.

In February 2010, the Company decreased its total letters of credit against the First Lien Facilities securing its performance on its worker’s compensation insurance policy by $0.8 million.

Management's Discussion and Analysis of Financial Condition and Results of Operations of CHS

The following information should be read in conjunction with the financial statements and related notes thereto of CHS included in the definitive proxy statement on Schedule 14A filed by BioScrip, Inc. with the Securities and Exchange Commission on February 24, 2010, or the BioScrip Proxy Statement, and included as Exhibit 99.1 to this Current Report on Form 8-K. The following discussion may contain forward-looking statements that reflect the plans, estimates and beliefs of CHS and that are subject to known and unknown risks and uncertainties. The actual results could differ materially from those discussed in these forward-looking statements. Factors that could cause or contribute to these differences include, but are not limited to, those discussed below and in the BioScrip Proxy Statement, particularly in "Risk Factors" and "Cautionary Statement Concerning Forward-Looking Statements" in the BioScrip Proxy Statement.

CHS's historical financial data discussed below reflects the historical results of operations and financial position of Critical Homecare Solutions Holdings, Inc. and its consolidated subsidiaries and its predecessors, Specialty Pharma and New England Home Therapies. Because of the limited time that has passed since CHS's formation and its subsequent acquisition activity, it may be difficult to evaluate CHS's future business prospects based on its prior operating results and those of the companies it has acquired and its historical results of operations should not be considered indicative of what its future results of operations will be.

Overview

CHS is a leading provider of comprehensive home infusion therapy services to patients suffering from acute or chronic conditions. CHS operates in two business segments, home infusion therapy and home nursing. Through CHS's home infusion therapy segment, CHS delivers and provides complex intravenous pharmaceutical products and corresponding clinical support services to patients with chronic conditions requiring long-term infusion care services and acute conditions requiring short-term infusion care services. Through CHS's home nursing segment, it provides skilled nursing and other therapy services, including physical therapy, occupational and speech therapy, medical social work and home health aide services, to recovering, disabled, chronically ill or terminally ill adult and pediatric patients in need of medical, nursing or therapeutic treatment, and assistance with essential activities of daily living.

CHS estimates that a substantial portion of the home infusion market consists of independent home infusion providers, and it believes that industry dynamics in the currently fragmented home infusion market favor consolidated providers and the operational efficiencies that come with scale.

CHS's business, and its industry in general, is subject to known material uncertainties, in both the short and long term, that could impact CHS's results of operations, such as uncertainties relating to federal and state regulation of CHS's industry and uncertainties related to CHS's ability to receive reimbursement from its governmental and non-governmental payors. CHS's management seeks in the ordinary course of its business to avoid or mitigate the effects of these uncertainties, if any, on its business. All of CHS's internal policies and procedures are designed to cause its operations to be in compliance with the federal and state regulations to which its business and industry are subject. In addition, CHS's management maintains regular contact with industry consultants and outside counsel to evaluate any developments in federal or state regulations that could affect CHS and to identify ways CHS can mitigate the effect of any such developments on its results of operations.

The Company

CHS was incorporated in Delaware on August 8, 2006, but its predecessors, Specialty Pharma and New England Home Therapies, have been in the home healthcare business since 2002 and 2000, respectively. Effective September 1, 2006, CHS acquired all of the outstanding shares of each of its predecessors. CHS paid a total consideration of approximately $34.9 million, consisting of $30.9 million in cash and the assumption of $4.0 million in liabilities, for Specialty Pharma, and approximately $21.2 million, consisting of $18.5 million in cash and the assumption of $2.7 million in liabilities, for New England Home Therapies. CHS financed a portion of the purchase prices of the acquisitions of its predecessors with borrowings under its first lien credit facility. CHS financed the remainder of the purchase prices of its acquisitions of its predecessors with the proceeds of the issuance of shares of CHS's common stock to investment funds managed by Kohlberg and certain members of CHS's management. CHS recorded the acquisition of each of its predecessors under the purchase method of accounting.

Since the acquisitions of CHS's predecessors, it has acquired and begun or completed integration of the following entities:

Date of Acquisition	Entity Acquired	Business Segment(s)	Service Areas
January 2007	Deaconess Enterprises, Inc.	Home Infusion, Home Nursing	Alabama, Georgia, Louisiana, Michigan, Mississippi, Ohio, Pennsylvania, Tennessee, Texas
March 2007	Infusion Solutions, Inc.	Home Infusion	New Hampshire, Massachusetts
June 2007	Applied Health Care, LLC	Home Infusion	Texas
July 2007	Infusion Partners of Brunswick, LLC	Home Infusion	Georgia
July 2007	Infusion Partners of Melbourne, LLC	Home Infusion	Florida
August 2007	East Goshen Pharmacy, Inc.	Home Infusion	Pennsylvania
April 2008	Wilcox Medical, Inc.	Home Infusion	Vermont
September 2008	Infusion Partners of Lexington (formerly known as Optioncare of Lexington)	Home Infusion	Kentucky
December 2008	National Health Infusion, Inc.	Home Infusion	Florida
June 2009	Option Health, Ltd.	Home Infusion, Home Nursing	Illinois, Iowa

See "Critical Homecare Solutions Holdings, Inc. Business Description—CHS's History" in the BioScrip Proxy Statement for a more detailed discussion of CHS's formation and acquisition history.

CHS's Revenue and Expenses

Net Revenue. CHS generates almost all of its revenue from reimbursement by government and third-party payors for goods and services provided to patients. CHS receives payment for goods and services from a number of sources, including managed care organizations, government sources, such as Medicare and Medicaid programs, and commercial insurance. For the fiscal year ended December 31, 2009, CHS had a payor mix of 52% from managed care organizations and other third party payors, 24% from Medicare and 24% from Medicaid. See "—Critical Accounting Policies and Estimates" for a discussion of CHS's revenue recognition policies.

As noted further in "Critical Homecare Solutions Holdings, Inc. Business Description—Medicare and Medicaid Reimbursement" in the BioScrip Proxy Statement, certain changes in government regulation and policies are anticipated to have a negative impact on future revenue of CHS. In July 2008, Congress passed the Medicare Improvements for Patients and Providers Act of 2008, or MIPPA, which delayed the Durable Medical Equipment, Prosthetics, Orthotics and Supplies, or DMEPOS, competitive bidding program authorized under the Medicare Prescription Drug, Improvement, and Modernization Act of 2003, which we refer to as the Medicare Modernization Act, during 2008. The bidding began October 21, 2009 and the program is scheduled to take effect on January 1, 2011. The long-term impact of the competitive bidding program cannot be determined at this point in time.

AWP and average sales price, which we refer to as ASP, information is published by First DataBank and certain other private companies, including Medi-Span. Effective September 26, 2009, First DataBank and Medi-Span reduced the mark-up factor applied to WAC, on which AWP is based, from 1.25 to 1.20 for approximately 18,000 national drug codes. These AWP publishers also have indicated that, within the next two years, they will discontinue publication of AWP information. The impact of this reduction in AWP was to reduce CHS's gross margins beginning in the fourth quarter of 2009.

Cost of Revenue. Cost of revenue consists of two components: cost of goods and cost of services. Cost of goods consists of the actual cost of pharmaceuticals and other medical supplies dispensed to patients, but does not reflect depreciation. Cost of services consists of all other costs directly related to the production of revenue, including the salary and benefit costs for the pharmacists, nurses and contracted workers directly involved in providing service to the patient.

Selling, Distribution, and Administrative Expenses. Selling expenses relate primarily to salaries, benefits, and payroll taxes related to CHS's sales and marketing representatives. Distribution costs are included in selling, distribution, and administrative expenses and represent the cost incurred to deliver product or services to the end users. Included are salary and benefit costs related to drivers and dispatch personnel and amounts paid to courier and other outside shipping vendors. Administrative expense represents CHS's overhead costs and consists of salaries and related taxes and benefits, payroll taxes, rent and insurance.

Critical Accounting Policies and Estimates

Use of Estimates. The preparation of consolidated financial statements in accordance with accounting principles generally accepted in the United States of America require management to make estimates and assumptions that affect the amounts reported in CHS's financial statements and accompanying notes. Actual results could vary from estimates. The items in CHS's financial statements that it believes are the most dependent on the application of significant estimates and judgments are as follows:

Revenue Recognition. Patient revenue is recorded in the period during which goods are shipped or delivered or the services are provided. When both goods and services are provided, revenue is recognized upon confirmation that both the services were provided and the goods were delivered to the patient. When only goods are provided to the patient and the patient has the means to use the goods without requiring nursing or other related services, the revenue is recognized upon confirmation of the delivery of the goods. When only services are provided, revenue is recognized upon confirmation that the services have been provided. CHS's agreements with payors may include a provision for the use of a "per diem" payment for certain infusion services provided to patients. The per diem arrangement may include a variety of both goods and services, including, but not limited to, rental of medical equipment, care coordination services and medical supplies. Because CHS receives a single price for both goods and services in one combined billing, it cannot split revenue on its statements of income between product revenue and service revenue.

The Multiple-Element Arrangements Subtopic of the ASC addresses situations in which multiple products and/or services are delivered at different times under one arrangement with a customer and provides guidance in determining whether multiple deliverables should be used as separate units of accounting. CHS provides a variety of therapies to patients, the majority of which have multiple deliverables, such as the delivery of drugs and supplies and the provision of related nursing services to train and monitor patient administration of the drugs. After applying the criteria from the final model in the Multiple-Element Arrangements Subtopic of the ASC, CHS concluded that separate units of accounting do exist in its revenue arrangements with multiple deliverables.

CHS's revenue recognition policy is designed to recognize revenue when each deliverable is provided to the patient. For example, revenue from drug sales is recognized upon confirmation of the delivery of the products, and revenue from nursing services is recognized upon receipt of nursing notes confirming the service has been provided. In instances in which the amount allocable to the delivered item is contingent upon delivery of additional items, CHS recognizes revenue after all the deliverables in the arrangement have been provided. In instances that a per diem is provided for daily usage of supplies and equipment, revenue is recognized on a per diem basis.

The amounts billed to third-party payors and patients are directly offset by appropriate allowances to give recognition to third-party payor arrangements. Net revenue recognition and allowances for uncollectible billings require CHS to use estimates. Once known, any changes to these estimates are reflected in CHS's statement of operations.

Both of CHS's segments utilize billing and accounts receivable systems that are highly automated. While certain inputs into the system may be manual, the significant portion of the billing and accounts receivable process is automated. In CHS's infusion segment, the majority of its acquisitions were utilizing CHS's platform application prior to acquisition. Integration efforts for these systems have only required a migration from the division's separate applications to the company-wide instance. The migration is not considered to be high risk, as very little user education is required since the applications are identical. As of December 31, 2009, all divisions have converted or migrated to the company-wide CPR+ application.

CHS has selected the automated billing and accounts receivable system used by its adult nursing division as our platform application for nursing segment. CHS's private duty nursing division converted to this system on October 1, 2007. With this conversion, the majority of CHS's nursing operations are now on a single platform.

Patient self pay revenue represented 1% of net revenue for the fiscal year ended December 31, 2009, while self pay represented 5% of accounts receivable as of December 31, 2009. The collections of co-insurance due from the patient and other self-pay amounts are pursued directly by the local operations. The amount of self pay is not material for the infusion segment and only applies for a small number of payors for nursing. Additionally, self pay billings are minimized as CHS's policy requires insurance verification before service is rendered, unless the patient is admitted and requires service at night, on a weekend or on a holiday. The frequency of these exceptions is not material and has not resulted in a significant amount of self pay net revenue. CHS's policy is to make effort to collect the known and identified self-pay components of the billing arrangement at the time of delivery of care. When the payment cannot be obtained at the point of delivery, CHS performs follow-up billings and contacts with the patients. When these efforts are not successful and the account has been written off as a bad debt, CHS may engage outside collection agencies to assist in the pursuit of collection. CHS does not determine its bad debt provision separately for self pay as self pay is not material and is not considered to be a key metric of its business.

Home infusion

In CHS's home infusion segment, infusion therapy and related healthcare service revenue are reported at the estimated net realizable amounts from patients and third-party payors. Pricing is typically negotiated in advance on the basis of AWP minus some percentage of contractual discount or ASP plus some percentage of contractual discount, which is the typical means of negotiating pricing in the industry. AWP and ASP information is published by First Databank and certain other private companies.

Due to the nature of the industry and the reimbursement environment in which CHS operates, certain estimates are required to record net revenue and accounts receivable at their net realizable values. Inherent in these estimates is the possibility that they will have to be revised or updated as additional information becomes available. Specifically, the complexity of many third-party billing arrangements and the uncertainty of reimbursement amounts for certain services from certain payors may result in adjustments to amounts originally recorded.

Billings to payors for whom CHS is an "out-of-network" provider represented approximately 9% of net revenue for the fiscal year ended December 31, 2009 and are generally submitted at CHS's usual customary charges. However, these payors typically pay at amounts that are less than CHS's usual customary charges. CHS estimates the net realizable revenue on out-of-network billings based on its historical experience as well as estimated realizable amounts provided by the respective payor upon patient intake and insurance verification. CHS provides contractual reserves at the time of revenue recognition for the estimated differences between its initial billings for out-of-network patients. The actual difference between the initial estimate and the amount paid by the payor is recorded at the point of cash application, claim denial or account review.

Net revenue from payors for whom CHS is contracted as an "in network" provider is generally recognized at the contracted fee schedule amount. Revenue is recorded at the billing amount, which represents the amount of revenue that is expected to be realized per the contractual terms. Revenue from in-network commercial and other payors represented 60% of net revenue for the fiscal year ended December 31, 2009.

Revenue from Medicare represented approximately 13% of net revenue for the fiscal year ended December 31, 2009 and 14% for the fiscal year ended December 31, 2008 and is recognized at the published fee schedules. Revenue from various state Medicaid programs represented approximately 20% of net revenue for the fiscal year ended December 31, 2009 and 18% for the fiscal year ended December 31, 2008 and is also recognized at the published fee schedule amount. Estimated differences between the amounts initially recognized as net revenue and actual are reserved for at the time of revenue recognition based on historical experience and typically relate to non-covered or denied services.

Home nursing

In CHS's home nursing segment, revenue is recognized as the treatment plan is administered to the patient and is recorded at amounts estimated to be received under reimbursement or payment arrangements with payors. Net revenue to be reimbursed by contracts with third-party payors are recorded at an amount to be realized under these contractual arrangements.

Approximately 51% of nursing net revenue for the fiscal year ended December 31, 2009 was related to Medicare billings. Under the prospective payment system for Medicare reimbursement, net revenue is recorded based on a reimbursement rate which varies on the severity of the patient's condition, service needs and certain other factors. Revenue is recognized ratably over a 60-day episode period and is subject to adjustment during this period if there are significant changes in the patient's condition during the treatment period or if the patient is discharged but readmitted to another agency within the same 60-day episode period.

Medicare billings under the prospective payment system are initially recognized as deferred revenue and are subsequently recognized as revenue over the 60-day episode period. The process for recognizing revenue under the Medicare program is based on certain assumptions and judgments, the appropriateness of the clinical assessment of each patient at the time of certification, and the level of adjustments to the fixed reimbursement rate relating to patients who receive a limited number of visits, have significant changes in condition or are subject to certain other factors during the episode.

For non-Medicare payors, CHS has established contractual reserves for the amounts initially billed to the payors relative to the amounts expected to be realized. These estimates are based on CHS's historical experience or specific contractual requirements identified for certain payors. Differences between the estimates and the actual contractual adjustments are typically recorded at the time of cash posting, claim denial or account review.

Home Nursing and Medicaid. CHS is sensitive to possible changes in state Medicaid programs as it does business with several state Medicaid programs. Budgetary concerns in many states have resulted in, and may continue to result in, reductions to Medicaid reimbursement and Medicaid eligibility as well as delays in payment of outstanding claims. Any reductions to or delays in collecting amounts reimbursable by state Medicaid programs for CHS's products or services, or changes in regulations governing such reimbursements, could cause CHS's revenue and profitability to decline and increase its working capital requirements.

As examples, effective August 1, 2008, CHS's contract with Amerigroup Community Care, or Amerigroup, was amended to reduce the private duty nursing rate. Furthermore, TennCare, CHS's largest Medicaid customer representing approximately 7.6% of CHS's net revenue for the fiscal year ended December 31, 2009, has experienced substantial financial challenges since its inception in 1994. In 2002, the State of Tennessee proposed, but later withdrew, limitations on home health services. Since mid-2005, the State of Tennessee has restructured TennCare significantly and has disenrolled approximately 323,000 persons not required to be covered by federal Medicaid law. These disenrollments impacted our private duty nursing beginning September 7, 2008. The decrease in the Amerigroup reimbursement rate and the new restrictions on private duty nursing eligibility resulted in a decrease in net revenue of $3.7 million for the fiscal year ended December 31, 2009, with a corresponding decrease of $0.3 million in operating expenses, for a net decrease in operating income of $3.4 million.

The State of Tennessee has recently mandated that certain patients who were previously subject to traditional TennCare private duty nursing benefits be shifted to an agency that contracts with the

Tennessee Department of Mental Retardation Services, which we refer to as DMRS. CHS has, to date, elected not to become a provider under the DMRS benefit. Due to a lack of DMRS providers and pending appeals that are underway, this change has not had a significant impact on CHS's business. This change or similar changes in benefits designed to reduce Medicaid program budgetary constraints may, however, have an adverse impact on CHS's patient population and results of operations in the future.

Accounts Receivable and Allowances for Doubtful Accounts. CHS's accounts receivable consist of amounts owed by various governmental agencies, insurance companies and private patients. Management performs periodic analyses to evaluate accounts receivable balances to ensure that recorded amounts reflect net realizable values. Although CHS has a significant concentration of receivables from Medicare and Medicaid, it does not believe there are any significant credit risks associated with the receivables from Medicare and Medicaid and other state administered programs.

CHS's accounts receivable are reported net of contractual adjustments. Generally, CHS bills third-party payors based on the contractual charges or usual customary charges for goods and services provided and then contractually adjusts the revenue down to the anticipated collectible amount based on its interpretation of the terms of the applicable managed care contract, fee schedule or other arrangement with the payor.

CHS has established an allowance for doubtful accounts to report accounts receivable at the estimated net realizable amounts to be received from third-party payors. Increases to this reserve are reflected as a provision for bad debt in CHS's statement of operations. CHS generates accounts receivable aging reports from its billing systems and utilizes these reports to help it monitor the condition of its outstanding receivables and evaluate the performance of its billing and reimbursement staff. CHS also utilize these aging reports, combined with historic write-off statistics generated from its billing systems, to determine its allowance for doubtful accounts. CHS regularly performs an analysis of the collectability of accounts receivable and considers such factors as prior collection experience and the age of the receivables.

CHS does not require its patients or other payors to carry collateral for any amounts owed to CHS for services provided. Other than as discussed above, CHS's concentration of credit risk relating to accounts receivable is limited due to its diversity of patients and payors. Further, CHS generally does not provide charity care.

The following table details CHS's accounts receivable balances by aging category, excluding unbilled accounts receivable and contractual allowances, at December 31, 2009 and 2008:

Aging Category	December 31, 2009	December 31, 2008
< 31 days	$ 19,632	$ 22,216
31-60 days	7,593	8,123
61-90 days	3,902	5,549
> 90 days	12,097	21,755
Total accounts receivable, gross	$ 43,224	$ 57,643
Allowance for uncollectible accounts	(5,117)	(9,675)
Allowance for contractual adjustments	(819)	(982)
Unbilled and other	4,858	5,085
Total accounts receivable, net	$ 42,146	$ 52,071

(In thousands)

The aging by payor as of December 31, 2009 is as follows:

Aging Category	Medicare	Medicaid	Commercial and Other	Self Pay
< 31 days	$ 4,375	$ 4,088	$ 10,722	$ 447
31-60 days	1,924	1,619	3,701	349
61-90 days	1,254	711	1,732	204
> 90 days	1,521	2,346	7,019	1,212
Total accounts receivable, gross	$ 9,074	$ 8,764	$ 23,174	$2,212

(In thousands)

Days sales outstanding, net of reserves, were 58 and 73 at December 31, 2009 and at December 31, 2008, respectively.

The accounts receivable aging summary does not include unbilled accounts receivable, which include billings on hold until the delivery of all contingent components has been completed (in the case of certain per diems), billings on hold pending receipt of documentation required by the third-party payor and billings pending prior approval from the third-party payor.

As noted above, the majority of CHS's accounts receivable is due from third-party payors, including Medicare, Medicaid, commercial and governmental payors. The majority of these payors are billed electronically. Additionally, CHS receives payment electronically from a large number of its payors. Hard copy bills are generated from CHS's automated collection system and distributed to third-party payors that are not billed electronically and to self-pay patients. CHS's collection activities occur at the branch level, with the billing and collection activities of certain small branches performed by larger branches located in the same geographic area. Each branch maintains certain discretion regarding collection activities. These activities include research of the reasons certain claims are denied by third-party payors, resubmission of claims to third-party payors, rebilling and distribution of statements for self-pay and follow-up phone calls to third-party payors and self-pay patients. When CHS's staff has followed these procedures and has determined that certain amounts are uncollectible, the amounts may be written-off, subject to certain required internal approvals. CHS generally does not use a threshold or dollar amount in determining whether to pursue collection or to write off accounts. Write-offs are generally specifically identified, with each write-off posted to the accounts receivable system. Write-offs that meet the requirements of collection agencies' policies are turned over to collection agencies for the further pursuit of payment.

For the fiscal year ended December 31, 2009 and for the fiscal year ended December 31, 2008, a hypothetical change of 100 basis points in the bad debt provision as a percentage of net revenue would have impacted net income before income taxes by approximately $2.5 million and $2.3 million, respectively.

Goodwill and Intangible Assets. Goodwill represents the excess of the cost of acquisitions over the fair value of net assets acquired. Goodwill is not amortized and is reviewed annually for impairment utilizing a two-step process. The first step of the impairment test requires the identification of the reporting units, and comparison of the fair value of each of these reporting units to the respective carrying value. The fair value of the reporting units is determined based on valuation techniques using the best information that is available, such as a multiple of earnings before interest, taxes, depreciation and amortization or discounted cash flow projections. If the carrying value is less than the fair value, no impairment exists and the second step is not performed. If the carrying value is higher than the fair value, there is an indication that impairment may exist and the second step must be performed to compute the amount of the impairment. In the second step, the impairment is computed by comparing the implied fair value of reporting unit goodwill with the carrying amount of that goodwill. Generally accepted accounting practices require goodwill to be tested for impairment annually and when an event occurs or circumstances change such that it is reasonably possible that an impairment may exist. CHS performs its annual testing in the fourth quarter of each year. There were no impairment losses recognized for the fiscal year ended December 31, 2009 or 2008.

Intangible assets consist primarily of non-compete agreements, trademarks related to brand names arising from acquisitions, licenses and certificates of need. CHS records intangible assets at their estimated fair value at the date of acquisition and amortizes the related cost of the asset over the period of expected benefit. The fair value of intangible assets assigned to CHS's acquisitions during the first year subsequent to the acquisition is based on a preliminary determination and is subject to adjustment pending a final determination of purchase price and a final valuation of the assets acquired and liabilities assumed. Definite life purchased intangibles are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable from estimated future cash flows. In accordance with generally accepted accounting practices, intangible assets with indefinite lives are reviewed for impairment annually or when an event occurs or circumstances change such that it is reasonably possible that an impairment may exist. There were no impairment losses recognized for the fiscal year ended December 31, 2009 or 2008.

Non-compete agreements are amortized on a straight-line basis over the estimated life of each agreement, which ranges from one to five years. The trademarks associated with Deaconess HomeCare have limited lives of five years, and these trademarks are being amortized over the estimated useful life. Trademarks with indefinite lives are not amortized but are periodically reviewed for impairment. Licenses are being amortized over a period of one to two years. Certificates of need have indefinite lives and are not amortized but are periodically reviewed for impairment.

Self-insurance. CHS is self-insured up to certain limits for workers' compensation costs and employee medical benefits. CHS has purchased stop-loss coverage to limit its exposure to significant individual workers' compensation or employee medical claims. Self-insured losses are accrued for known and anticipated claims based upon certain assumptions and historical claim payment patterns as well as estimates of claims incurred but not yet reported based on historical industry trends. These assumptions take into consideration the historical average claim volume, the average cost for settled claims, current trends in claim costs, changes in CHS's business and workforce, and general economic factors. CHS's self-insurance accruals are reviewed on a quarterly basis, or more frequently if factors dictate a more frequent review is warranted. CHS's valuation is performed on an annual basis.

Projections of future loss are inherently uncertain because of the random nature of insurance claim occurrences and could be significantly affected if future occurrences and claims differ from historical trends.

Income taxes. CHS accounts for income taxes under the liability method in accordance with generally accepted accounting practices. CHS recognizes deferred tax assets and liabilities for the expected future tax consequences of events that have been included in its financial statements or tax returns. Deferred tax assets and liabilities are determined based on the difference between the financial statement and tax basis of assets and liabilities using enacted tax rates in effect for the year in which the differences are expected to reverse.

CHS estimates the degree to which tax assets and loss carryforwards will result in a benefit based on expected profitability by tax jurisdiction.

CHS determines if a valuation allowance is required or not on the basis of an assessment of whether it is more likely than not that a deferred tax asset will be realized. This assessment takes into consideration tax planning strategies, including levels of historical taxable income and assumptions regarding the availability and character of future taxable income over the periods in which the deferred tax assets are deductible. The effect of a change in judgment concerning the reliability of deferred tax assets would be included in income from operations.

Results of Operations

Year ended December 31, 2009 compared to the year ended December 31, 2008

Net revenue

	Year Ended December 31,		Increase/ Decrease	
	2009	2008	$	%
Home infusion net revenue	$187,894	$164,693	$23,201	14.1%
Home nursing net revenue	66,173	66,175	(2)	0.0
Total net revenue	$254,067	$230,868	$23,199	10.0%

(Dollars in thousands)

Net revenue increased from $230.9 million for the fiscal year ended December 31, 2008 to $254.1 million for the fiscal year ended December 31, 2009, an increase of $23.2 million or 10.0%. This change included an increase of $23.2 million, or 14.1%, in infusion revenue from 2008 to 2009, during which time net revenue increased from $164.7 million to $187.9 million. The increase was the result of organic growth and the acquisition of Wilcox effective April 1, 2008, Infusion Partners of Lexington effective September 1, 2008, National Health Infusion effective December 1, 2008 and Option Health effective June 1, 2009.

In July 2008, Congress passed MIPPA, which delayed round one of the Medicare DMEPOS competitive bidding program authorized under the Medicare Modernization Act for 18 months but also imposed a 9.5% nationwide reduction on all items subject to the competitive bidding process. The fee schedules of certain commercial payors were also impacted by the Medicare rate reduction, as the fee schedules are linked to the Medicare fee schedules. CHS estimates the 9.5% reduction for Medicare and certain commercial payors negatively impacted net revenue for the fiscal year ended December 31, 2009 by $0.8 million. Additionally, the Medicare cap on reimbursement for certain oxygen equipment impacted net revenue for the first time, beginning January 1, 2009. CHS estimates the cap has resulted in a decrease in net revenue of $0.2 million for the fiscal year ended December 31, 2009.

Nursing revenue was $66.2 million for the fiscal years ended December 31, 2008 and December 31, 2009. Private duty nursing decreased due to restrictions that TennCare placed on eligibility for private duty services effective September 7, 2008. Additionally, Amerigroup, one of two TPAs for TennCare in Middle Tennessee for private duty nursing, decreased its private duty nursing rate effective August 1, 2008. The resulting reduction in private duty nursing hours and rates contributed to a $3.7 million, or 15.8%, decrease in private duty nursing revenue, from $23.4 million for the fiscal year ended December 31, 2008 to $19.7 million for the fiscal year ended December 31, 2009. This decrease in private duty nursing revenue was substantially offset by increases in skilled nursing revenue.

Cost of goods (excluding depreciation and amortization)

	Year Ended December 31,		Increase/ Decrease	
	2009	2008	$	%
Cost of goods (excluding depreciation and amortization)	$81,995	$69,593	$12,402	17.8%
Percentage of net revenue	32.3%	30.1%		

(Dollars in thousands)

Total cost of goods (excluding depreciation and amortization) increased from $69.6 million for the fiscal year ended December 31, 2008 to $82.0 million for the fiscal year ended December 31, 2009, an increase of $12.4 million or 17.8%. The increase can be attributed to the increase in product sales as noted above. Cost of goods represented 43.6% of infusion net revenue for the fiscal year ended December 31, 2009, as compared to 42.3% for the fiscal year ended December 31, 2008. Cost of goods represents pharmaceuticals and supplies related to the infusion business. Cost of goods as a percentage of revenue increased in 2009 as a result of changes in CHS's payor and therapy mix.

Cost of services provided

	Year Ended December 31,		Increase/ Decrease	
	2009	2008	$	%
Cost of services provided	$42,768	$42,365	$403	1.0%
Percentage of net revenue	16.8%	18.4%		

(Dollars in thousands)

Total cost of services provided increased from $42.4 million for the fiscal year ended December 31, 2008 to $42.8 million for the fiscal year ended December 31, 2009, an increase of $0.4 million or 1.0%. Cost of services provided represented 18.4% of total net revenue for the fiscal year ended December 31, 2008 and 16.8% of total net revenue for the fiscal year ended December 31, 2009.

Selling, distribution and administrative expenses

	Year Ended December 31,		Increase/ Decrease	
	2009	2008	$	%
Selling, distribution and administrative expenses	$94,182	$88,650	$5,532	6.2%
Percentage of net revenue	37.1%	38.4%		

(Dollars in thousands)

Total selling, distribution and administrative expenses increased from $88.7 million for the fiscal year ended December 31, 2008 to $94.2 million for the fiscal year ended December 31, 2009, an increase of $5.5 million or 6.2%. The increase related primarily to salaries, payroll taxes and benefits, and contract labor, which increased from $57.9 million to $63.6 million (an increase of $5.7 million). Selling, distribution and administrative expenses as a percentage of net revenue decreased from 38.4% in 2008 to 37.1% in 2009 as CHS gained more operating efficiencies from its increased scale.

Terminated transaction costs

	Year Ended December 31,		Increase/ Decrease	
	2009	2008	$	%
Terminated transaction costs	$ —	$3,580	$(3,580)	(100.0)%
Percentage of net revenue	0.0%	1.6%		

(Dollars in thousands)

Terminated transaction costs for the fiscal year ended December 31, 2008 represents expense related to CHS's termination of a stock purchase agreement in October 2008.

Interest and other financing costs

	Year Ended December 31,		Increase/ Decrease	
	2009	2008	$	%
Interest and other financing costs	$7,337	$12,113	$(4,776)	(39.4)%
Percentage of net revenue	2.9%	5.2%		

(Dollars in thousands)

Interest and other financing costs decreased from $12.1 million for the fiscal year ended December 31, 2008 to $7.3 million for the fiscal year ended December 31, 2009, a decrease of $4.8 million or 39.4%. As a percentage of net revenue, interest and other financing costs decreased from 5.2% to 2.9% from 2008 to 2009. Total interest-bearing debt decreased from $151.8 million at December 31, 2008 to $140.8 million at December 31, 2009, while the weighted-average interest rate for the periods decreased from 7.0% to 4.3% from 2008 to 2009.

Provision for income taxes

	Year Ended December 31,		Increase/ Decrease	
	2009	2008	$	%
Provision for income taxes	$9,208	$4,979	$4,229	84.9%
Percentage of net revenue	3.6%	2.2%		

(Dollars in thousands)

The provision for income taxes increased from $5.0 million for the fiscal year ended December 31, 2008 to $9.2 million for the fiscal year ended December 31, 2009. The provision represented 38.5% and 45.5% of income before taxes for the fiscal years ended December 31, 2009 and 2008, respectively. The decrease in the tax rate as a percentage of income before taxes is primarily due to certain state income tax planning measures adopted by CHS effective January 1, 2009.

Year ended December 31, 2008 compared to the year ended December 31, 2007

Net revenue

	Year Ended December 31,		Increase/ Decrease	
	2008	2007	$	%
Home infusion net revenue	$164,693	$131,356	$33,337	25.4%
Home nursing net revenue	66,175	62,497	3,678	5.9
Total net revenue	$230,868	$193,853	$37,015	19.1%

(Dollars in thousands)

Net revenue increased from $193.9 million for the year ended December 31, 2007 to $230.9 million for the year ended December 31, 2008, an increase of $37.0 million or 19.1%. This change included an increase of $33.3 million, or 25.4%, in infusion revenue from 2008 to 2009, during which time net revenue increased from $131.4 million to $164.7 million. The increase was the result of organic growth and the acquisition of Wilcox Medical effective April 1, 2008, Infusion Partners of Lexington effective September 1, 2008 and National Health Infusion effective December 1, 2008. The acquisitions resulted in an increase in infusion locations from 33 at December 31, 2007 to 36 at December 31, 2008. Nursing revenue increased from $62.5 million for the year ended December 31, 2007 to $66.2 million for 2008, an increase of $3.7 million or 5.9%. The increase in nursing net revenue resulted from organic growth, as CHS did not acquire any nursing business during the period. While skilled nursing revenue increased by $3.9 million, or 9.9%, from the year ended December 31, 2007 to the year ended December 31, 2008, private duty nursing revenue remained relatively flat, contributing $23.6 million in net revenue in 2007 as compared to $23.4 million in 2008. Private duty nursing net revenue was impacted by certain restrictions that TennCare placed on eligibility for private duty services effective September 7, 2008. Additionally, Amerigroup, one of two TPAs for TennCare in Middle Tennessee for private duty nursing, decreased its private duty nursing rate effective August 1, 2008.

Cost of goods (excluding depreciation and amortization)

	Year Ended December 31,		Increase/ Decrease	
	2008	2007	$	%
Cost of goods (excluding depreciation and amortization)	$69,593	$52,755	$16,838	31.9%
Percentage of net revenue	30.1%	27.2%		

(Dollars in thousands)

Total cost of goods (excluding depreciation and amortization) increased from $52.8 million for the year ended December 31, 2007 to $69.6 million for the year ended December 31, 2008, an increase of $16.8 million or 31.9%. The increase can be attributed to the increase in product sales as noted above. Cost of goods represented 42.3% of infusion net revenue for the year ended December 31, 2008, as compared to 40.2% for the year ended December 31, 2007. Cost of goods as a percentage of revenue increased in 2008 as a result of changes in CHS's payor and therapy mix. Cost of goods represents pharmaceuticals and supplies related to the infusion business.

Cost of services provided

	Year Ended December 31,		Increase/ Decrease	
	2008	2007	$	%
Cost of services provided	$42,365	$42,591	$(226)	(0.5)%
Percentage of net revenue	18.4%	22.0%		

(Dollars in thousands)

Total cost of services provided decreased from $42.6 million for the year ended December 31, 2007 to $42.4 million for the year ended December 31, 2008, a decrease of $0.2 million or 0.5%. Cost of services provided represented 22.0% of total net revenue for the year ended December 31, 2007 and 18.4% of total net revenue for the year ended December 31, 2008.

Selling, distribution and administrative expenses

	Year Ended December 31,		Increase/ Decrease	
	2008	2007	$	%
Selling, distribution and administrative expenses	$88,650	$72,071	$16,579	23.0%
Percentage of net revenue	38.4%	37.2%		

(Dollars in thousands)

Total selling, distribution and administrative expenses increased from $72.1 million for the year ended December 31, 2007 to $88.7 million for the year ended December 31, 2008, an increase of $16.6 million or 23.0%. The increase related primarily to salaries, payroll taxes and benefits, and contract labor, which increased from $47.1 million to $57.9 million (an increase of $10.8 million), patient mileage expense, which increased from $1.5 million to $3.7 million (an increase of $2.2 million) and bad debt expense, which increased from $4.6 million to $6.2 million (an increase of $1.6 million). The increase in bad debt expense relates to the overall growth in the business and the bad debt provision for certain legacy accounts receivable balances. Selling, distribution and administrative expenses as a percentage of net revenue increased from 37.2% in 2007 to 38.4% in 2008.

Terminated transaction costs

	Year Ended December 31,		Increase/ Decrease	
	2008	2007	$	%
Terminated transaction costs	$3,580	$4,379	$(799)	(18.2)%
Percentage of net revenue	1.6%	2.3%		

(Dollars in thousands)

Terminated transaction costs for the year ending December 31, 2008 represents expense related to CHS's termination of a stock purchase agreement in October 2008. In 2007, CHS expensed $4.4 million related to its 2007 public offering, which was withdrawn in January 2008.

Interest and other financing costs

	Year Ended December 31,		Increase/ Decrease	
	2008	2007	$	%
Interest and other financing costs	$12,114	$15,324	$(3,210)	(20.9)%
Percentage of net revenue	5.2%	7.9%		

(Dollars in thousands)

Interest and other financing costs decreased from $15.3 million for the year ended December 31, 2007 to $12.1 million for the year ended December 31, 2008, a decrease of $3.2 million or 20.9%. As a percentage of net revenue, interest and other financing costs decreased from 7.9% to 5.2% from 2007 to 2008. Total interest-bearing debt decreased from $154.8 million at December 31, 2007 to $151.8 million at December 31, 2008, while the weighted-average interest rate for the periods decreased from 9.4% for 2007 to 7.0% for 2008.

Provision for income taxes

	Year Ended December 31,		Increase/ Decrease	
	2008	2007	$	%
Provision for income taxes	$4,979	$2,328	$2,651	113.9%
Percentage of net revenue	2.2%	1.2%		

(Dollars in thousands)

The provision for income taxes increased from $2.3 million for the year ended December 31, 2007 to $5.0 million for the year ended December 31, 2008. The provision represented 45.5% and 59.1% of income before taxes for the year ended December 31, 2008 and 2007, respectively. The decrease in the tax rate as a percentage of income before taxes is primarily due to certain state income tax planning measures adopted by CHS in early 2008. The tax rate was higher in 2007 due to certain costs that were not deductible for state income tax purposes.

Year ended December 31, 2007

Net revenue

	Year Ended December 31, 2007	
	Amount	% of Total
Home infusion net revenue	$131,356	67.8%
Home nursing net revenue	62,497	32.2
Total net revenue	$193,853	100.0%

(Dollars in thousands)

CHS's net revenue was $193.9 million for the year ended December 31, 2007. Its home infusion net revenue totaled $131.4 million, or 67.8% of its net revenue for the period. Net revenue in CHS's home infusion segment for the year ended December 31, 2007 benefited from its acquisitions of Deaconess in January 2007, Infusion Solutions in March 2007, Applied in June 2007, Infusion Partners of Brunswick and Infusion Partners of Melbourne in July 2007 and East Goshen Pharmacy in August 2007. During this period, CHS's operations grew from 10 locations in four states to 33 locations in 14 states.

CHS's home nursing net revenue totaled $62.5 million, or 32.2% of its net revenue for the period. Net revenue in its home nursing segment during this period is solely attributable to CHS's acquisition of Deaconess in January 2007. During the year ended December 31, 2007, CHS's home nursing segment provided over 348,000 nursing and therapy visits and over 590,000 private duty nursing hours to patients in the home. As of December 31, 2007, CHS had 3,162 active nursing patients in three states.

Cost of goods and cost of services

Cost of goods for CHS's home infusion segment was $52.8 million for the year ended December 31, 2007, or 40.2% of its home infusion segment net revenue. Cost of goods relates solely to CHS's home infusion segment and consisted primarily of the cost of pharmaceuticals, supplies and equipment. As noted above, CHS's net revenue benefited during the period from the acquisitions of Deaconess, Infusion Solutions, Applied, Infusion Partners of Brunswick, Infusion Partners of Melbourne and East Goshen Pharmacy. This resulted in a corresponding increase in the cost of goods and services provided during the period. As of December 31, 2007, CHS employed 688 employees and operated 33 home infusion locations in its home infusion segment.

Cost of services for CHS's home infusion segment consisted primarily of direct patient care salaries, payroll taxes, employee benefits and contract labor, which totaled $13.9 million and accounted for 10.6% of net revenue in this segment during this period. This growth was the result of organic growth as well as CHS's acquisition of Deaconess, Infusion Solutions, Applied, Infusion Partners of Brunswick, Infusion Partners of Melbourne and East Goshen Pharmacy during this period.

Cost of services for CHS's home nursing segment consisted primarily of direct patient care salaries, payroll taxes, employee benefits and contract labor, which totaled $28.7 million and accounted for 46.0% of net revenue in this segment during this period. As of December 31, 2007, CHS operated 32 home nursing locations in its home nursing segment. As noted above, CHS acquired all of the business in its home nursing segment through the Deaconess acquisition.

Selling, distribution and administrative expense

Selling, distribution and administrative expense for the year ended December 31, 2007 was $72.1 million, or 37.3% of net revenue. Selling, distribution and administrative expense consists primarily of $42.9 million of salaries, payroll taxes and benefits, $4.6 million of provision for bad debt and $4.5 million of employee travel, which accounted for 22.1%, 2.4% and 2.3%, respectively, of net revenue during this period.

CHS's selling, distribution and administrative costs increased as a result of the acquisitions of Deaconess, Infusion Solutions, Applied, Infusion Partners of Brunswick, Infusion Partners of Melbourne and East Goshen Pharmacy.

Depreciation and amortization

Depreciation and amortization expense for the year ended December 31, 2007 was $3.4 million, or 1.8% of net revenue. Depreciation expense for this period related to property and equipment totaled $3.0 million, and amortization of capital lease assets totaled $0.4 million.

Stock issuance expense

Stock issuance expense for the year ended December 31, 2007 was $4.4 million, or 2.3% of net revenue. Stock issuance costs related to CHS's withdrawal of filing its initial public offering with the SEC.

Interest expense

Interest expense for the year ended December 31, 2007 was $15.3 million, or 7.9% of net revenue. Interest expense reflects primarily the cost of CHS's borrowings under its first lien credit facility and its second lien term loan during the period. The effective rate of these borrowings for the year ended December 31, 2007 was 9.39%. CHS's indebtedness increased due to its borrowings for the acquisitions of Deaconess, Infusion Solutions, Infusion Partners of Brunswick and Melbourne and East Goshen Pharmacy. CHS financed approximately 72.7% of the cash purchase price payable at closing for the Deaconess, Infusion Solutions acquisitions, Infusion Partners of Brunswick and Melbourne and East Goshen Pharmacy, while it financed approximately 53.3% of the cash purchase price payable at closing for the New England Home Therapies and Specialty Pharma acquisitions.

Other income

Other income for the year ended December 31, 2007 was $0.6 million, or less than 1% of net revenue.

Provision for income taxes

Provision for income taxes for the year ended December 31, 2007 was $2.3 million, or 1.2% of net revenue. This represents an effective tax rate of 59.1% and includes federal and state income tax provisions. CHS's effective tax rate is based on expected income, statutory tax rates and tax planning opportunities available to it in the various jurisdictions in which it operates.

Seasonality

Although CHS's results of operations are not affected to a material extent by seasonal variations in demand for its products or services, a small number of its products, however, are subject to fluctuations in demand due to seasonality. For example, Respiratory Syncytial Virus, or RSV, treatments are of a seasonal nature because RSV season lasts from approximately October through April each year. As a result, CHS's net revenue from Synagis is higher during the first and fourth quarters of each year than during the second and third quarters of each year. Net revenue from Synagis accounted for approximately 5.2% and 4.4% of total net revenue for the fiscal years ended December 31, 2009 and 2008, respectively.

Liquidity and Capital Resources

Overview

CHS has financed its operations through cash provided by operating activities, private sales of shares of CHS's common and preferred stock and borrowings under its first lien credit facility and its second lien term loan. These sources of financing have been CHS's principal sources of liquidity to date. In connection with the acquisition, we plan to repay CHS's outstanding indebtedness, including the first lien credit facility, the second lien term loan and CHS's $2.25 million 8% note due on December 31, 2010, and to enter into the New Credit Facility.

CHS is a holding company with no material business operations. CHS's most significant asset is the capital stock of its subsidiary Critical Homecare Solutions, Inc., which is itself a holding company. CHS conducts virtually all of its business operations through the direct and indirect subsidiaries of Critical Homecare Solutions, Inc. Accordingly, CHS's only material sources of cash are dividends or other distributions or payments that are derived from earnings and cash flow generated by these subsidiaries. In addition, CHS's credit facilities have restricted the ability of Critical Homecare Solutions, Inc. to make dividends or other distributions to CHS. Critical Homecare Solutions, Inc. has been dependent on its subsidiaries to generate sufficient funds to service its substantial indebtedness, which is secured by substantially all of CHS's assets, including the common stock of Critical Homecare Solutions, Inc.'s subsidiaries.

Cash Flows

As of December 31, 2009, CHS had cash and cash equivalents of $10.1 million.

Net cash flow provided by operating activities increased to $27.9 million for the fiscal year ended December 31, 2009 from $1.8 million for the fiscal year ended December 31, 2008. This $26.1 million increase was primarily due to a change in operating activities and accounts receivable during the respective periods. The change in cash provided by operating activities is due primarily to acquisitions completed during the respective periods, a decrease in accounts receivable and a decrease in interest and other financing costs. Cash flows include results for the Wilcox Medical acquisition effective April 1, 2008, the Infusion Partners of Lexington acquisition effective September 1, 2008, the National Health Infusion acquisition effective December 1, 2008 and the Option Health acquisition effective June 1, 2009. Interest and other financing costs decreased due to additional repayments of long term debt and a decrease in the weighted-average interest rate from 7.04% for the fiscal year ended December 31, 2008 to 4.35% for the fiscal year ended December 31, 2009. Accounts receivable provided net cash of $5.2 million for the fiscal year ended December 31, 2009, whereas accounts receivable for the fiscal year ended December 31, 2008 used $11.0 million in net cash. Days sales outstanding, net of reserves, decreased from 73 days at December 31, 2008 to 58 days at December 31, 2009.

Net cash used in investing activities decreased to $9.5 million for the fiscal year ended December 31, 2009 from $19.9 million for the fiscal year ended December 31, 2008. This $10.4 million decrease primarily resulted from a decrease in payments for business acquisitions and a decrease in repayment of amounts due to sellers. These changes were due to a decrease in the number of business acquisitions from 2008 to 2009. During the fiscal year ended December 31, 2009, CHS acquired one business for cash of $6.3 million. During the fiscal year ended December 31, 2008, CHS acquired three businesses for cash of $14.5 million.

Net cash used in financing activities was $8.6 million for the fiscal year ended December 31, 2009 compared to net cash provided of $16.7 million for the fiscal year ended December 31, 2008. This $25.3 million decrease was primarily due to decreased proceeds from borrowings, decreased proceeds from the issuance of preferred stock and increased repayment of long term debt. Proceeds from borrowings and proceeds from the issuance of preferred stock decreased due to decreased payments for business acquisitions. Repayment of long term debt increased by $3.4 million as increased cash provided by operating activities allowed CHS to repay all borrowings under its revolving credit facility in 2009.

Capital Expenditures. CHS had capital expenditures of $3.2 million during the fiscal year ended December 31, 2009 and $3.7 million during the fiscal year ended December 31, 2008. Capital expenditures in each period related primarily to purchases of medical equipment and vehicles.

In the absence of future significant acquisitions, CHS expects to incur approximately $4.0 million of non-acquisition related capital expenditures in 2010. CHS expects capital expenditures will be primarily to purchase medical equipment and vehicles. In the Merger Agreement, CHS has agreed that it will not make capital expenditures of more than $1 million in any quarter without the approval of BioScrip.

Credit Facilities

CHS has historically financed a portion of its operations through its first lien credit facility and second lien term loan. In connection with our acquisition of CHS, we plan to repay CHS's outstanding indebtedness, including the first lien credit facility, the second lien term loan and the 8% note payable, terminate CHS's existing credit facilities, and enter into the New Credit Facility.

Commitments and Contingencies

The following table sets forth CHS's contractual obligations as of December 31, 2009 before giving effect to the Transactions:

	Payments Due by Period					
	Total	2010	2011	2012	2013	Thereafter
Long Term Debt Obligations	$ 140,458	$10,917	$11,557	$83,984	$34,000	—
Interest—Long Term Debt Obligations*	13,714	5,873	5,372	2,393	76	—
Capital Lease Obligations	353	138	117	79	20	—
Operating Lease Obligations	7,628	3,188	2,190	1,513	721	18
Interest—Capital Lease Obligations	24	10	8	5	1	—
Total	$ 162,177	$20,126	$19,243	$87,974	$34,818	18

(In thousands)

* Computed using interest rates in effect as of December 31, 2009.

The Company has letters of credit against the first lien facilities securing its performance on its workers' compensation insurance policies which total $1.5 million as of March 15, 2010. The letters of credit expire on January 8, 2011, and have an automatic extension of one year.

The Company has a letter of credit against the first lien facilities of $75,000 securing its performance under a vehicle lease agreement. The letter of credit expires on August 7, 2010.

Inflation

CHS is impacted by rising costs for certain inflation-sensitive operating expenses such as vehicle fuel, labor and employee benefits. CHS believes that inflation will not have a material effect on its business but may have an impact on its future financial results.

Off-Balance Sheet Arrangements

As of December 31, 2009, CHS had no off-balance sheet arrangements or obligations.

Quantitative and Qualitative Disclosures About Market Risk

Interest rate risk

Based on the variable-rate debt in CHS's debt portfolio at December 31, 2009, a one percent increase or decrease in interest rates would increase or decrease, respectively, CHS's interest expense by $1.4 million on an annual basis.

Unaudited Pro Forma Combined Financial Information of BioScrip

The following unaudited pro forma combined financial information has been prepared to assist you in your analysis of the financial effects of BioScrip Inc.'s proposed acquisition of CHS and related transactions. The unaudited pro forma combined financial information was prepared using the historical consolidated financial statements of BioScrip and CHS. This information should be read in conjunction with, and is qualified in its entirety by, the consolidated financial statements and accompanying notes of BioScrip and CHS included in the BioScrip Proxy Statement, BioScrip's Annual Report on Form 10-K, filed with the Securities and Exchange Commission, or SEC, on March 2, 2010, and the consolidated financial statements and accompanying notes of CHS included as Exhibit 99.1 to this Current Report on Form 8-K.

The accompanying unaudited pro forma combined financial information gives effect to the merger with CHS, assuming a purchase price of $242 million in cash, which will be used to retire approximately $132 million of CHS debt, and the issuance of BioScrip common stock and warrants. The assumed preliminary fair value of the common stock is $108 million, based on a price per share of $8.3441, and the assumed fair value of the warrants is $15 million, for total merger consideration of $365 million. The pro forma adjustments related to the merger with CHS are preliminary and do not reflect the final purchase price, final debt components or final allocation of the excess of the purchase price over the fair value of the assets and liabilities of CHS, as the process to assign a fair value to the various tangible and intangible assets acquired and liabilities assumed has only just commenced. BioScrip has not had sufficient time to completely evaluate the significant identifiable assets and liabilities assumed of CHS, and in particular CHS's unique identifiable intangible assets. Accordingly, the pro forma adjustments, including the allocations of purchase price, are preliminary and have been made solely for the purpose of providing unaudited pro forma consolidated financial information. Final adjustments will result in modifications to the final purchase price, debt components and allocation of the purchase price, which will affect the fair value assigned to the tangible or intangible assets and amount of interest expense, depreciation and amortization expense, and other recorded in the statement of operations. The effect of the changes to the pro forma statement of operations could be material. The unaudited pro forma financial information is not necessarily indicative of the combined results of operations or financial position that might have been achieved for the dates or periods indicated, nor is it necessarily indicative of the results of operations or financial position that may occur in the future.

The historical consolidated financial information has been adjusted in the unaudited pro forma combined financial information to give effect to pro forma events that are (1) directly attributable to the merger, (2) factually supportable, and (3) with respect to the statement of operations, expected to have a continuing impact on the combined results. The pro forma information does not reflect revenue opportunities and cost savings that we expect to realize after the merger with CHS. The pro forma financial information also does not reflect expenses related to integration activity or exit costs that may be incurred by BioScrip or CHS in connection with this merger.

The unaudited pro forma combined balance sheet assumes that the merger with CHS took place on December 31, 2009 and combines BioScrip's audited consolidated balance sheet as of December 31, 2009 with CHS's audited consolidated balance sheet as of December 31, 2009. The unaudited pro forma combined statement of operations for 2009 assumes that the merger with CHS took place on January 1, 2009 and combines BioScrip's audited consolidated statement of operations for the fiscal year ended December 31, 2009 with CHS's audited consolidated statement of operations for the fiscal year ended December 31, 2009.

BioScrip, Inc.

Unaudited Pro Forma Combined Balance Sheet

	BioScrip Historical December 31, 2009	CHS Historical December 31, 2009	Preliminary Pro Forma Adjustments*	Pro Forma Combined
ASSETS				
Current assets				
Cash and cash equivalents	$ —	$ 10,103	$ 23,331(A)	$ 33,434
Receivables, net	151,113	42,146	—	193,259
Inventory	51,256	3,938	—	55,194
Prepaid expenses and other current assets	3,999	2,250	—	6,249
Short term deferred taxes	12,913	2,140	—	15,053
Total current assets	219,281	60,577	23,331	303,189
Property and equipment, net	15,454	7,044	—	22,498
Goodwill	24,498	220,371	91,432(B)	336,301
Intangible assets	—	21,517	—	21,517
Deferred financing fees	—	1,441	10,559(C)	12,000
Other assets	1,194	1,908	—	3,102
Long term deferred taxes	26,793	—	—	26,793
Total assets	$ 287,220	$ 312,858	$ 125,322	$725,400
LIABILITIES AND STOCKHOLDERS' EQUITY				
Current liabilities				
Line of credit	$ 30,389	$ —	$ (30,389)(A)	$ —
Current portion of long term debt	—	10,917	(8,417)(D)	2,500
Current portion of capital lease obligations	—	134	—	134
Accounts payable	74,535	1,651	—	76,186
Claims payable	4,068	—	—	4,068
Amounts due to plan sponsors	4,938	—	—	4,938
Accrued expenses and other current liabilities	14,273	19,834	—	34,107
Total current liabilities	128,203	32,536	(38,806)	121,933
Deferred taxes	—	5,907	—	5,907
Income taxes payable—long term	2,437	—	—	2,437
Capital lease obligations	—	220	—	220
Long term debt	—	129,540	192,960(E)	322,500
Other long term liabilities	787	—	—	787
Total liabilities	131,427	168,203	154,154	453,784
CHS Preferred stock	—	25,036	(25,036)(F)	—
Stockholders' equity				
Common stock, par value	4	91	(91)(G)	4
Treasury stock, shares at cost	(10,367)	—	—	(10,367)
Additional paid-in capital	254,677	96,934	26,889(H)	378,500
Accumulated (deficit) earnings	(88,521)	22,594	(30,594)(I)	(96,521)
Total stockholders' equity	155,793	119,619	(3,796)	271,616
Total liabilities and stockholders' equity	$ 287,220	$ 312,858	$ 125,322	$725,400

(In thousands)

* See Note 6 for an explanation of the preliminary pro forma adjustments.

See accompanying notes to unaudited pro forma combined financial information

BioScrip, Inc.

Unaudited Pro Forma Combined Statement of Operations

	BioScrip Historical Fiscal Year Ended December 31, 2009	CHS Historical Fiscal Year Ended December 31, 2009	Preliminary Pro Forma Adjustments*	Pro Forma Combined
Revenue	$ 1,329,525	$ 254,067	—	$1,583,592
Cost of revenue	1,171,703	124,763	—	1,296,466
Gross profit	157,822	129,304	—	287,126
Selling, general and administrative expenses	128,687	88,392	—	217,079
Bad debt expense	8,636	5,790	—	14,426
Depreciation and amortization	5,033	3,904	—	8,937
Income from operations	15,466	31,218	—	46,684
Interest expense, net	1,920	7,280	22,295(A)	31,495
Income before income taxes	13,546	23,938	(22,295)	15,189
Tax (benefit) provision	(40,553)	9,208	(8,918)(B)	(40,263)
Net income	54,099	14,730	(13,377)	55,452
Cumulative preferred stock dividends	—	(1,918)	1,918(C)	—
Income available to common stockholders	$ 54,099	$ 12,812	$ (11,459)	$ 55,452
Net income available to common stockholder per share				
Basic	$ 1.39	$ 0.14		$ 1.07
Diluted	$ 1.36	$ 0.12		$ 1.05
Weighted average common shares outstanding:				
Basic	38,985	90,898		51,641
Diluted	39,737	105,132		52,703

(In thousands, except per share amounts)

* See Note 7 for an explanation of the preliminary pro forma adjustments.

See accompanying notes to unaudited pro forma combined financial information

BioScrip, Inc.

Notes to Unaudited Pro Forma Combined Financial Information

1. Description of Transaction

On January 24, 2010, BioScrip, Inc., or the Company, entered into an agreement pursuant to which the Company agreed to acquire CHS, or the Merger Agreement, with Camelot Acquisition Corp., or the Merger Sub, CHS and Kohlberg Investors V, L.P., as Stockholders' Representative, and other minority stockholders of CHS,or the CHS Stockholders. CHS is a privately held company that is a leading provider of home infusion and home nursing services and products to patients suffering from chronic and acute medical conditions. Pursuant to the Merger Agreement, at the effective time of the merger, CHS will be merged with the Merger Sub. As a result of the merger, the separate corporate existence of CHS will cease and the Merger Sub will continue as the surviving corporation of the merger and as a wholly-owned subsidiary of BioScrip.

Concurrently with the consummation of the merger, the Company will:

- repay the indebtedness of CHS, which was approximately $130.4 million (net of CHS's cash) at December 31, 2009, and enter into a new credit facility that will provide for a $100.0 million senior secured term loan facility, or Term Loan, and a $50.0 million senior secured revolving credit facility, which are referred to collectively as the New Credit Facility;
- pay cash consideration of $110.8 million, subject to adjustment as described below;
- issue up to approximately 12.9 million shares of BioScrip common stock, subject to adjustment as described below, of which approximately 2.7 million shares initially will be held in escrow to fund indemnification payments, if any; and
- issue warrants to acquire approximately 3.4 million shares of BioScrip common stock, exercisable at $10.00 per share and having a five-year term.

If the net indebtedness of CHS at the closing of the merger is $132 million and CHS's expenses incurred in connection with the merger are $10 million, then the number of shares of the Company's common stock to be issued in connection with the merger (in addition to shares issuable upon exercise of the warrants being issued) would be approximately 12.7 million shares, or approximately 24% of the then-outstanding shares of its common stock, assuming that no outstanding options to purchase shares of CHS's common stock are exercised before the closing of the merger. If the net indebtedness of CHS at the closing of the merger is less than $132 million, then one-half of the difference would be paid in cash to the CHS Stockholders and the other half would be paid in stock based on a value per share of $8.3441, the 10-day volume weighted trading average share price of BioScrip's common stock over the 10-day period ended January 22, 2010. If the net indebtedness of CHS exceeds $132 million, then the cash payment of $110 million would be reduced by the amount of the excess. Upon the consummation of the merger, each share of CHS common stock issued and outstanding immediately prior to the effective time of the merger will be converted into the right to receive:

- a number of shares of BioScrip's common stock;
- cash; and
- following the closing of the merger, its pro rata share of any dividends or distributions of BioScrip's common stock made from the escrow fund, in each case calculated in accordance with the terms of the Merger Agreement.

In addition, at the closing of the merger, the Company will issue to the CHS Stockholders and certain optionholders of CHS a number of warrants to purchase shares of BioScrip common stock.

The merger and the other transactions contemplated by the Merger Agreement are subject to various closing conditions. The merger is expected to close on or about March 31, 2010.

2. Basis of Presentation

The unaudited pro forma combined financial information is based on the historical financial statements of BioScrip and CHS and prepared and presented pursuant to the regulations of the SEC regarding pro forma financial information. The 2009 unaudited pro forma combined financial information includes CHS's audited consolidated statement of operations for the fiscal year ended December 31, 2009 and audited consolidated balance sheet as of December 31, 2009. BioScrip historical financial information includes the audited consolidated statement of operations for the fiscal year ended December 31, 2009 and audited consolidated balance sheet as of December 31, 2009.

The pro forma adjustments include the application of the acquisition method under Financing Accounting Standards Board Accounting Standards Codification, or ASC, Topic 805, Business Combinations, with respect to the merger. ASC Topic 805 requires, among other things, that identifiable assets acquired and liabilities assumed be recognized at their fair values as of the acquisition date, which is presumed to be the closing date of the merger.

The merger is expected to close on or around March 31, 2010. Accordingly, the pro forma adjustments reflected in the accompanying unaudited pro forma combined financial information may be materially different from the actual acquisition accounting adjustments required as of the acquisition date. In addition, ASC Topic 805 establishes that the value of equity-related consideration transferred in a business combination be measured as of the acquisition date. Depending on the magnitude of changes in the value of BioScrip common stock between this filing date and the acquisition date, the aggregate value of the merger consideration paid to the stockholders could differ from the amount assumed in this unaudited pro forma combined financial information.

Under ASC Topic 820, Fair Value Measurements and Disclosures, "fair value" is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. ASC 820 specifies a hierarchy of valuation techniques based on the nature of the inputs used to develop the fair value measures. This is an exit price concept for the valuation of the asset or liability. In addition, market participants are assumed to be unrelated buyers and sellers in the principal or the most advantageous market for the asset or liability. Fair value measurements for an asset assume the highest and best use by these market participants. Many of these fair value measurements can be highly subjective and it is also possible that other professionals, applying reasonable judgment to the same facts and circumstances, could develop and support a range of alternative estimated amounts.

Total merger-related transaction costs to be incurred by BioScrip are expected to be $20 million, which includes approximately $12 million of costs associated with the issuance of debt. Under ASC Topic 805, merger-related transaction costs (such as advisory, legal, valuation and other professional fees) are not included as components of consideration transferred but are accounted for as expenses in the periods in which the costs are incurred. The unaudited pro forma combined balance sheet reflects anticipated merger-related transaction costs to be incurred by BioScrip which are estimated to be approximately

$8 million and assumed to be paid in connection with the closing of the merger. Costs associated with debt issuance will be amortized over the life of the underlying debt instruments.

The historical consolidated financial information has been adjusted in the unaudited pro forma combined financial information to give effect to pro forma events that are (1) directly attributable to the merger, (2) factually supportable, and (3) with respect to the statement of operations, expected to have a continuing impact on the combined results. The pro forma financial information does not reflect revenue opportunities and cost savings that we expect to realize after the merger with CHS. No assurance can be given with respect to the estimated revenue opportunities and operating cost savings that are expected to be realized as a result of the merger with CHS. The pro forma financial information also does not reflect non-recurring charges related to integration activity or exit costs that may be incurred by BioScrip or CHS in connection with the merger.

Certain CHS amounts have been reclassified to conform to BioScrip's presentation. These reclassifications had no effect on previously reported net income. There were no material transactions between BioScrip and CHS during the periods presented in the unaudited pro forma combined financial information that would need to be eliminated.

3. Accounting Policies

Upon completion of the merger, BioScrip will perform a detailed review of CHS's accounting policies and procedures. As a result of that review, BioScrip may identify differences between the accounting policies and procedures of the two companies that, when conformed, may have a material impact on the future operating results. Any differences from unifying the accounting policies of the combined companies cannot be reasonably estimated at this time so no adjustments to pro forma combined financial information have been made.

4. Estimate of Consideration Expected to be Transferred and Purchase Price to be Allocated

A preliminary estimate of consideration expected to be transferred to effect the merger and the aggregate purchase price to be allocated is presented in the table below.

Cash payable as merger consideration(a)	$110,823
Assumption and refinance of CHS debt(a)	130,354
Value of BioScrip common stock issued as merger consideration(b)	108,823
Value of BioScrip warrants issued as merger consideration(b)	15,000
Estimate of merger consideration to acquire the shares of CHS	$365,000

(In thousands)

(a) BioScrip expects to fund the cash payments, repay existing indebtedness of CHS and refinance indebtedness of BioScrip with newly borrowed funds under the Term Loan and the issuance of the notes.

(b) The estimated value of BioScrip shares issuable as merger consideration is based upon the 10-day weighted average of the closing common stock price as of January 22, 2010 of $8.3441 per share. Accordingly, the unaudited pro forma combined financial information assumes that BioScrip will issue 12,754,281 shares and roll over stock options with a combined value of approximately $108 million in connection with the merger. Warrants are valued at $15 million based on 3,400,945 issued, exercisable at $10 per share over a five year period. If the common stock value of BioScrip falls below 62.5% of the weighted average stock value of $8.3441 used to value the common stock for the 10 trading days immediately preceding the scheduled date of closing, or $5.2151 per share, a condition of CHS closing the merger agreement would not be satisfied.

5. Estimate of Assets to be Acquired and Liabilities to be Assumed

The following is a discussion of the adjustments made in connection with the preparation of the unaudited pro forma combined financial information. Each of these adjustments represents preliminary estimates of the fair values of CHS's assets and liabilities and periodic amortization of such adjustments to the extent applicable. Actual adjustments will be made when the merger is completed and will be based on the fair value of CHS's assets and liabilities at that time. Accordingly, the actual adjustments to CHS's assets and liabilities and the related amortization of such adjustments may differ materially from the estimates reflected in the unaudited pro forma combined financial information.

The following is a preliminary estimate of the assets to be acquired and the liabilities to be assumed by BioScrip upon merger, reconciled to the estimate of consideration expected to be transferred:

Book value of CHS net assets acquired as of December 31, 2009	$144,655
Write off of CHS deferred financing costs	(1,441)
Record goodwill adjustment	91,432
CHS debt (net of CHS's cash) to be repaid at closing	130,354
Purchase price allocated	$365,000

(In thousands)

Goodwill: Goodwill is calculated as the excess of the merger date fair value of the consideration expected to be transferred over the values assigned to the identifiable assets acquired and liabilities assumed. Goodwill is not amortized but rather is subject to an annual impairment test.

Intangible assets: Intangible assets are not adjusted in the pro forma information. Further analysis must be performed to value those assets at fair value and allocate purchase price to those assets. As such, the value of intangible assets may differ significantly from the unaudited pro forma combined financial information. Amortization recorded in the statement of operations may also differ based on the valuation of intangible assets.

Income taxes: No adjustments to the tax basis of CHS's assets and liabilities are expected as a result of the merger.

6. Adjustments to Unaudited Pro Forma Combined Balance Sheet:

(A) The sources and uses of funds relating to the proposed merger transaction are as follows:

Sources:	
Debt expected to be issued in connection with the merger (See Note 4(a))	$ 325,000
Uses:	
Cash consideration to stockholders of CHS	(110,823)
Assumption and refinance of CHS debt	(140,457)
Repay BioScrip line of credit	(30,389)
Estimated merger-related expenses	(20,000)
Net adjustment of cash and cash equivalents	$ 23,331

(In thousands)

(B) Reflects adjustments for goodwill (See Note 5):

Eliminate CHS's historical goodwill	$(220,371)
Record transaction goodwill	311,803
Goodwill adjustment	$ 91,432

(In thousands)

(C) Reflects adjustments to deferred financing fees:

Debt financing fees	$12,000
Write-off of existing CHS deferred financing costs	(1,441)
Deferred financing fees adjustment	$10,559

(In thousands)

(D) Reflects adjustments related to short term debt:

Elimination of CHS short term debt	$(10,917)
Reclassification of short term portion of newly issued debt	2,500
Short term debt adjustment	$ (8,417)

(In thousands)

(E) Reflects adjustments related to long term debt:

Debt expected to be issued by BioScrip in connection with the merger (See Note 4(a))	$ 325,000
Elimination of existing CHS long term debt	(129,540)
Reclassification of short term portion of newly issued debt	(2,500)
Long term debt adjustment	$ 192,960

(In thousands)

(F) Reflects adjustment to eliminate CHS preferred stock.

(G) Reflects adjustment to eliminate CHS common stock.

(H) Reflects adjustments to additional paid-in capital:

Eliminate CHS existing paid-in capital	$ (96,934)
Issuance of BioScrip common stock	108,823
Issuance of BioScrip warrants	15,000
Additional paid-in capital adjustment	$ 26,889

(In thousands)

(I) Reflects adjustment to retained earnings:

Eliminate CHS retained earnings	$(22,594)
Impact of transaction closing costs expensed at time of closing	(8,000)
Retained earnings adjustment	$(30,594)

(In thousands)

7. Adjustments to Unaudited Pro Forma Combined Statement of Earnings:

(A) Interest expense adjustments:

	Twelve Months Ended December 31, 2009
Estimated interest on new debt	$ 29,313
Amortization of deferred financing costs	2,182
Eliminate interest cost on existing BioScrip line of credit	(1,920)
Eliminate interest cost on existing CHS debt	(7,280)
Total interest adjustments	$ 22,295

(In thousands)

Based on current capital market conditions, the blended interest cost of the new debt facilities is expected to be approximately 9.00%. However, such costs may be materially greater than the costs assumed in the unaudited pro forma combined information.

A change of one percentage point in the rates associated with estimated borrowed funds to be used to fund the transaction would result in a change of approximately $3.2 million per annum to the pre-tax pro forma earnings. Costs incurred in connection with the issuance of merger related debt will be deferred and amortized over the term of the debt. The amount of such costs is expected to be approximately $12 million.

(B) Reflects the income tax effects of pro forma adjustments at the expected combined statutory rate of 40%.

(C) Reflects the elimination of CHS preferred stock dividends.