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

# Form 10-K

(Mark One)

☑ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
**For the fiscal year ended December 31, 2007**

**OR**

o **PERIODIC REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
**For the transition period from _____ to _____**

**Commission file number: 0-28740**

# BioScrip, Inc.

*(Exact name of registrant as specified in its charter)*

| **Delaware** | **05-0489664** |
|---|---|
| *(State of incorporation)* | *(I.R.S. Employer Identification No.)* |
| **100 Clearbrook Road, Elmsford NY** | **10523** |
| *(Address of principal executive offices)* | *(Zip Code)* |

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

**Securities registered pursuant to Section 12(b) of the Act:**
**None**

**Securities registered pursuant to section 12(g) of the Act:**
**Common Stock, $.0001 par value**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes o No ☑

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act Yes o No ☑

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. o

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

| Large accelerated filer o | Accelerated filer ☑ | Non-accelerated filer o (Do not check if a smaller reporting company) | Smaller reporting company o |
|---|---|---|---|

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

The aggregate market value of the registrant's Common Stock held by non-affiliates of the registrant as of June 30, 2007, the last business day of the registrant's most recently completed second fiscal quarter, was approximately $106,291,944 based on the closing price of the Common Stock on the Nasdaq Global Market on such date.

On February 29, 2008 there were outstanding 38,324,341 shares of the registrant's Common Stock.

**DOCUMENTS INCORPORATED BY REFERENCE**

Portions of the registrant's definitive proxy statement for its 2008 Annual Meeting of Stockholders to be filed with the SEC within 120 days after the close of the registrant's fiscal year are incorporated by reference into Part III of this Annual Report.

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**PART I**

This report contains "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. Forward-looking statements relate to expectations, beliefs, future plans and strategies, anticipated events or trends and similar expressions concerning matters that are not historical facts or that necessarily depend upon future events. In some cases, you can identify forward-looking statements by terms such as "may," "will," "should," "could," "would," "expect," "plan," "anticipate," "believe," "estimate," "project," "predict," "potential," and similar expressions. Specifically, this Annual Report contains, among others, forward-looking statements about:

- our expectations regarding financial condition or results of operations for periods after December 31, 2007;
- our future sources of, and needs for, liquidity and capital resources;
- our expectations regarding general economic and business conditions;
- our critical accounting policies;
- our expectations regarding the size and growth of the market for our products and services;
- our business strategies and our ability to grow our business;
- the implementation or interpretation of current or future regulations and legislation, particularly governmental oversight of our business; and
- our ability to maintain contracts and relationships with our customers;

The forward-looking statements contained in this Annual Report reflect our current views about future events, are based on assumptions, and are subject to known and unknown risks and uncertainties. Many important factors could cause actual results or achievements to differ materially from any future results or achievements expressed in or implied by our forward-looking statements. Many of the factors that will determine future events or achievements are beyond our ability to control or predict. Certain of these are important factors that could cause actual results or achievements to differ materially from the results or achievements reflected in our forward-looking statements.

The forward-looking statements contained in this Annual Report reflect our views and assumptions only as of the date this Annual Report is signed. The reader should not place undue reliance on forward-looking statements. Except as required by law, we assume no responsibility for updating any forward-looking statements.

We qualify all of our forward-looking statements by these cautionary statements. In addition, with respect to all of our forward-looking statements, we claim the protection of the safe harbor for forward-looking statements contained in the Private Securities Litigation Reform Act of 1995.

**Item 1.** ***Business***

**Overview**

We are a specialty pharmaceutical healthcare organization that partners with patients, physicians, healthcare payors and pharmaceutical manufacturers to provide access to medications and management solutions to optimize outcomes for chronic and other complex healthcare conditions.

Our specialty pharmaceutical services ("Specialty Services") include the comprehensive support, dispensing and distribution, patient care management, data reporting as well as a range of other complex management services for certain medications. These medications include orals, injectables and infusibles used to treat patients living with chronic health conditions and are provided in various capacities to patients, physicians, healthcare payors and pharmaceutical manufacturers. Our pharmacy benefit management ("PBM") services include pharmacy network management, claims processing, benefit design, drug utilization review, formulary management and traditional mail order pharmacy fulfillment. These services are reported under two operating segments: (i) Specialty Services; and (ii) PBM and Traditional Mail Services (collectively, "PBM Services").

Specialty Services and PBM Services revenues are derived from our relationships with healthcare payors including managed care organizations, government-funded and/or operated programs, pharmaceutical

manufacturers, patients and physicians as well as a variety of third party payors, including third party administrators ("TPAs") and self-funded employer groups (collectively "Plan Sponsors").

Our Specialty Services are marketed and/or sold primarily to healthcare payors, pharmaceutical manufacturers, physicians, and patients, and target certain specialty medications that are used to treat patients living with chronic health conditions. These services include the distribution of biotech and other high cost injectable, oral and infusible prescription medications and the provision of therapy management services.

Our PBM Services are marketed to healthcare payors including employer groups and TPAs and are designed to promote a broad range of cost-effective, clinically appropriate pharmacy benefit management services through our national PBM retail network and our own mail service distribution facility. We also administer prescription discount card programs on behalf of commercial Plan Sponsors, most typically TPAs. Under such programs we derive revenue on a per claim basis from the dispensing network pharmacy.

Over the past several years our strategic growth has been focused on building our Specialty Services. Consequently, Specialty Services revenues have grown to more than 80% of our total revenue.

**Specialty Services**

Our Specialty Services business offers a comprehensive integrated healthcare service model providing: (i) local distribution through our community pharmacies, where we dispense medications to patients at the point of sale or through delivery; (ii) specialty mail distribution through contracts with health plans and manufacturers to dispense and ship medications directly to a patient or to the patient's physician's office for administration; and (iii) infusion services through our infusion pharmacies for patients requiring infused medications in the home or in a physician's office or in one of our own ambulatory infusion sites. Our patients typically have prescription drug coverage through commercial insurance, Medicare, Medicaid or other governmental programs, and we are reimbursed on behalf of the healthcare payor by pharmacy benefit managers or the Plan Sponsor directly. Our Specialty Services programs are designed to optimize the therapeutic outcomes for patients while achieving Plan Sponsors' and/or pharmaceutical manufacturer's program goals. These goals include appropriate utilization of therapies, improved patient compliance and adherence rates, reduced expenditures through discounted drug rates and utilization reporting. Our software and data management tools permit Plan Sponsors, pharmaceutical manufacturers and physicians to: (i) access utilization data to manage better healthcare outcomes; and (ii) measure cost, utilization, prescribing and other pharmacy trends.

We own and operate 40 specialty pharmacies comprised of community pharmacies, located in major metropolitan areas across the United States; mail order pharmacies; and infusion pharmacies. While all of our locations are full-service pharmacies that carry both traditional and specialty medications and are able to treat people with a variety of diseases and medical conditions, we primarily focus on serving patient populations with chronic health conditions, including:

- Cancer
- Crohn's Disease
- Hemophilia
- Hepatitis C
- HIV/AIDS
- Immune Deficiency
- Iron Overload
- Multiple Sclerosis
- Organ Transplant
- Psoriasis
- Rheumatoid Arthritis

We are the sole vendor for the Centers for Medicare and Medicaid Services' ("CMS") Competitive Acquisition Program ("CAP") for certain Medicare Part B drugs and biologicals which commenced July 1, 2006. CAP is a voluntary program that offers physicians the option of obtaining many of their Medicare Part B drugs and biologicals from us by writing a prescription and transmitting it to us. That process eliminates the need for buying the medications and billing CMS for drug reimbursement, which, prior to the existence of CAP, was the principal process for physicians to obtain medication to treat Medicare beneficiaries with Part B drugs and biologicals. CAP benefits physicians by reducing or eliminating the financial risks associated with carrying high-cost drug inventories and reducing the administrative burdens of physicians. Our CAP contract runs on an exclusive basis through December 31, 2008, and is being competitively bid for the potential addition of new vendors by CMS beginning 2009 and beyond. We have submitted our bid to participate in CAP for periods after 2008. While we have no reason to believe that we will not be selected as a CAP provider, no assurances can be given at this time. However, management believes that our failure to be named as a CAP provider, whether or not on an exclusive basis after 2008, will not have a materially adverse affect on our business, operations or financial position or results of operations.

In July we announced that we were awarded an agreement with United Healthcare (the "UHC Agreement") and ("UHC"), to serve as one of two national specialty pharmacy providers of HIV/AIDS and Solid Organ Transplant drugs and services to patients insured by United Healthcare and its participating affiliates. This agreement became effective on August 1, 2007, with the initial term of the agreement running through December 31, 2008. We have no reason to believe that the UHC Agreement with UHC will not continue beyond the end of 2008. At this time we have received no assurances it will. The failure of the UHC Agreement to continue beyond 2008 could have a material and adverse affect on our business, operations and financial position and results of operations in 2009.

***Medication Dispensing and Distribution***

We carry a full range of prescription medications and are able to dispense nearly all prescription medications for acute and chronic diseases and conditions. As a specialty pharmacy provider our mail and community pharmacy locations also carry hard to find and hard to handle medications that are typically more expensive than medications carried by "ordinary" or traditional pharmacies and as such, are generally not carried or stocked.

Special shipping and handling techniques in compliance with a manufacturer's specific shipping and handling requirements are employed, including refrigeration and shipping with dry-ice packs. We provide the drug product along with supplies and equipment needed for administration. We bill these medications directly to the physician or bill the patient's insurance plan, removing some of the administrative burden placed upon the physician's office.

Our pharmacies also deliver medications to physicians' offices for in-office administration. The majority of our business is patient-specific dispensing, whereby we receive a prescription for a medication and bill the appropriate party or parties for reimbursement of the drug, which may include healthcare payors, manufacturers and/or the patient. In some instances we deliver wholesale drugs directly to qualified healthcare professionals or institutions including physicians.

***Billing and Coordination of Benefits***

Our pharmacies offer comprehensive billing, patient reimbursement and coordination of benefits ("COB") services under both the pharmacy and medical benefits. Our pharmacy locations are contracted with nearly all Federal and state governmental benefit programs including Medicare, Medicaid, and state benefit programs such as AIDS Drug Assistance Programs ("ADAPs") and other Ryan White-funded programs. In addition, our pharmacies participate in most of the pharmacy benefit management networks; as well as with managed care organizations directly.

Our comprehensive COB services help patients with multiple sources of insurance and/or government assistance by handling complex insurance billing and reimbursement challenges which, if not performed properly, can lead to non-compliance with the prescribed drug therapy and prescription refills. Many of our patients take advantage of this service while they await reimbursement from secondary or other payors. Retail pharmacies do not typically provide COB services; we believe providing this service is a major differentiator from our competitors. We

offer comprehensive assistance to patients to identify financial programs and obtain funding for patients who are unable to afford their out-of-pocket expenditures, including co-payments. We work with a variety of assistance organizations and pharmaceutical manufacturers to obtain this type of funding on the patients' behalf. Co-payments and coinsurance payments are diligently pursued for collection unless approved financial hardship exemptions are in effect.

***Specialty Therapy Management***

We design and administer clinical programs to maximize the benefits of pharmaceutical utilization as a tool in achieving pharmaceutical therapy goals for certain targeted disease states. Our programs focus on preventing high-risk adverse events through the appropriate use of pharmaceuticals while eliminating unnecessary or duplicate therapies. Key components of these programs include healthcare provider training, integration of care between pharmacy and medical health disciplines, monitoring of patient compliance, measurement of care process and quality, and providing feedback for continuous improvement in achieving therapy goals. The goal of these services is to improve patient outcomes and lower overall healthcare costs.

In 2007, bioscripcare™ patient care programs were designed to address the changing nature of pharmaceutical care. The complexity of therapy has increased greatly resulting in the need for improved patient therapy management. Interactions with nurses and physicians have been reduced primarily to scheduled follow-up appointments leaving days, weeks and potentially months for patients to navigate their therapy regimen on their own. The added complexity combined with reduced follow-up has created a void in the healthcare delivery process. Improvements in therapy have not necessarily resulted in the significant improvement of health outcomes. Compliance continues to be the most significant determinant in health outcomes.

In addition to therapy complexity and healthcare delivery, changes in the Specialty Pharmacy environment changes have impacted care delivery. The acquisition of Specialty Pharmacies by large PBMs has resulted in considerable inconsistency among the programs available today. Consequently, patient care and compliance has deteriorated resulting in unmet patient needs.

bioscripcare™ patient care programs address these unmet needs by providing the optimal structure of patient care through consistent assessment and intervention, ongoing education management and adherence and persistence management resulting in improved patient healthcare delivery. Also, as part of our normal business operations for refill management, we initiate monthly telephonic interactions with patients. During the course of these calls, important demographic, therapy and compliance data are gathered. Modifying the existing refill call process by including additional scripted survey questions specific to targeted disease states results in a significantly more robust data gathering process that lead to important health outcome measures.

Our programs are medically sound, incorporating Healthcare Effectiveness Data and Information Set and National Committee for Quality Assurance measures and are DMAA: The Care Continuum Alliance focused. Measurement, analysis, as well as improvement and repetition are key components of our regular program reviews. Our programs remain dynamic through our focus on continual improvement. Some of the components of the programs are described below:

- *Professional Intervention*

  Most of the diseases and conditions we support require complex, multi-drug regimens for treatment, many of which have potential adverse side effects and drug interactions. Our pharmacists review prescriptions presented for a patient against that patient's medical history, his or her past and current medication usage, and clinical references known to us to insure the therapy selected is clinically appropriate. If our pharmacists find a potential or actual problem, they contact the prescriber or patient to discuss that patient's case and alternative medications.

  Our pharmacists and clinical staff stay informed about new medications and changing treatment protocols which are utilized in our target diseases and conditions. We regularly send information on new medications to local prescribers to alert them, and recommend those patients that may be candidates for a change in therapy. Because most healthcare providers have limited time to keep abreast of the rapid pace of change in medicine, we believe that they may benefit from these services.

- *Patient Education*

  Due to the complexity of the regimens associated with the medications we dispense and the need to educate patients on the importance of compliance and proper dosing and administration, we make great efforts to help our patients and caregivers understand how their regimen may affect their health status and lifestyle. We routinely consult with each patient when they receive their first prescription from us. We consult on, among other things, what each medication is for, how it works, and what adverse side effects are most likely to occur, as well as potential interactions between or among multiple medications. Our goal is to fully inform each patient because failure to do so could result in missed doses, delayed starts, and loss of other healthcare treatment options in some cases. We also provide patients with information concerning how medications might influence their lifestyle and give them recommendations on how to fit drug therapies into alternative schedules and travel plans.

  Many of the specialty medications we dispense are given by injection. We teach patients how to prepare their medications for administration, how to inject themselves, and how to deal with any site reactions that may occur. We often have the patient administer their first dose in the pharmacy so they feel comfortable with taking the medication(s) when they get home. Our pharmacists are available by telephone in case a patient has questions and generally follow-up with the patient as needed.

  Our pharmacies also provide patients and their family members, as well as physicians, with a broad range of written educational materials. We create some of those materials and receive others from pharmaceutical manufacturers and not-for-profit organizations. We promote local and national disease-related events, including cancer and other disease-related awareness programs such as World AIDS Day. Most of our locations offer patient support groups for people living with HIV/AIDS where they discuss new therapies, lifestyle tips and options to improve medication adherence.

- *Adherence and Persistence Management*

  “Adherence” is defined as taking medications on a timely basis, as and when prescribed — for example, twice daily. “Persistence” is defined as taking a regimen of medications for the length of time prescribed. People with the diseases and conditions we treat often struggle with both of these self-management issues, since their medications are often difficult to take and require months or years of use.

  Since adherence and persistence are keys to achieving the optimal results for which a medication is prescribed, our pharmacists take a very active role in promoting and managing them. We stress the importance of adherence and persistence during our initial teaching sessions and with each medication refill. We provide refill reminders, either by phone call, e-mail or text message to alert people when a prescription refill is due or to take their daily Rx regimen. We routinely follow-up with people who do not show up for their refills and alert physicians and other healthcare providers when the patient cannot be located. We reinforce these activities with nurse-based adherence management and therapy optimization programs for select conditions that carry a higher risk of complications or treatment failures. We believe that these services and programs allow us to achieve adherence rates markedly above the industry’s averages.

**PBM Services**

We offer TPAs and other Plan Sponsors a broad range of PBM Services designed to ensure the cost-effective delivery of clinically appropriate pharmacy benefits. PBM Services available to our customers include the following:

***Formulary and Benefit Design***

We work closely with our Plan Sponsors to offer formularies and benefit plan designs to meet their specific program requirements. Formulary design assists in controlling program costs to the extent consistent with accepted medical and pharmacy practices and applicable law, primarily through three principal techniques: (i) tiered copay or percentage coinsurance designs, which provide lower copays for formulary preferred medications and higher copays for non-preferred medications, or charge a percentage of the prescription price to the member at different percentages based on the preferred or non-preferred status of a drug; (ii) generic substitution, which involves the

selection of a generic drug as a cost-effective alternative to its bio-equivalent brand name drug; and/or (iii) therapeutic interchange, which involves the selection of a lower cost brand name drug as an alternative to a higher priced brand name drug within a therapeutic class. Formulary rebates on brand name drugs are negotiated with drug manufacturers based on the drug's preferred status and are typically shared with Plan Sponsors. We do not manage a rebate program on our own. Rather, our rebates are managed and administered by a third party vendor.

Many commercial Plan Sponsors do not restrict coverage to a specific list of pharmaceuticals and are said to have no formulary or an "open" formulary that generally covers all FDA-approved drugs except certain classes of excluded pharmaceuticals, such as certain vitamins and cosmetics, experimental, investigative or over-the-counter drugs. However, as a result of rising pharmacy program costs, both public and private health plans have become increasingly receptive to controlling pharmacy costs by creating formularies which steer members to the lowest cost drug available with appropriate efficacy within a given therapeutic class, other than in cases of medical necessity or other pre-established prior authorization guidelines. Once a Plan Sponsor decides to utilize a "restricted" or "closed" formulary, we actively involve our clinical staff with a Plan Sponsor's Pharmacy and Therapeutics Committee ("P&T Committee") to assist with the design of clinically appropriate formularies in order to control pharmacy costs. Typically, the P&T Committee consists of a Plan Sponsor's physicians, pharmacists and others, including independent healthcare professionals. The ultimate composition and approval of the formulary resides with the Plan Sponsor.

The primary method for assuring formulary compliance on behalf of a Plan Sponsor is by managing pharmacy reimbursement to ensure that non-formulary drugs are not dispensed, or dispensed with higher co-payments, subject to certain limited exceptions, to a Plan Sponsor enrollee ("Member"). Benefit design and formulary parameters are managed through a point-of-sale ("POS") electronic claims processing system through which real-time electronic edits control plan restrictions and real-time electronic messages are transmitted to pharmacists to ensure compliance with specified benefit design and formulary parameters before services are rendered and prescriptions are dispensed. Over utilization of medication is monitored and managed through quantity limitations based upon nationally recognized standards. Step protocols, which are procedures requiring that preferred therapies be tried and shown ineffective before more expensive therapies are covered, are also established in collaboration with the relevant P&T Committee to control improper utilization of certain high-risk or high-cost medications.

***Clinical Services***

Formularies typically identify a limited number of drugs for preferred status within each therapeutic class to be the preferred drug agent in order to treat most medical conditions appropriately. Provision is also made for coverage of non-formulary or non-preferred drugs, other than certain excluded products, when documented to be clinically appropriate for a particular Member. Since non-formulary drugs are rejected for coverage by the real-time POS system, we employ procedures to override restrictions on non-formulary medications for a particular Plan Participant and period of treatment. Similarly, restrictions on the use of certain high-risk or high-cost non-preferred formulary or non-formulary drugs may be overridden through prior authorization or medical necessity procedures. Non-formulary overrides and prior authorizations are processed on the basis of documented, clinically supported medical information and typically are settled within 48 hours of request with complete information. Requests for, and appeals of denials of coverage in those cases are handled by our staff of trained pharmacists, pharmacy techs and board certified pharmacotherapy specialists, subject to the Plan Sponsor's ultimate authority over all such requests, determinations and appeals. Further, in the case of a medical emergency, as determined by the dispensing network pharmacist, we will authorize, without prior approval, short-term supplies of all medication, unless specifically excluded by a Plan Sponsor.

***Drug Usage Evaluation***

Drug usage is evaluated on a concurrent, prospective and/or retrospective basis utilizing the real-time POS system and proprietary information systems for multiple drug interactions, duplication of therapy, step therapy protocol enforcement, minimum/maximum dose range edits, compliance with prescribed utilization levels and early refill notification. In addition, we maintain a drug utilization review program in which select medication therapies are reviewed and data is collected, analyzed and reported for management applications.

***Pharmacy Data Services***

Our proprietary software and data management tools permit Plan Sponsors and drug manufacturers to access key industry measures, pre-analyzed, updated daily and delivered through secure internet-based access. Plan Sponsors often monitor these key measures associated with their membership to review the effectiveness and success of our PBM programs. Pre-analyzed information includes formulary management, generic substitution, and cost savings analysis. In addition we also build custom PBM reporting systems to support specific customer projects.

***Disease Management***

We design and administer programs to maximize the benefits of pharmaceutical utilization as a tool in achieving therapy goals for certain targeted diseases. Programs focus on preventing high-risk events, through appropriate use of pharmaceuticals, while eliminating unnecessary or duplicate therapies. Key components of these programs include healthcare provider training, integration of care between medical and pharmacy disciplines, monitoring of patient compliance, and providing feedback for continuous improvement in achieving therapy goals. As described more fully above under "Specialty Services," many of these same tools are used in delivering specialty pharmaceutical services and products.

***Pharmacy Dispensing Facility***

We believe that pharmacy benefit program costs may also be reduced through the distribution of pharmaceutical products directly to Plan Sponsors' members by the use of mail service programs implemented at our own proprietary pharmacy dispensing facilities. We provide mail services from facilities in Columbus, OH, Roslyn Heights, NY, and San Francisco, CA. Mail service is typically provided to Members who receive maintenance medications. The use of mail service affords Plan Sponsors the ability to reduce cost as compared to the often more costly retail distribution of prescription products because of the lower reimbursement associated with mail service distribution.

***Discount Prescription Card Programs***

In addition to managed pharmacy benefit services described above, we administer numerous cash card or discount card programs on behalf of TPAs and to a lesser extent other Plan Sponsors. Those cards may be "stand-alone" pharmacy discount programs or bundled with other healthcare or other discount arrangements.

Under those discount programs, individuals who present a discount card at one of our participating network pharmacies or who order medications through one of our mail order pharmacies are entitled to receive a percentage discount off the retail or "cash" price for a prescription medication. As the administrator of these discount card programs, we manage the program's eligibility through our real-time electronic claims adjudication system. There is typically no formulary associated with these programs as they are unmanaged from a cost perspective.

**Sales and Marketing**

Our sales and marketing efforts are focused on payors, manufacturers, patients and physicians, and are driven by dedicated units comprised of Managed Markets, Pharmaceutical Relations, and Physician Sales teams. Contracts with healthcare payors including managed care organizations, are an integral component for sales success. Additionally, contracting with pharmaceutical manufacturers for distribution and management services for newly approved and/or marketed specialty medications continue to contribute to our revenue. In 2007 we introduced bioscripcare™ and m.d.star™, two new specialty services to the market, both of which are designed to help clients manage drug expenditures and improve patient adherence to therapy. m.d.star™ is a program that provides management of physician-administered injected and infused therapies purchased by physicians and billed to payors for reimbursement, generally through major medical benefits. Our m.d.star™ program addresses market needs by allowing Plan Sponsors plans to manage drug costs covered under their major medical benefits without large scale system, process, network or benefit design changes. We believe that these and similar programs will contribute additional revenue growth in 2008 and beyond.

**Information Technology**

We have decided to invest in our Information Technology ("IT") infrastructure in 2007, 2008 and 2009. We have selected a new pharmacy dispensing, clinical management and accounts receivable management system, and in 2007 began efforts to migrate our diverse systems into a consolidated architecture. Our IT investment in 2007 focused on standardization of architecture, improvement of processes, and pre-requisites for an enterprise system. We believe that the new system will yield additional efficiencies and increase controls when dispensing or transferring prescriptions and provide improved data reporting and management. This new system will enhance our opportunities to partner with pharmaceutical companies, physicians, and payors.

The PBM Services business utilizes a proprietary system that offers precise benefit implementation and execution. Member coverage verification, formulary compliance, claims approvals, member co-pay and pharmacy reimbursement are adjudicated in real-time through that proprietary system. The system's flexibility allows for numerous plan design options.

Through 2008 and 2009, we intend to make substantial IT systems investments to: (i) streamline our business processes; (ii) improve our data reporting and management capabilities; and (iii) improve internal controls.

**Loss of Major Customers**

During 2005 excelleRx was acquired by Omnicare and subsequently, excelleRx transitioned its PBM business to Omnicare over the first three quarters of 2007. Revenue from excelleRx for the years ended December 31, 2007, 2006 and 2005 was $15.0 million, $29.7 million and $21.7 million, respectively.

On December 21, 2005, Centene Corporation announced the acquisition of its own pharmacy benefits management business and transitioned its business to its own PBM during calendar 2006. Revenue from Centene Corporation for the years ended December 31, 2006 and 2005 was $47.1 million and $133.1 million, respectively.

**Mergers and Acquisitions**

On March 1, 2006 we acquired all of the issued and outstanding stock of Intravenous Therapy Services, Inc. ("Infusion West"), a specialty home infusion company located in Burbank, California. The addition of Infusion West enhanced our ability to service infusion patients on both the East and West coasts and compliments our strategic objective of expanding our infusion operations nationally. Infusion West was purchased for approximately $13.1 million in cash, plus a potential earn-out payment contingent on achieving certain future performance benchmarks. The earn-out period has passed and all amounts were settled in 2007.

On October 7, 2005 we acquired all of the issued and outstanding stock of JPD, Inc. d/b/a Northland Medical Pharmacy ("Northland"), a community-based retail specialty pharmacy located in Columbus, Ohio. Northland has a history of servicing individuals that may benefit from a number of specialty pharmacy therapies that we offer and is complementary to our community pharmacies. Northland was purchased for $12.0 million in cash, plus a potential earn-out payment contingent on achieving certain future performance benchmarks. The contingent performance benchmarks were not met. (See Item 3 in Legal Proceedings).

On March 12, 2005 we acquired all of the issued and outstanding stock of Chronimed Inc.("Chronimed") in a stock-for-stock transaction valued at $105.3 million pursuant to which each share of Chronimed common stock was exchanged for 1.12 shares of our common stock.

**Competition**

We face substantial competition within the pharmaceutical healthcare services industry and the past year has seen even more consolidation among PBMs, specialty pharmacy providers and pharmaceutical wholesalers. We expect to see this trend continue in the coming year and it is uncertain what effect, if any, these consolidations will have on us or the industry as a whole. The industry also includes a number of large, well-capitalized companies with nationwide operations and capabilities in the Specialty Services and PBM Services arenas, such as CVS Caremark, Express Scripts, Medco Health Solutions, MedImpact Healthcare Systems, National Medical Health Card Systems, and WellPoint Pharmacy Management, as well as many smaller organizations that typically operate on a local or

regional basis. In the Specialty Services segment, we compete with several national and regional specialty pharmaceutical distribution companies that have substantial financial resources and which also provide products and services to the chronically ill such as CVS Caremark, Express Scripts and Medco Health Solutions.

Some of our Specialty Services competitors are under common control with, or are owned by, pharmaceutical wholesalers and distributors or retail pharmacy chains and may be better positioned with respect to the cost-effective distribution of pharmaceuticals. Some of our primary competitors, such as US BioServices, owned by AmeriSource Bergen Corporation, and McKesson Specialty Pharmacy, owned by McKesson HBOC Corporation, have a substantially larger market share in many of our specialty disease therapies than our existing market share. Moreover, some of our competitors may have secured long-term supply or distribution arrangements for prescription pharmaceuticals necessary to treat certain chronic disease states on price terms substantially more favorable than the terms currently available to us. As a result of such advantageous pricing, we may be less price competitive than some of these competitors with respect to certain pharmaceutical products. However we do not believe that we compete strictly on the selling price of particular products in either business segment; rather, we offer customers the opportunity to lower overall pharmaceutical and medical costs through therapy management while receiving high quality care.

**Financial Information about Segments**

The following table presents revenue and income from operations by segment. Operating segment financial information is provided in Note 3 of Notes to Consolidated Financial Statements. The 2006 information below includes Infusion West beginning March 1, 2006. The 2005 information below includes Chronimed beginning March 12, 2005 and Northland beginning October 7, 2005. (See Note 4 of Notes to Consolidated Financial Statements.)

**Segment Financial Information**
**(in thousands)**

| | 2007 | 2006 | 2005 |
|---|---|---|---|
| Revenue:(1) | | | |
| Specialty Services | $ 974,201 | $ 866,622 | $ 688,512 |
| PBM Services | 223,531 | 285,318 | 384,383 |
| Total | $ 1,197,732 | $ 1,151,940 | $ 1,072,895 |
| Income (loss) from operations: | | | |
| Specialty Services(2) | $ (2,397) | $ (19,591) | $ (16,942) |
| PBM Services(3) | 11,248 | 3,350 | (12,261) |
| Total | $ 8,851 | $ (16,241) | $ (29,203) |

(1) Certain prior period amounts have been reclassified to conform to the current year presentation. Such reclassifications had no material effect on the Company's previously reported consolidated financial position, results of operations or cash flows.

(2) The year ended December 31, 2005 includes a $7.1 million charge to reflect an increase in the allowance for doubtful accounts receivable created by lower than expected collections during the Chronimed merger integration period and $6.5 million of goodwill and intangible impairment and $4.6 million of merger expenses associated with the acquisition of Chronimed all in the Specialty Services segment. (see Note 4 of Notes to Consolidated Financial Statements).

(3) The year ended December 31, 2005 includes $18.6 million of goodwill impairment in the PBM Services segment.

**Government Regulation**

As a participant in the healthcare industry our operations and relationships are subject to Federal and state laws and regulations and enforcement by Federal and state governmental agencies. Various Federal and state laws and regulations govern the purchase, dispensing or distribution, and management of prescription drugs and related services we provide and may affect us. We believe that we are in substantial compliance with all legal requirements material to our operations.

We conduct ongoing educational programs to inform employees regarding compliance with relevant laws and regulations and maintain a formal reporting procedure to disclose possible violations of law to the Office of Inspector General ("OIG") within the U.S. Department of Health and Human Services.

Among the various Federal and state laws and regulations which may govern or impact our current and planned operations are the following:

*Mail Service Pharmacy Regulation.* Many of the states into which we deliver pharmaceuticals have laws and regulations that require out-of-state mail service pharmacies to register with, or be licensed by, the boards of pharmacy or similar regulatory bodies in those states. These states generally permit the dispensing pharmacy to follow the laws of the state within which the dispensing pharmacy is located.

However, various state Medicaid programs have enacted laws and/or adopted rules or regulations directed at restricting or prohibiting the operation of out-of-state pharmacies by, among other things, requiring compliance with all laws of the states into which the out-of-state pharmacy dispenses medications, whether or not those laws conflict with the laws of the state in which the pharmacy is located, or requiring the pharmacist-in-charge to be licensed in that state. To the extent that such laws or regulations are found to be applicable to our operations, we comply with them. To the extent that any of the foregoing laws or regulations prohibit or restrict the operation of mail service pharmacies and are found to be applicable to us, they could have an adverse effect on our prescription mail service operations. A number of state Medicaid programs prohibit the participation in those states by out-of-state retail or mail service pharmacies, whether in-state or out-of-state.

There are other statutes and regulations which may also affect our mail service operations. The Federal Trade Commission requires mail order sellers of goods generally to engage in truthful advertising, to stock a reasonable supply of the products to be sold, to fill mail orders within 30 days, and to provide clients with refunds when appropriate.

*Licensure Laws.* Many states have licensure or registration laws governing certain types of ancillary healthcare organizations, including preferred provider organizations, TPAs, discount cash card prescription drug programs and companies that provide utilization review services. The scope of these laws differs significantly from state to state, and the application of such laws to the activities of pharmacy benefit managers often is unclear. We have registered under such laws in those states in which we have concluded that such registration or licensure is required.

We dispense prescription drugs pursuant to orders received through our BioScrip.com web site, as well as other affiliated private label web sites. Accordingly, we may be subject to laws affecting on-line pharmacies. Several states have proposed laws to regulate on-line pharmacies and require on-line pharmacies to obtain state pharmacy licenses. Additionally, Federal regulation by the United States Food and Drug Administration (the "FDA"), or another Federal agency, of on-line pharmacies that dispense prescription drugs has been proposed. To the extent that such state or Federal regulation could apply to our operations, certain of our operations could be adversely affected by such licensure legislation. Management does not believe that the adoption of any of these internet related laws would have a material adverse effect on our business or operations.

*Other Laws Affecting Pharmacy Operations.* We are subject to state and Federal statutes and regulations governing the operation of pharmacies, repackaging of drug products, wholesale distribution, dispensing of controlled substances, medical waste disposal, and clinical trials. Federal statutes and regulations govern the labeling, packaging, advertising and adulteration of prescription drugs and the dispensing of controlled substances. Federal controlled substance laws require us to register our pharmacies and repackaging facilities with the

United States Drug Enforcement Administration and to comply with security, recordkeeping, inventory control and labeling standards in order to dispense controlled substances.

State controlled substance laws require registration and compliance with state pharmacy licensure, registration or permit standards promulgated by the state's pharmacy licensing authority. Such standards often address the qualification of an applicant's personnel, the adequacy of its prescription fulfillment and inventory control practices and the adequacy of its facilities. In general, pharmacy licenses are renewed annually. Pharmacists and pharmacy technicians employed at each of our dispensing locations must also satisfy applicable state licensing requirements.

*FDA Regulation.* The FDA generally has authority to regulate drug promotional information and materials that are disseminated by a drug manufacturer or by other persons on behalf of a drug manufacturer. In January 1998, the FDA issued Draft Guidance regarding its intent to regulate certain drug promotion and switching activities of pharmaceutical manufacturers that control, directly or indirectly, a PBM. The FDA effectively withdrew the Draft Guidance and has indicated that it would not issue new draft guidance. However, there can be no assurance that the FDA will not assert jurisdiction over certain aspects of our PBM business, including the internet sale of prescription drugs.

*Network Access Legislation.* A majority of states now have some form of legislation affecting our ability to limit access to a pharmacy provider network or remove network providers from our PBM pharmacy network. Subject to various geographic, managed care or other exceptions, such legislation ("any willing provider" legislation) may require us or our clients to admit any retail pharmacy willing to meet the Plan's price and other terms for network participation, or may prohibit the removal of a provider from a network except in compliance with certain procedures ("due process" legislation) or may prohibit days' supply limitations or co-payment differentials between mail and retail pharmacy providers. Many states with any willing provider statutes also permit a Member suspected of substance abuse or who otherwise needs oversight by a pharmacist to be "locked into" one particular pharmacy for the purchase of his or her prescription medicine. Many states have exceptions to the applicability of these statutes for managed care arrangements or other government benefit programs. As a dispensing pharmacy, however, such legislation benefits us, by ensuring us access to all networks in those states. Additionally, as a specialty provider, these willing provider regulations enable us to participate in other PBM's networks, restricting their ability to lock BioScrip pharmacies out of their networks.

*Legislation Imposing Plan Design Mandates.* Some states have enacted legislation that prohibits Plan Sponsors from implementing certain restrictions on design features, and many states have introduced legislation to regulate various aspects of managed care plans including legislation that prohibits or restricts therapeutic substitution, requires coverage of all drugs approved by the FDA, or prohibits denial of coverage for non-FDA approved uses. For example, some states provide that Members may not be required to use network providers, but that they must instead be provided with benefits even if they choose to use non-network providers ("freedom of choice" legislation), or provide that a Member may sue his or her health plan if care is denied. Some states have enacted, and other states have introduced, legislation regarding plan design mandates. Some states mandate coverage of certain benefits or conditions. Such legislation does not generally apply to our business, but it may apply to certain of our customers (generally, HMOs and health insurers). If any such legislation were to become widespread and broad in scope, it could have the effect of limiting the economic benefits achievable through pharmacy benefit management. To the extent that such legislation is applicable and is not preempted by the Employee Retirement Income Security Act of 1974, as amended ("ERISA") (as to plans governed by ERISA), certain of our operations could be adversely affected.

The Federal government, as well as a number of states, have re-enacted legislation purporting to prohibit health plans from requiring or offering Members financial incentives for use of mail order pharmacies.

*Anti-Kickback Laws.* Subject to certain statutory and regulatory exceptions (including exceptions relating to certain managed care, discount, bona fide employment arrangements, group purchasing and personal services arrangements), Federal law prohibits the payment or receipt of remuneration to induce, arrange for or recommend the purchase of healthcare items or services paid for in whole or in part by Medicare, Medicaid or certain other state healthcare programs (including Medicaid programs and Medicaid waiver programs) funded in whole or in part under the Social Security Act. Certain state laws may extend the prohibition to items or services that are paid for by private insurance and self-pay patients. Management carefully considers the importance of such "anti-kickback"

laws when structuring our operations, and believes that we are in compliance therewith. Violation of the Federal anti-kickback statute could subject us to criminal and/or civil penalties, including suspension or exclusion from Medicare and Medicaid programs or state-funded programs in the case of state enforcement.

The Federal anti-kickback law has been interpreted broadly by courts, the OIG and administrative bodies. Because of the broad scope of those statutes, Federal regulations establish certain safe harbors from liability. Safe harbors exist for certain properly reported discounts received from vendors, certain investment interests held by a person or entity, and certain properly disclosed payments made by vendors to group purchasing organizations, as well as for other transactions or relationships. Nonetheless, a practice that does not fall within a safe harbor is not necessarily unlawful, but may be subject to scrutiny and challenge. In the absence of an applicable exception or safe harbor, a violation of the statute may occur even if only one purpose of a payment arrangement is to induce patient referrals or purchases. Among the practices that have been identified by the OIG as potentially improper under the statute are certain "product conversion" or "switching" programs in which benefits are given by drug manufacturers to pharmacists or physicians for changing a prescription (or recommending or requesting such a change) from one drug to another. Anti-kickback laws have been cited as a partial basis, along with state consumer protection laws discussed below, for investigations and multi-state settlements relating to financial incentives provided by drug manufacturers to retail pharmacies in connection with such programs.

Certain governmental entities have commenced investigations of PBM companies and other companies having dealings with the PBM industry and have identified issues concerning selection of drug formularies, therapeutic substitution programs and discounts or rebates from prescription drug manufacturers and whether best pricing requirements are being complied with. Additionally, at least one state has filed a lawsuit concerning similar issues against a health plan. To date, we have not been the subject of any such suit or action. We have received from time to time subpoenas or been requested to produce documents in response to various inquiries. There can be no assurance that we will not receive subpoenas or be requested to produce documents in pending investigations or litigation from time to time in the future.

Governmental entities have also commenced investigations against specialty pharmaceutical distribution companies having dealings with pharmaceutical manufacturers concerning retail distribution and sales and marketing practices of certain products and therapies. There can be no assurance that we will not receive subpoenas or be requested to produce documents in pending investigations or litigation from time to time. As well, we may be the target or subject of one or more such investigations or named parties in corresponding actions.

We believe that we are in compliance with the legal requirements imposed by the anti-remuneration laws and regulations, and we believe that there are material and substantial differences between drug switching programs that have been challenged under these laws and the generic substitution and therapeutic interchange practices and formulary management programs offered by us to our Plan Sponsors, since no remuneration or other incentives are provided to patients, pharmacists or others. However, there can be no assurance that we will not be subject to scrutiny or challenge under such laws or regulations, or that any such challenge would not have a material adverse effect on us.

On April 18, 2003, the OIG released Compliance Program Guidance for Pharmaceutical Manufacturers (the "Guidance") which is designed to provide voluntary, nonbinding guidance in devising effective compliance programs to assist companies that develop, manufacture, market and sell pharmaceutical products or biological products in devising effective compliance programs. The Guidance provides the OIG's view of the fundamental elements of pharmaceutical manufacturer's compliance programs and principles that should be considered when creating and implementing an effective compliance program, or as a benchmark for companies with existing compliance programs. We currently maintain a compliance program that includes the key compliance program elements described in the Guidance. We believe that the fundamental elements of our compliance program are consistent with the principles, policies and intent of the Guidance.

*The Stark Laws.* The Federal law known as "Stark II" became effective in 1995 and was a significant expansion of an earlier Federal physician self-referral law commonly known as "Stark I." Stark II prohibits physicians from referring Medicare or Medicaid patients for "designated health services" to an entity with which the physician, or an immediate family member of the physician, has a financial relationship. Possible penalties for violation of the Stark laws include denial of payment, refund of amounts collected in violation of the statute, civil monetary penalties and program exclusion. The Stark laws contain certain exceptions for physician financial arrangements.

Management carefully considers the importance of Stark II in structuring our sales and marketing arrangements and our operations and believes that we are in compliance therewith. Violation of the Stark II laws could subject us to civil and/or criminal penalties, including suspension or exclusion from Medicare and Medicaid programs or state-funded programs in the case of state enforcement.

On September 5, 2007, CMS concluded its rulemaking and interpretation of the Stark law by publishing "Phase III" regulations. Most of the new regulations became effective on December 4, 2007. Other than providing additional guidance for complying with the Stark law, these new regulations do not currently, and will not in the near future, impact our operations.

*State Self-Referral Laws.* We are subject to state statutes and regulations that prohibit payments for the referral of patients and referrals by physicians to healthcare providers with whom the physicians have a financial relationship. Some state statutes and regulations apply to services reimbursed by governmental as well as private payors. Violation of these laws may result in prohibition of payment for services rendered, loss of pharmacy or health provider licenses, fines and criminal penalties. The laws and exceptions or safe harbors may vary from the Federal Stark laws and vary significantly from state to state. The laws are often vague, and in many cases, have not been widely interpreted by courts or regulatory agencies; however, we believe we are in compliance with such laws.

*Statutes Prohibiting False Claims and Fraudulent Billing Activities.* A range of Federal civil and criminal laws target false claims and fraudulent billing activities. One of the most significant is the Federal False Claims Act (the "False Claims Act"), which imposes civil penalties for knowingly making or causing to be made false claims in order to secure a reimbursement from government-sponsored programs, such as Medicare and Medicaid. Investigations or actions commenced under the False Claims Act may be brought either by the government or by private individuals on behalf of the government, through a "whistleblower" or "qui tam" action. The False Claims Act authorizes the payment of a portion of any recovery to the individual bringing suit. Such actions are initially required to be filed under seal pending their review by the Department of Justice. If the government intervenes in the lawsuit and prevails, the whistleblower (or plaintiff filing the initial complaint) may share with the Federal Government in any settlement or judgment. If the government does not intervene in the lawsuit, the whistleblower plaintiff may pursue the action independently. The False Claims Act generally provides for the imposition of civil penalties and for treble damages, resulting in the possibility of substantial financial penalties for small billing errors that are replicated in a large number of claims, as each individual claim could be deemed to be a separate violation of the False Claims Act. Criminal provisions that are similar to the False Claims Act provide that if a corporation is convicted of presenting a claim or making a statement that it knows to be false, fictitious or fraudulent to any Federal agency it may be fined substantially similar to those imposed on individuals.

Some states also have enacted statutes similar to the False Claims Act which may include criminal penalties, substantial fines, and treble damages. In recent years, Federal and state governments have launched several initiatives aimed at uncovering practices that violate false claims or fraudulent billing laws. Under Section 1909 of the Social Security Act, which became effective January 1, 2007, if a state false claim act meets certain requirements as determined by the Office of the Inspector General in consultation with the U.S. Attorney General the state is entitled to an increase of ten percentage points in its share of any amounts recovered under a state action brought under such a law. Some of the larger states in terms of population that have had the OIG review such laws include: California, Florida, Illinois, Indiana, Massachusetts, Michigan, Nevada, Tennessee and Texas. We operate in all nine of these states and submit claims for Medicaid reimbursement to the respective state Medicaid agencies. This legislation has lead to increased auditing activities by state healthcare regulators. As such, we have been the subject of increased audits. While we believe that we are in compliance with Medicaid and Medicare billing rules and requirements, there can be no assurance that regulators would agree with the methodology employed by us in billing for our products and services. While we believe that we are in material and substantial compliance with the billing rules and requirements of Medicaid and Medicare, a material disagreement between us and these governmental agencies on the manner in which we provide products or services could have a material adverse effect on our business and operations, our financial position and our results of operations.

*Reimbursement.* Approximately 24% of our revenues are derived directly from Medicare, Medicaid or other government-sponsored healthcare programs subject to the Federal anti-kickback laws and/or the Stark laws. Also, we indirectly provide benefits to managed care entities that provide services to beneficiaries of Medicare, Medicaid

and other government-sponsored healthcare programs. Should there be material changes to Federal or state reimbursement methodologies, regulations or policies, our reimbursements from government-sponsored healthcare programs could be adversely affected. In addition, certain state Medicaid programs only allow for reimbursement to pharmacies residing in the state or in a border state. While we believe that we can service our current Medicaid patients through existing pharmacies, there can be no assurance that additional states will not enact in-state dispensing requirements for their Medicaid programs. To the extent such requirements are enacted, certain therapeutic pharmaceutical reimbursements could be adversely affected.

*Legislation and Other Matters Affecting Drug Prices.* Some states have adopted legislation providing that a pharmacy participating in the state Medicaid program must give the state the best price that the pharmacy makes available to any third party plan ("most favored nation" legislation). Such legislation may adversely affect our ability to negotiate discounts in the future from network pharmacies. At least one state has enacted "unitary pricing" legislation, which mandates that all wholesale purchasers of drugs within the state be given access to the same discounts and incentives. Such legislation has not yet been enacted in the states where our mail service pharmacies are located. Such legislation, if enacted in other states, could adversely affect our ability to negotiate discounts on our purchase of prescription drugs to be dispensed by the mail service pharmacies.

In 2006, First DataBank, a leading provider of electronic drug information to the healthcare industry, entered into a proposed settlement to address certain practices regarding the establishment of the benchmark Average Wholesale Price ("AWP") for medications. While the court recently denied without prejudice final approval of the proposed settlement, if the proposed settlement, or one including similar provisions, is ultimately approved, it may have industry-wide impact on prescription pricing. We generally utilize Medi-Span for determining AWP; in 2007, Medi-Span entered into a proposed settlement agreement similar to that agreed to by First DataBank. We are paid by many Health Plans and PBMs as a mail order and specialty pharmacy using AWP as reported by First DataBank. Most of our provider and payor agreements contain provisions that allow us to manage the impact of this proposed settlement, if ratified as is or modified by the parties or the court. At this time we are unable to determine whether changes to AWP pricing methodology or the First DataBank and Medi-Span AWP settlements would have a material adverse effect on us or our business, operations, financial condition or prospects.

*Confidentiality, Privacy and HIPAA.* Most of our activities involve the receipt, use and disclosure of confidential medical, pharmacy or other health-related information concerning individual Members, including the disclosure of the confidential information to the Member's health benefit plan. In addition, we use aggregated and blinded (anonymous) data for research and analysis purposes.

On April 14, 2003 the final regulations issued by United States Department of Health and Human Services ("HHS"), regarding the privacy of individually identifiable health information (the "Privacy Regulations") pursuant to the Health Insurance Portability and Accountability Act of 1996 ("HIPAA") took effect. The Privacy Regulations are designed to protect the medical information of a healthcare patient or health plan enrollee that could be used to identify the individual. We refer to this information as protected health information ("PHI"). The Privacy Regulations apply directly to certain entities known as "covered entities," which include Plan Sponsors and most healthcare providers. In addition, the Privacy Regulations require covered entities to enter into contracts requiring their "business associates" to agree to certain restrictions regarding the use and disclosure of PHI. The Privacy Regulations apply to PHI maintained in any format, including both electronic and paper records, and impose extensive restrictions on the way in which covered entities (and indirectly their business associates) may use and disclose PHI. In addition, the Privacy Regulations also give patients significant rights to understand and control how their PHI is used and disclosed. Often, use and disclosure of PHI must be limited to the minimum amount necessary to achieve the purpose of the use or disclosure. Certain of our businesses are covered entities directly subject to the Privacy Regulations, and other of our businesses are "business associates" of covered entities, such as Plan Sponsors.

Since October 16, 2003 we have been subject to compliance with the rules governing transaction standards and code sets issued by HHS pursuant to HIPAA (the "Transactions Standards"). The Transactions Standards establish uniform standards to be utilized by covered entities in the electronic transmission of health information in connection with certain common healthcare financing transactions, such as healthcare claims. Under the new Transactions Standards, any party transmitting or receiving health transactions electronically must send and receive

data in a single format, rather than the large number of different data formats currently used. The Transactions Standards apply to us in connection with submitting and processing healthcare claims. The Transactions Standards also applies to many of our payors and to our relationships with those payors.

In addition, in February 2003, HHS issued final regulations governing the security of PHI pursuant to HIPAA (the "Security Standards"). The Security Standards impose substantial requirements on covered entities and their business associates regarding the storage, utilization of, access to and transmission of PHI.

The requirements imposed by the Privacy Regulations, the Transactions Standards, and the Security Standards are extensive and have required substantial cost and effort to assess and implement. We have taken and will continue to take steps that we believe are reasonable to ensure that our policies and procedures are in compliance with the Privacy Regulations, the Transactions Standards and the Security Standards. The requirements imposed by HIPAA have increased our burden and costs of regulatory compliance (including our health improvement programs and other information-based products), altered our reporting to Plan Sponsors and reduced the amount of information we can use or disclose if Members do not authorize such uses or disclosures.

*Consumer Protection Laws.* Most states have consumer protection laws that have been the basis for investigations and multi-state settlements relating to financial incentives provided by drug manufacturers to pharmacies in connection with drug switching programs. No assurance can be given that we will not be subject to scrutiny or challenge under one or more of these laws.

*Disease Management Services Regulation.* All states regulate the practice of medicine. To our knowledge, no PBM has been found to be engaging in the practice of medicine by reason of its disease management services. However, there can be no assurance that a Federal or state regulatory authority will not assert that such services constitute the practice of medicine, thereby subjecting such services to Federal and state laws and regulations applicable to the practice of medicine.

*Comprehensive PBM Regulation.* Although no state has passed legislation regulating PBM activities in a comprehensive manner, such legislation has been introduced in the past in several states. Since we do not derive significant PBM revenues from business in any particular state, such legislation, if currently enacted in a state, would not have a material adverse impact on our operations.

*Antitrust Laws.* Numerous lawsuits have been filed throughout the United States by retail pharmacies against drug manufacturers challenging certain brand drug pricing practices under various state and Federal antitrust laws. A settlement in one such suit would require defendant drug manufacturers to provide the same types of discounts on pharmaceuticals to retail pharmacies and buying groups as are provided to managed care entities to the extent that their respective abilities to affect market share are comparable, a practice which, if generally followed in the industry, could increase competition from pharmacy chains and buying groups and reduce or eliminate the availability to us of certain discounts, rebates and fees currently received in connection with our drug purchasing and formulary administration programs. In addition, to the extent that we, or an associated business, appear to have actual or potential market power in a relevant market, business arrangements and practices may be subject to heightened scrutiny from an anti-competitive perspective and possible challenge by state or Federal regulators or private parties.

While management believes that we are in substantial compliance with all of the existing laws and regulations stated above, such laws and regulations are subject to rapid change and often are uncertain in their application. As controversies continue to arise in the healthcare industry, Federal and state regulation and enforcement priorities in this area may increase, the impact of which cannot be predicted. There can be no assurance that we will not be subject to scrutiny or challenge under one or more of these laws or that any such challenge would not be successful. Any such challenge, whether or not successful, could have a material adverse effect upon our business and results of operations.

**Employees**

At February 22, 2008, we had 874 full-time, 30 part-time and 228 per diem employees, including 193 licensed pharmacists. Per diem employees are defined as those available on an as-needed basis. None of our employees are represented by any union and, in our opinion, relations with our employees are satisfactory.

**Available Information**

We file annual, quarterly and special reports, proxy statements and other information with the SEC. You may read and copy any reports, statements and other information filed by us at the SEC's Public Reference Room at 450 Fifth Street, N.W., Washington, D.C. 20549. Please call (800) SEC-0330 for further information on the Public Reference Room. The SEC maintains an Internet web site that contains reports, proxy and information statements and other information regarding issuers that file electronically with the SEC. Our filings are also available to the public at the web site maintained by the SEC, http://www.sec.gov.

We make available, free of charge, through our web site at *www.bioscrip.com*, our reports on Forms 10-K, 10-Q, and 8-K, and amendments to those reports, as soon as reasonably practicable after they are filed with or furnished to the SEC.

We have adopted a code of business conduct and ethics for our Company, including our directors, officers and employees. Our Code of Conduct policy, our corporate governance guidelines and the charters of the audit, compensation and nominating and corporate governance committees of our board of directors are available on our website at *www.bioscrip.com.*

**Item 1A.** ***Risk Factors***

***Competition in the pharmaceutical healthcare services industry could reduce profit margins.***

The pharmaceutical healthcare services industry is very competitive. Our competitors include large and well-established companies that may have greater financial, marketing and technological resources than we do.

The specialty pharmacy industry is highly competitive. Some of our competitors are under common control with, or ownership by, pharmaceutical wholesalers and distributors, pharmacy benefit managers or retail pharmacy chains and may be better positioned with respect to the cost-effective distribution of pharmaceuticals. In addition, some of our competitors may have secured long-term supply or distribution arrangements for prescription pharmaceuticals necessary to treat certain chronic disease states on price terms substantially more favorable than the terms currently available to us. As a result of such advantageous pricing, we may be less price competitive than some of these competitors with respect to certain pharmaceutical products. Our competitive position could also be adversely affected by any inability to obtain access to new biotech pharmaceutical products.

Over the last several years competition in the marketplace has caused many PBMs, including us, to reduce the prices charged to clients for core services and share a larger portion of the formulary fees and rebates received from pharmaceutical manufacturers with clients. This combination of lower pricing and increased rebate sharing, as well as increased demand for enhanced service offerings and higher service levels, have put pressure on operating margins. In addition, some of our larger competitors may offer services and pricing terms that we may not be able to offer. This competition may make it more difficult to maintain existing customers and attract new customers and may cause us to face the risk of declining reimbursement levels without achieving corresponding reductions in costs of revenues. Competition may also come from other sources in the future. As a result, we may not continue to remain competitive in the PBM marketplace, and competition could have an adverse effect on our business and financial results.

***Changes in industry pricing benchmarks could adversely affect our financial performance.***

Contracts in the prescription drug industry, including our contracts with our retail pharmacy networks and our PBM and Specialty pharmacy clients, generally use certain published benchmarks to establish pricing for prescription medications. These benchmarks include AWP, wholesale acquisition cost and average manufacturer price. Most of our contracts utilize the AWP benchmark.

In 2006, First DataBank, a leading provider of electronic drug information to the healthcare industry, entered into a proposed settlement to address certain practices regarding the establishment of the benchmark AWP for medications. While the court recently denied without prejudice final approval of the proposed settlement, if the proposed settlement, or one including similar provisions, is ultimately approved, it may have industry-wide impact on prescription pricing. We generally utilize Medi-Span for determining AWP; in 2007, Medi-Span entered into a

proposed settlement agreement similar to that agreed to by First DataBank. We are paid by many Health Plans and PBMs as a mail order and specialty pharmacy using AWP as reported by First DataBank. Most of our provider and payor agreements contain provisions that allow us to manage the impact of this proposed settlement if ratified as is or modified by the parties or the court. At this time we are unable to determine whether changes to AWP pricing methodology or the First DataBank and Medi-Span AWP settlements would have a material adverse effect on us or our financial condition or prospects.

Most of our provider and payor agreements contain provisions that allow us to manage the impact of this proposed settlement, if ratified as is or modified by the parties or the court. However, we can give no assurance that the short or long-term impact of changes to industry pricing benchmarks will not have a material adverse effect on our financial performance, results of operations and financial condition in future periods.

***Client demands for enhanced service levels or possible loss or unfavorable modification of contracts with clients or providers could pressure margins.***

As our clients face the continued rapid growth in prescription drug costs, they may demand additional services and enhanced service levels to help mitigate the increase in spending. We operate in a very competitive environment, and we may not be able to increase our fees to compensate for these increased services, which could put pressure on our margins.

Our contracts with clients generally do not have terms longer than three years and, in some cases, may be terminated by the client on relatively short notice. Our clients generally seek bids from other PBM or specialty providers in advance of the expiration of their contracts. If several of these clients elect not to extend their relationship with us, and we are not successful in generating sales to replace the lost business, our future business and operating results could be materially adversely affected. In addition, we believe the managed care industry is undergoing substantial consolidation, and another party that is not our client could acquire some of our managed care clients. In such case, the likelihood such client would renew its contract with us could be reduced.

More than 58,000 retail pharmacies, which represent more than 98% of all United States retail pharmacies, participate in our PBM pharmacy network. The top ten retail pharmacy chains represent approximately 48% of the total number of stores and over 60% of prescriptions filled in our network. Our contracts with retail pharmacies, which are non-exclusive, are generally terminable on relatively short notice. If one or more of the top pharmacy chains elects to terminate its relationship with us, our members' access to retail pharmacies and our business could be materially adversely affected. In addition, many large pharmacy chains either own PBMs today, or could attempt to acquire a PBM in the future. Ownership of PBMs by retail pharmacy chains could have material adverse effects on our relationships with such pharmacy chains and on our consolidated results of operations, consolidated financial position and/or consolidated cash flow from operations.

***Pending and future litigation could subject us to significant monetary damages and/or require us to change our business practices.***

We are subject to risks relating to litigation and other proceedings in connection with our operations, including the dispensing of pharmaceutical products by our mail service and community pharmacies. A list of the more material proceedings pending against us is included under Part I, Item 3, "Legal Proceedings." While we believe that these suits are without merit and intend to contest them vigorously, we can give no assurance that an adverse outcome in one or more of these suits would not have a material adverse effect on our consolidated results of operations, consolidated financial position and/or consolidated cash flow from operations, or would not require us to make material changes to our business practices. We are presently responding to several subpoenas and requests for information from governmental agencies. We confirmed that BioScrip is not a target or a potential subject of those investigations and requests. We cannot predict with certainty what the outcome of any of the foregoing might be. In addition to potential monetary liability arising from these suits and proceedings, we are incurring costs in the defense of the suits and in providing documents to government agencies. Certain of the costs are covered by our insurance, but certain other costs are not insured. Such costs have become material to our financial performances and we can give no assurance that such costs will not increase in the future.

***We may be subject to liability claims for damages and other expenses that are not covered by insurance.***

A successful product or professional liability claim in excess of our insurance coverage could harm our financial condition and results of operations. Various aspects of our business may subject us to litigation and liability for damages, including the performance of PBM Services and the operation of our pharmacies. A successful professional liability claim in excess of our insurance coverage could harm our financial condition and results of operations. For example, a prescription drug dispensing error could result in a patient receiving the wrong or incorrect amount of medication, leading to personal injury or death. Our business, financial condition and results of operations could suffer if we pay damages or defense costs in connection with a claim that is outside the scope of any applicable contractual indemnity or insurance coverage.

***Existing and new government legislative and regulatory action could adversely affect our business and financial results.***

As a participant in the pharmaceutical healthcare services industry, our operations are subject to complex and evolving Federal and state laws and regulations and enforcement by Federal and state governmental agencies. These laws and regulations are described in detail at Part I, Item 1, "Business — Government Regulation." While we believe we are operating our business in substantial compliance with all existing legal requirements material to the operation of our business, different interpretations and enforcement policies of these laws and regulations could subject our current practices to allegations of impropriety or illegality, or could require us to make significant changes to our operations. In addition, if we fail to comply with existing or future applicable laws and regulations, we could suffer civil or criminal penalties, including our ability to participate in Federal and state healthcare programs. In addition, we cannot predict the impact of future legislation and regulatory changes on our business or assure that we will be able to obtain or maintain the regulatory approvals required to operate our business.

In addition, under the Deficit Reduction Act of 2006, additional Federal government matching of state Medicaid funding was provided for states that commit resources to additional auditing of Medicaid and Medicare fraud. This initiative has led to increased auditing activities by state healthcare regulators. As such, we have been the subject of increased audits by these state regulators. While we believe that we are in compliance with Medicaid and Medicare billing rules and requirements, there can be no assurance that regulators disagree with the methodology employed by us in billing for our products and services. While we believe that we are in material and substantial compliance with the billing rules and requirements of Medicaid and Medicare, a material disagreement between us and these governmental agencies on the manner in which we provide products or services could have a material adverse effect on our business, operations, financial position and results of operations.

***Loss of relationships with one or more pharmaceutical manufacturers and changes in payments made by pharmaceutical manufacturers could adversely affect our business and financial results.***

We have contractual relationships with pharmaceutical manufacturers that provide discounts on drugs dispensed from our mail service and community pharmacies, and pay service fees for other programs and services that we provide. Our business and financial results could be adversely affected if: (i) we were to lose relationships with one or more key pharmaceutical manufacturers; (ii) discounts decline due to changes in utilization of specified pharmaceutical products by health Plan Sponsors and other clients; (iii) legal restrictions are imposed on the ability of pharmaceutical manufacturers to offer rebates, administrative fees or other discounts or to purchase our programs or services; or (iv) pharmaceutical manufacturers choose not to offer rebates, administrative fees or other discounts or to purchase our programs or services.

***Failure to develop new products, services and delivery channels may adversely affect our business.***

We operate in a highly competitive environment. We develop new products and services from time to time to assist our clients in managing the pharmacy benefit. If we are unsuccessful in developing innovative products and services, our ability to attract new clients and retain existing clients may suffer.

Technology is also an important component of our business, as we continue to utilize new and better channels to communicate and interact with our clients, members and business partners. If our competitors are more

successful than us in employing this technology, our ability to attract new clients, retain existing clients and operate efficiently may suffer.

***The success of our business depends on maintaining a well-secured business and technology infrastructure.***

We are dependent on our infrastructure, including our information systems, for many aspects of our business operations. A fundamental requirement for our business is the secure storage and transmission of personal health information and other confidential data. Our business and operations may be harmed if we do not maintain our business processes and information systems, and the integrity of our confidential information. Although we have developed systems and processes that are designed to protect information against security breaches, failure to protect such information or mitigate any such breaches may adversely affect our operating results. Malfunctions in our business processes, breaches of our information systems or the failure to maintain effective and up-to-date information systems could disrupt our business operations, result in customer and member disputes, damage our reputation, expose us to risk of loss or litigation, result in regulatory violations, increase administrative expenses or lead to other adverse consequences.

The use of personal health information in our business is regulated at Federal, state and local levels. These laws and rules change frequently and developments often require adjustments or modifications to our technology infrastructure. Noncompliance with these regulations could harm our business, financial condition and results of operations.

***Problems in the implementation and conversion of our new pharmacy system could result in additional expense.***

The Company has committed significant resources in a new pharmacy dispensing, clinical management and accounts receivable management system designed to streamline our business processes, provide improved data reporting, data management, scalability and cash posting and billing and collections. Delays in the implementation of this system could result in higher operating costs, additional charges for system design changes or delays in the execution of our strategic plan due to our inability to scale our current operating systems.

***Our failure to maintain controls and processes over billing and collecting could have a significant negative impact on our results of operations and financial condition.***

The collection of accounts receivable is a significant challenge and requires constant focus and involvement by management and ongoing enhancements to information systems and billing center operating procedures. If we are unable to properly bill and collect our accounts receivable, our results could be materially and adversely affected. While management believes that controls and processes are satisfactory there can be no assurance that accounts receivable collectibility will remain at current levels.

***Efforts to reduce healthcare costs and alter health care financing practices could adversely affect our business.***

During the past several years, the U.S. healthcare industry has been subject to an increase in governmental regulation at both the Federal and state levels. Certain proposals have been made at the Federal and state government levels in an effort to control healthcare costs, including lowering reimbursement and/or proposing to lower reimbursement under Medicaid and Medicare programs. These proposals include “single payor” government funded healthcare and price controls on prescription drugs. If these or similar efforts are successful our business and operations could be materially adversely affected. In addition, changing political, economic and regulatory influences may affect healthcare financing and reimbursement practices. If the current healthcare financing and reimbursement system changes significantly, our business could be materially adversely affected. Congress periodically considers proposals to reform the U.S. healthcare system. These proposals may increase government involvement in healthcare and regulation of PBM services, or otherwise change the way our clients do business. Health Plan Sponsors may react to these proposals and the uncertainty surrounding them by reducing or delaying purchases of cost control mechanisms and related services that we provide. We cannot predict what effect, if any,

these proposals may have on our business. Other legislative or market-driven changes in the healthcare system that we cannot anticipate could also materially adversely affect our consolidated results of operations, consolidated financial position and/or consolidated cash flow from operations.

***Prescription volumes may decline, and our net revenues and profitability may be negatively impacted, when products are withdrawn from the market or when increased safety risk profiles of specific drugs result in utilization decreases.***

We process significant volumes of pharmacy claims for brand-name and generic drugs from our mail service and community pharmacies and through our network of retail pharmacies. These volumes are the basis for our net revenues and profitability. When products are withdrawn by manufacturers, or when increased safety risk profiles of specific drugs or classes of drugs result in utilization decreases, physicians may cease writing or reduce the numbers of prescriptions written for these drugs. Additionally, negative media reports regarding drugs with higher safety risk profiles may result in reduced consumer demand for such drugs. In cases where there are no acceptable prescription drug equivalents or alternatives for these prescription drugs, our prescription volumes, net revenues, profitability and cash flows may decline.

***The loss of a relationship with one or more Plan Sponsors could negatively impact our business.***

Where we do not have preferred or exclusive arrangements with Plan Sponsors, our contracts for reimbursement with Plan Sponsors are often on a perpetual or "evergreen" basis. These evergreen contracts are subject to termination by a Plan Sponsor upon 30, 60 or 90 days notice. Depending on the significance of the Plan Sponsor or Plan Sponsors in the aggregate as a percentage of revenue, one or more terminations could have a material and adverse effect on our results of operations and financial performance. We are unaware of any intention by a Plan Sponsor to terminate or not renew an agreement with us.

***Network lock-outs by health insurers could adversely affect our financial results.***

Many Plan Sponsors and PBMs continue to create exclusive specialty networks which limit a member's access to a mail service facility or network of preferred pharmacies. To the extent our pharmacies are excluded from these networks, we are unable to dispense medications to those members and bill for prescriptions to those members insurance carriers. If these specialty networks continue to expand and we are locked out from dispensing specialty medications to members of exclusive networks, our revenues, financial condition and results of operations could be adversely affected.

**Item 1B.** ***Unresolved Staff Comments***

None.

**Item 2.** ***Properties***

Our executive offices are located in Elmsford, New York, and our business offices are located in Eden Prairie, Minnesota. Our mail operations are located in Columbus, Ohio, San Francisco, California, and Roslyn Heights, New York. Our pharmacies are located in major metropolitan locations across the United States. We currently lease all of our properties from third parties under various lease terms expiring over periods extending to 2018. Property locations are as follows:

**Corporate Offices**

Elmsford, NY
Eden Prairie, MN

**Mail Operations**

Columbus, OH(1)
San Francisco, CA(2)
Roslyn Heights, NY(2)

**Community and Infusion Pharmacies(2)**

***California***
Burbank (Infusion)
Palm Springs
San Diego
San Francisco
Sherman Oaks
West Hollywood
***District of Columbia***
Washington D. C.
***Florida***
Ft. Lauderdale
Miami Beach
Orlando
Pompano (Infusion)
St. Petersburg
Tampa
West Palm Beach
***Georgia***
Atlanta
***Indiana***
Indianapolis (two locations)
***Illinois***
Chicago
***Maryland***
Baltimore
***Massachusetts***
Boston
***Minnesota***
Minneapolis
***Missouri***
Kansas City
St. Louis
***Nevada***
Las Vegas
***New Jersey***
Morris Plains (Infusion)
***New York***
Hawthorne
Bronx
New York
***Ohio***
Columbus
***Pennsylvania***
Philadelphia
West Chester (Infusion)
***Tennessee***
Memphis
***Texas***
Dallas (two locations)
Houston
***Washington***
Seattle
***Wisconsin***
Milwaukee

(1) Facility houses operations for both Specialty and PBM Services

(2) Facility houses operations for Specialty Services.

**Item 3.** ***Legal Proceedings***

On February 14, 2005, a complaint was filed in the Alabama Circuit Court for Barbour County, captioned *Eufaula Drugs, Inc. v. ScriptSolutions* [sic], one of approximately fourteen substantially identical complaints commenced in Alabama courts against various unrelated pharmacy benefit management companies. On April 8, 2005, the plaintiff filed an amended complaint substituting our BioScrip PBM Services f/k/a ScripSolutions ("PBM Services") subsidiary as the defendant, alleging breach of contract and related tort and equitable claims on behalf of a putative nationwide class of pharmacies alleging insufficient reimbursement for prescriptions dispensed, principally on the theory that PBM Services was obligated to update its prescription pricing files on a daily rather than weekly basis. The complaint seeks unspecified money damages and injunctive relief. PBM Services

sought unsuccessfully to remove the action to Federal court. On February 5, 2007, the court denied PBM Services' motion to dismiss the action for lack of jurisdiction and failure to state a claim, and on February 16, 2007, PBM Services answered the complaint denying the material allegations. The parties are now engaged in discovery into the question of class certification only. We intend to deny the allegations and intend to defend vigorously against the action. While we are confident in our position, we do not believe that an adverse ruling in this matter would have a material adverse effect on our business, operations, financial position or results of operations.

The U.S. Attorney's Office in Boston and the Department of Justice informed us that our subsidiary, Chronimed Holdings, Inc. d/b/a StatScript Pharmacy ("StatScript), was named as a defendant in a *qui tam* law suit filed by a whistleblower against Serono, Inc., and several other defendants in the Federal district court for the District of Massachusetts alleging claims under the Federal False Claims Act. In May 2007, the complaint was served on us and other defendants by the relators because the Federal government and various state governments on behalf of which the relators alleged claims declined to intervene to prosecute the claims and the Federal government decided not to pursue earlier conversations it had initiated into possible settlement of the claims alleged in the relators' complaint. The action is captioned *United States ex rel. Driscoll, et al. v. Serono, Inc., et al.*, Civil Action No. 00-11680GAO (D. Mass.). The complaint alleges that we and other defendant pharmacy companies violated the Federal False Claims Act and various states' false claims-like acts by receiving from Serono but not reporting in unspecified Medicare and Medicaid reimbursement claims alleged discounts on certain purchases of Serono's product, Serostim. We and numerous other defendants moved to dismiss the complaint with prejudice for failure to state a claim, failure to plead with particularity, expiration of the statute of limitations, and other grounds. The court heard oral argument on the dismissal motions in January 2008 and a decision is expected soon. There have been no other proceedings in the action. We deny the allegations and intend to defend vigorously against them. Given the preliminary stage of these matters, we are unable to assess the probable outcomes of these proceedings or their financial impact.

In July 2007, a complaint was filed in Federal court in the Southern District of Ohio naming our subsidiary, Chronimed Holdings, Inc. as a defendant. The plaintiffs are several members of the DiCello family who sold all the stock of an Ohio pharmacy company known as Northland to us in 2005. The action is captioned *JDP, Inc., et al. v. Chronimed Holdings, Inc.*, Civil Action No. 2:07:646 (Frost). The complaint alleges that the plaintiffs were entitled to receive an additional purchase price payment in 2007 under the stock purchase agreement based on Northland's 2006 EBITDA, a position we dispute, and the complaint seeks damages of at least $5.64 million and other relief under several legal theories. We moved to stay the lawsuit and compel arbitration of the disagreement under the terms of the stock purchase agreement. The district court denied the motion to compel arbitration but granted a stay pending our appeal of the denial to the Sixth Circuit Court of Appeals, where briefing on the motion to compel arbitration has been completed. It is expected that the appellate court will schedule oral argument on the appeal shortly. There have been no other proceedings in the action. We deny the allegations and intend to defend vigorously against the matters. While we are confident in our position, an adverse ruling in this matter would not have a material adverse effect on our business, operations or financial position.

**Item 4.** ***Submission of Matters to a Vote of Security Holders***

There were no matters submitted to a vote of security holders during the fourth quarter of the fiscal year reported on in this Form 10-K.

## PART II

**Item 5.** ***Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities***

Our common stock, par value $0.0001 per share ("Common Stock"), is traded on the Nasdaq Global Market under the symbol "BIOS." The following table represents the range of high and low sale prices for our Common Stock for the last eight quarters. Such prices reflect interdealer prices, without retail mark-up, mark-down or commission and may not necessarily represent actual transactions.

| | | High | Low |
|---|---|---|---|
| **2006** | First Quarter | $ 8.12 | $ 6.05 |
| | Second Quarter | $ 7.19 | $ 4.27 |
| | Third Quarter | $ 5.65 | $ 2.74 |
| | Fourth Quarter | $ 4.30 | $ 2.39 |
| **2007** | First Quarter | $ 3.85 | $ 2.88 |
| | Second Quarter | $ 4.96 | $ 3.00 |
| | Third Quarter | $ 6.84 | $ 4.44 |
| | Fourth Quarter | $ 9.82 | $ 6.35 |

As of February 29, 2008, there were 255 stockholders of record in addition to approximately 7,200 stockholders whose shares were held in nominee name. On February 29, 2008 the closing sale price of our Common Stock on Nasdaq was $7.03.

We have never paid cash dividends on our Common Stock and do not anticipate doing so in the foreseeable future.

Between February 1, 2007 and December 31, 2007, we issued a total of 263,993 shares of common stock without registration under the Securities Act of 1933, as amended (the "Act"). The shares were issued in reliance on NASDAQ Marketplace Rule Section 4350(i)(iv) as issuances to persons who had not previously been an employee or director of ours as an inducement material to such persons entering into employment with us. All of such issuances were approved by our compensation committee and were issued for no cash consideration.

The dates of sale and amount of common stock issued on each such date are as follows:

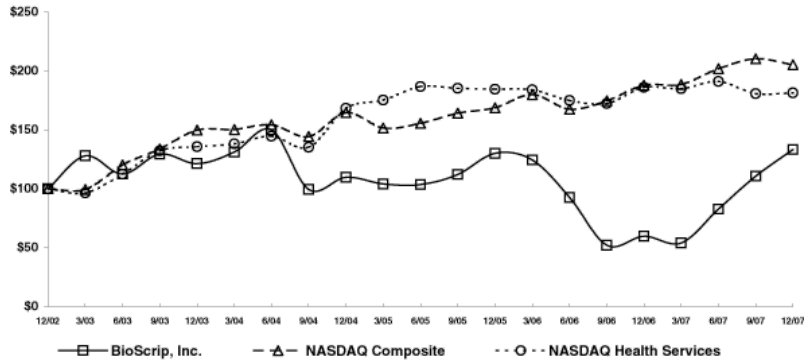
| Date of Sale | Type | Number of Shares | Exercise Price |
|---|---|---|---|
| 2/1/2007 | Stock Award | 40,000 | — |
| 2/5/2007 | Stock Award | 42,493 | — |
| 4/9/2007 | Stock Award | 7,500 | — |
| 4/10/2007 | Stock Award | 5,000 | — |
| 6/21/2007 | Stock Award | 50,000 | — |
| 8/1/2007 | Stock Award | 40,000 | — |
| 12/14/2007 | Stock Award | 29,000 | — |
| 12/14/2007 | Stock Option | 50,000 | $8.81 |

The issuances and sales of the above securities were exempt from registration under the Securities Act in reliance on Section 4(2) of the Act because the issuance of the common stock to the recipients did not involve a public offering. Appropriate legends have been affixed to the common stock issued in those transactions. All recipients received adequate information about us or had access, through employment or other relationships, to such information.

The graph set forth below compares, for the five-year period of December 31, 2002 through December 31, 2007, the total cumulative return to holders of the Company's Common Stock with the cumulative total return of the Nasdaq Composite Index and the Nasdaq Health Services index.

**COMPARISON OF 5 YEAR CUMULATIVE TOTAL RETURN***

Among BioScrip, Inc., The NASDAQ Composite Index
And The NASDAQ Health Services Index




* $100 invested on 12/31/02 in stock or index-including reinvestment of dividends.
Fiscal year ending December 31.

* * * * * * * *

**Item 6.** ***Selected Consolidated Financial Data***

The selected consolidated financial data presented below should be read in conjunction with, and is qualified in its entirety by reference to, Management's Discussion and Analysis and our Consolidated Financial Statements and the Notes thereto appearing elsewhere in this Report. The 2005 information below includes Chronimed beginning March, 2005 and Northland beginning October, 2005. The 2006 information below includes Infusion West beginning March, 2006. (See Note 4 of Notes to Consolidated Financial Statements.)

| | December 31, | | | | |
|---|---|---|---|---|---|
| **Balance Sheet Data (in thousands)** | **2007** | **2006** | **2005** | **2004** | **2003** |
| Cash and cash equivalents | $ — | $ — | $ 1,521 | $ 2,957 | $ 9,428 |
| Working capital | $ 49,213 | $ 37,023 | $ 67,488 | $ 13,968 | $ 20,283 |
| Total assets | $296,822 | $305,456 | $298,629 | $185,788 | $170,294 |
| Stockholders' equity | $166,203 | $161,833 | $195,765 | $115,683 | $107,202 |

| | Year Ended December 31, | | | | |
|---|---|---|---|---|---|
| **Statement of Operations Data (in thousands, except per share amounts)** | **2007** | **2006** | **2005** | **2004** | **2003** |
| Revenue(1, 2) | $1,197,732 | $1,151,940 | $1,072,895 | $629,890 | $588,176 |
| Merger related expenses(3) | $ — | $ 58 | $ 4,575 | $ — | $ — |
| Goodwill and intangible impairment(4) | $ — | $ — | $ 25,165 | $ — | $ — |
| Net income (loss) (5,6,7,8) | $ 3,317 | $ (38,289) | $ (23,847) | $ 7,033 | $ 9,130 |
| Net income (loss) per basic share | $ 0.09 | $ (1.03) | $ (0.70) | $ 0.32 | $ 0.41 |
| Net income (loss) per diluted share(9) | $ 0.09 | $ (1.03) | $ (0.70) | $ 0.31 | $ 0.40 |
| Weighted average shares outstanding used in computing basic income (loss) per share | 37,647 | 37,304 | 34,129 | 22,245 | 22,164 |
| Weighted average shares outstanding used in computing diluted income (loss) per share | 38,491 | 37,304 | 34,129 | 22,702 | 22,640 |

(1) Revenue includes: excelleRx PBM Services revenue of $15.0 million, $29.7 million, $21.7 million, $14.3 million and $8.1 million for the years 2007, 2006, 2005, 2004, and 2003, respectively; Centene Corporation PBM Services revenue of $47.1 million, $133.1 million, $102.1 million, and $92.4 million for the years 2006, 2005, 2004, and 2003, respectively; TennCare® PBM Services revenue of $67.8 million for the year 2003; and Value Options revenue of $19.7 million and $20.8 million for the years 2004 and 2003, respectively. Revenue from TennCare ended in 2003. Revenue from Value Options ended in 2004. Revenue from Centene Corporation ended in 2006. Revenue from excelleRx ended in 2007.

(2) Certain prior period amounts have been reclassified to conform to the current year presentation. Such reclassifications had no material effect on previously reported results of operations.

(3) Reflects merger, integration and re-branding expenses related to the acquisition of Chronimed on March 12, 2005.

(4) Includes a $4.0 million charge, net of tax, related to write-off of trade names due to our rebranding strategy in the Specialty Services segment, and an $18.2 million charge, net of tax, related to goodwill impairment in the PBM Services segment.

(5) Net income in 2003 includes a $0.6 million charge, net of tax, related to a settlement with our founder, E. David Corvese, and a restructuring charge of $0.9 million, net of tax.

(6) Net income in 2004 includes a $0.5 million charge, net of tax, related to a settlement with Value Options of Texas, Inc.

(7) Net loss in 2005 includes a $4.3 million charge, net of tax, to reflect an increase in the allowance for doubtful accounts receivable created by lower than expected collections during the merger integration period.

(8) Net loss in 2006 includes a $25.7 million income tax charge for the establishment of a valuation allowance recorded against deferred tax assets.

(9) The 2006 and 2005 net loss per diluted share excludes the effect of common stock equivalents, as their inclusion would be anti-dilutive.

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**Item 7.** ***Management's Discussion and Analysis of Financial Condition and Results of Operations***

The following Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A") is designed to assist the reader in understanding our consolidated financial statements, the changes in certain key items in those financial statements from year to year and the primary factors that accounted for those changes, as well as how certain accounting principles affect our consolidated financial statements. The discussion also provides information about the financial results of the various segments of our business to provide a better understanding of how those segments and their results affect our financial condition and results of operations as a whole. This discussion should be read in conjunction with our Consolidated Financial Statements, including the Notes thereto, and the information discussed in *Part I, Item 1A — Risk Factors.*

**"Safe Harbor" Statement Under the Private Securities Litigation Reform Act of 1995**

This report contains statements not purely historical and which may be considered forward-looking statements within the meaning of Section 27A of the Securities Act, and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), including statements regarding our expectations, hopes, beliefs, intentions or strategies regarding the future. These forward looking statements may include statements relating to our business development activities, sales and marketing efforts, the status of material contractual arrangements, including the negotiation or re-negotiation of such arrangements, future capital expenditures, the effects of regulation and competition on our business, future operating performance and the results, benefits and risks associated with integration of acquired companies. Investors are cautioned that any such forward-looking statements are not guarantees of future performance and involve risks and uncertainties; that actual results may differ materially from those possible results discussed in the forward-looking statements as a result of various risks, uncertainties and other factors. You should not place undue reliance on such forward-looking statements as they speak only as of the date they are made, and we assume no obligation to publicly update or revise any forward-looking statement even if experience or future changes make it clear that any projected results expressed or implied therein will not be realized.

These factors include, among other things, risks associated with increased government regulation related to the healthcare and insurance industries in general and more specifically, pharmacy benefit management and specialty pharmaceutical distribution organizations, changes in reimbursement rates from government and private payors, the existence of complex laws and regulations relating to our business, increased competition from our competitors, including competitors with greater financial, technical, marketing and other resources. This report contains information regarding important factors that could cause such differences.

**Business Overview**

**Item 1.** ***Business***

**Overview**

We are a specialty pharmaceutical healthcare organization that partners with patients, physicians, healthcare payors and pharmaceutical manufacturers to provide access to medications and management solutions to optimize outcomes for chronic and other complex healthcare conditions.

Our specialty pharmaceutical services ("Specialty Services") include the comprehensive support, dispensing and distribution, patient care management, data reporting as well as a range of other complex management services

for certain medications. These medications include orals, injectables and infusibles used to treat patients living with chronic health conditions and are provided in various capacities to patients, physicians, healthcare payors and pharmaceutical manufacturers. Our pharmacy benefit management ("PBM") services include pharmacy network management, claims processing, benefit design, drug utilization review, formulary management and traditional mail order pharmacy fulfillment. These services are reported under two operating segments: (i) Specialty Services; and (ii) PBM and Traditional Mail Services (collectively, "PBM Services").

Specialty Services and PBM Services revenues are derived from our relationships with healthcare payors including managed care organizations, government-funded and/or operated programs, pharmaceutical manufacturers, patients and physicians as well as a variety of third party payors, including TPAs and Plan Sponsors.

Our Specialty Services are marketed and/or sold primarily to healthcare payors, pharmaceutical manufacturers, physicians, and patients, and target certain specialty medications that are used to treat patients living with chronic health conditions. These services include the distribution of biotech and other high cost injectable, oral and infusible prescription medications and the provision of therapy management services.

We are the sole vendor for the Centers for Medicare and Medicaid Services' ("CMS") Competitive Acquisition Program ("CAP") for certain Medicare Part B drugs and biologicals which commenced July 1, 2006. CAP is a voluntary program that offers physicians the option of obtaining many of their Medicare Part B drugs from us by writing a prescription, thus eliminating the need for buying the medications and billing CMS for drug reimbursement, which, prior to the existence of CAP, was primarily the only way for physicians to treat Medicare beneficiaries with such drugs. CAP benefits to physicians include reduction or elimination of the financial risks associated with carrying high-cost drug inventories and reduction of the administrative burdens of physicians. Our CAP contract runs on an exclusive basis through December 31, 2008, and is being competitively bid for the potential addition of new vendors by CMS beginning 2009 and beyond. We have submitted our bid to participate in CAP for periods after 2008. While we have no reason to believe that we will not be selected as a CAP provider, no assurances can be given at this time. However, management believes that our failure to be named as a CAP provider, whether or not on an exclusive basis, will not have a materially adverse affect on our business, operations or financial position or results of operations.

In July we announced that we were awarded an agreement (the "UHC Agreement") to serve as one of two national specialty pharmacy providers of HIV/AIDS and Solid Organ Transplant drugs and services to patients insured by United Healthcare and its participating affiliates. This agreement became effective on August 1, 2007, with the initial term of the agreement running through December 31, 2008. We have no reason to believe that the UHC Agreement will not continue beyond the end of 2008. However, at this time we have received no assurances that the Agreement will continue into 2009. The failure of the UHC Agreement to continue beyond 2008 could have a material and adverse affect on our business, operations and financial results of operations in 2009.

We plan to grow our infused product sales by marketing a broader product offering, including adding new therapies to our current focus on immunological blood products and expanding our geographic service area. We will work with physicians who utilize our services to support their in-office infusion activities and we expect to establish ambulatory infusion centers.

Our PBM Services are marketed to healthcare payors including employer groups and TPAs and are designed to promote a broad range of cost-effective, clinically appropriate pharmacy benefit management services through our national PBM retail network and our own mail service distribution facility. We also administer prescription discount card programs on behalf of commercial Plan Sponsors, most typically TPAs. Under such programs we derive revenue on a per claim basis from the dispensing network pharmacy.

Over the past several years our strategic growth has been focused on building our Specialty Services. Consequently, Specialty Services revenues have grown to more than 80% of our total revenue.

**Critical Accounting Estimates**

Our consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles ("GAAP"). In preparing our financial statements, we are required to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and

liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. We evaluate our estimates and judgments on an ongoing basis. We base our estimates and judgments on historical experience and on various other factors that we believe to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Our actual results may differ from these estimates, and different assumptions or conditions may yield different estimates. The following discussion highlights what we believe to be the critical accounting estimates and judgments made in the preparation of our consolidated financial statements.

The following discussion is not intended to be a comprehensive list of all the accounting estimates or judgments made in the preparation of our financial statements, and in many cases the accounting treatment of a particular transaction is specifically dictated by GAAP, with no need for management's judgment in its application. See our audited consolidated financial statements and notes thereto which appear in Item 8 — Financial Statements and Supplementary Data of this Annual Report, which contain accounting policies and other disclosures required by GAAP.

***Revenue Recognition***

We generate revenue principally through the sale of prescription drugs, which are dispensed either through a pharmacy participating in our pharmacy network or a pharmacy owned by us. Revenue is generally derived under fee-for-service agreements; however, an immaterial amount of revenue is derived from capitated agreements where the fee is based on a per patient basis.

*Fee-for-service agreements include:* (i) specialty and mail service agreements, where we dispense prescription medications through our pharmacy facilities and (ii) PBM agreements, where prescription medications are dispensed through pharmacies participating in our retail pharmacy network as well as through our traditional mail service facility. Under fee-for-service agreements, revenue for Specialty Services is recognized either at the time the drug is shipped in the case of most Specialty agreements or at the time of infusion when nursing services are provided and billed by us. Customers receive medication from us by picking it up from a retail location or by mail or other means of shipping. In those cases where we ship the medication, revenue is recognized at the point of shipment. At that point, the earnings process is considered complete and we have substantially accomplished the terms of our transaction Revenue for PBM Services is recognized when the pharmacy services are reported to us through the point of sale ("POS") claims processing system and the drug is dispensed to the Member. Fee-for-service agreements accounted for more than 95% of our revenue for each of the years ended December 31, 2007, 2006 and 2005.

Revenue generated under PBM agreements is classified as either gross or net by us based on whether we are acting as a principal or an agent in the fulfillment of prescriptions through our retail pharmacy network. When we independently have a contractual obligation to pay a network pharmacy provider for benefits provided to its Plan Sponsors' Members, and therefore are the "primary obligor" as defined by Emerging Issues Task Force Issue No. 99-19, we include payments (which include the drug ingredient cost) from these Plan Sponsors as revenue and payments to the network pharmacy providers as cost of revenue. These transactions require us to pay network pharmacy providers, assume credit risk of Plan Sponsors and act as a principal. If we merely act as an agent, and consequently administer Plan Sponsors' network pharmacy contracts, we do not have the primary obligation to pay the network pharmacy and assume credit risk and as such record only the administrative fees (and not the drug ingredient cost) as revenue.

***Allowance for Doubtful Accounts***

Allowances for doubtful accounts are based on estimates of losses related to customer receivable balances. The procedure for estimating the allowance for doubtful accounts requires significant judgment. The risk of collection varies based upon the product, the payor (commercial health insurance, government, physician), the patient's ability to pay the amounts not reimbursed by the payor and point of distribution (retail, mail service and infusion). We estimate the allowance for doubtful accounts based upon a variety of factors including the age of the outstanding receivables and our historical experience of collections, adjusting for current economic conditions and, in some

cases, evaluating specific customer accounts for risk of loss. We periodically review the estimation process and make changes to the estimates as necessary. When it is deemed probable that a customer account is uncollectible, that balance is written off against the existing allowance.

***Allowance for Contractual Discounts***

We are reimbursed for the medications and services we sell by Plan Sponsors. Revenues and related accounts receivable are recorded net of payor contractual discounts to reflect the estimated net billable amounts for the products and services delivered. We estimate the allowance for contractual discounts, based on historical experience and in certain cases on a customer-specific basis, given our interpretation of the contract terms or applicable regulations. However, the reimbursement rates are often subject to interpretation that could result in payments that differ from our estimates. Additionally, updated regulations and contract negotiations occur frequently, necessitating our continual review and assessment of the estimation process.

***Rebates***

Manufacturers' rebates are recorded as estimates until such time as the rebate monies are received. These estimates are based on historical results and trends and are revised on a regular basis depending upon our latest forecasts, as well as information received from rebate sources. Should actual results differ, adjustments will be recorded in future earnings. In some instances, rebate payments are shared with our managed care organizations. Rebates are recorded as a reduction of cost of goods sold.

***Payables to Plan Sponsors***

Payables to plan sponsors primarily represent payments made by Plan Sponsors in excess of the invoiced reimbursement. These amounts are refunded to Plan Sponsors in Specialty Services. In addition, these payables include the sharing of manufacturers' rebates with the Plan Sponsors in the PBM Services segment.

***Income Taxes***

As part of the process of preparing our consolidated financial statements, management is required to estimate income taxes in each of the jurisdictions in which we operate. We account for income taxes under Statement of Financial Accounting Standards ("SFAS"), SFAS 109, *Accounting for Income Taxes* ("SFAS 109"). SFAS 109 requires the use of the asset and liability method of accounting for income taxes. Under this method, deferred taxes are determined by calculating the future tax consequences attributable to differences between the financial accounting and tax bases of existing assets and liabilities. A valuation allowance is recorded against deferred tax assets when, in the opinion of management, it is more likely than not that we will not be able to realize the benefit from our deferred tax assets.

On January 1, 2007, we adopted the provisions of Financial Accounting Standards Board ("FASB"), FASB Interpretation No. 48 *Accounting for Uncertainty in Income Taxes* ("FIN 48"). FIN 48 establishes the accounting for uncertain tax positions. FIN 48 clarifies the accounting for income taxes by prescribing a recognition threshold and measurement attribute that a tax position is required to meet before being recognized in the financial statements and provides guidance on derecognition, measurement, classification, interest and penalties, accounting in interim periods, disclosure and transition. We file income tax returns, including returns for our subsidiaries, as prescribed by Federal tax laws and the tax laws of the state and local jurisdictions in which we operate. Our uncertain tax positions are related to tax years that remain subject to examination. Interest and penalties related to unrecognized tax benefits are recorded as income tax expense. See Note 12 — Income Taxes of the Notes to the Consolidated Financial Statements for discussion of the effects of our adoption of FIN 48.

***Purchase Price Allocation***

We account for acquisitions under the purchase method of accounting. Accordingly, any assets acquired and liabilities assumed are recorded at their respective fair values. The recorded values of assets and liabilities are based on third party estimates and independent valuations. The remaining values are based on management's judgments

and estimates. Accordingly, our financial position or results of operations may be affected by changes in estimates and judgments used to value these assets and liabilities.

***Goodwill***

In accordance with SFAS 142, *Goodwill and Other Intangible* Assets, we evaluate goodwill for impairment based on a two-step process. The first step compares the fair value of a reporting unit with its carrying amount, including goodwill. If the fair value of a reporting unit exceeds its carrying amount, goodwill of the reporting unit is not impaired and the second step of the impairment test is unnecessary. If the carrying amount of the reporting unit exceeds its fair value, the second step of the goodwill impairment test is necessary to measure the amount of impairment loss, if any. The second step compares the implied fair value of reporting unit goodwill with the carrying amount of that goodwill. If the carrying amount of the reporting unit goodwill exceeds the implied fair value of that goodwill, an impairment loss would be recognized in an amount equal to that excess.

The Company has two reporting units; Specialty Services and PBM Services. As a result of an evaluation of the PBM Services segment in a prior year, all goodwill associated with PBM Services had been written off. The goodwill associated with Specialty Services was evaluated and no impairment existed at December 31, 2007 or 2006.

***Impairment of Long Lived Assets***

We evaluate whether events and circumstances have occurred that indicate that the remaining estimated useful life of long-lived assets, including intangible assets, may warrant revision or that the remaining balance of an asset may not be recoverable. The measurement of possible impairment is based on the ability to recover the balance of assets from expected future operating cash flows on an undiscounted basis. Impairment losses, if any, would be determined based on the present value of the cash flows using discount rates that reflect the inherent risk of the underlying business. No impairment of long lived assets existed at December 31, 2007 or 2006.

***Accounting for Stock-Based Compensation***

Effective January 1, 2006, we adopted the fair value recognition provisions of SFAS No. 123(R), *Share-Based Payment* ("SFAS 123(R)"), using the modified-prospective-transition method. Under that transition method, compensation cost recognized during 2007 includes: (i) compensation cost for all share-based payments granted prior to, but not yet vested as of, January 1, 2006 based on the grant date fair value estimated in accordance with the original provisions of SFAS 123, and (ii) compensation cost for all share-based payments granted subsequent to January 1, 2006, based on the grant-date fair value estimated in accordance with the provisions of SFAS 123(R). Results for prior periods have not been restated.

The fair value of each option award is estimated on the date of grant using a binomial option-pricing model that uses the following assumptions: (i) expected volatility is based on the historical volatility of our stock, (ii) the risk-free interest rate for periods within the contractual life of the option is based on the U.S. Treasury yield curve in effect at the time of the grant, and (iii) the expected life of options granted is derived from previous history of stock exercises from the grant date and represents the period of time that options granted are expected to be outstanding. We use historical data to estimate option exercise and employee termination assumptions under the valuation model.

***Off-Balance Sheet Arrangements***

We do not participate in transactions that generate relationships with unconsolidated entities or financial partnerships, such as special purpose entities or variable interest entities, which would have been established for the purpose of facilitating off-balance sheet arrangements or other limited purposes. As of December 31, 2007, we are not involved in any unconsolidated special purpose entities or variable interest entities.

**Reclassifications**

Certain prior period amounts have been reclassified to conform to the current year presentation. Such reclassifications had no material effect on our previously reported consolidated financial position, results of operations or cash flows.

**Results of Operations**

The following unaudited condensed consolidated pro forma financial information for the year ended December 31, 2005 has been prepared as if the Chronimed acquisition had been consummated at January 1, 2005, utilizing the purchase method of accounting, with pro forma adjustments for amortization of intangibles associated with the acquisition. The number of basic and diluted shares has also been adjusted assuming we exchanged each outstanding share of Chronimed common stock for 1.12 shares of our common stock. We believe this information to be helpful in gaining an understanding of future financial and operating results and trends. In the following Management's Discussion and Analysis we provide discussion of both the reported results as set forth in the Financial Statements and the pro forma results as presented in the following tables:

**Pro Forma Consolidated Results**
**(in thousands, except per share and percentage data)**
**(unaudited)**

| | Year Ended December 31, 2005 | | | |
|---|---|---|---|---|
| | BioScrip | Chronimed Pre-Merger | Pro Forma Adjustments | Pro Forma Combined |
| Revenue | | | | |
| Specialty Services | $ 688,512 | $ 114,079 | $ — | $ 802,591 |
| PBM Services | 384,383 | — | — | 384,383 |
| Total revenue | 1,072,895 | 114,079 | | 1,186,974 |
| Cost of revenue | 956,519 | 101,155 | — | 1,057,674 |
| Gross profit | 116,376 | 12,924 | — | 129,300 |
| % of Revenue | 10.8% | 11.3% | | 10.9% |
| Operating expenses | | | | |
| Selling, general and administrative expenses | 96,630 | 10,498 | — | 107,128 |
| Bad debt expense | 12,814 | 840 | | 13,654 |
| Amortization of intangibles | 6,395 | — | 958 | 7,353 |
| Merger related expenses | 4,575 | 2,037 | — | 6,612 |
| Goodwill and intangible impairment | 25,165 | — | — | 25,165 |
| Total operating expenses | 145,579 | 13,375 | 958 | 159,912 |
| % of Revenue | 13.6% | 11.7% | | 13.5% |
| Loss from operations | (29,203) | (451) | (958) | (30,612) |
| Interest (expense) income, net | (392) | 84 | — | (308) |
| Loss before income taxes | (29,595) | (367) | (958) | (30,920) |
| Income tax benefit | (5,748) | (143) | (114) | (6,005) |
| Net loss | $ (23,847) | $ (224) | $ (844) | $ (24,915) |
| Basic weighted average shares | 34,129 | | | 34,129 |
| Diluted weighted average shares | 34,129 | | | 34,129 |
| Basic net loss per share | $ (0.70) | | | $ (0.73) |
| Diluted net loss per share | $ (0.70) | | | $ (0.73) |

**CONSOLIDATED RESULTS**

***Year ended December 31, 2007 vs. December 31, 2006***

*Revenue*. Total reported revenue for the year ended December 31, 2007 increased $45.8 million, or 4.0%, to $1,197.7 million from $1,151.9 million for the same period in 2006. The year-over-year increase was concentrated in the Specialty Services segment and is primarily attributable to sales of new drugs, strong growth in infused products, new business related to CAP and the acquisition of Infusion West in March 2006. The increase is partially offset by revenues associated with the loss of PBM contracts.

Specialty Services revenue for the year ended December 31, 2007 was $974.2 million compared to $866.6 million for the same period in 2006, a $107.6 million, or 12.4%, increase. This increase was due primarily to sales of new specialty drugs under exclusive or preferred distribution and managed care arrangements, strong growth in infusion products, new business related to CAP and the acquisition of Infusion West in March 2006.

PBM Services revenue for the year ended December 31, 2007 was $223.5 million compared to $285.3 million for the same period in 2006, a $61.8 million, or 21.7%, decrease. The decline in revenue is due primarily to the loss of revenues associated with certain PBM customers. The decline in PBM revenue is partially offset by increased volume in our traditional mail business.

*Cost of Revenue and Gross Profit*. Reported cost of revenue for the year ended December 31, 2007 was $1,060.7 million compared to $1,033.9 million for the same period in 2006. This increase in cost of revenue was primarily the result of increased sales, offset by improved acquisition costs resulting from improved contracting. The total gross profit as a percentage of revenue for the year ended December 31, 2007 was 11.4%, compared to 10.2% for the same period in 2006. The Specialty Services segment gross profit rate increased primarily as a result of improved drug acquisition costs and favorable business mix. The PBM Services segment gross profit rate increased primarily due to a shift from lower margin customers to higher margin customers.

*Selling, General and Administrative Expenses*. For the year ended December 31, 2007, selling, general and administrative expenses ("SG&A") increased to $120.1 million, or 10.0% of total revenue, from $115.3 million, or 10.0% of total revenue, for the same period in 2006. The year-over-year increase in SG&A is primarily the result of compensation related expense.

*Bad Debt Expense*. For the year ended December 31, 2007 we recorded bad debt expense of $5.1 million, a decrease of $7.3 million compared to $12.4 million in 2006. Bad debt expense has decreased due to improved billing, cash collection and posting practices and the favorable settlement of previously reserved doubtful accounts.

*Amortization of Intangibles*. For the year ended December 31, 2007 we recorded amortization expense of intangibles of $2.9 million compared to amortization expense from intangibles of $6.5 million in 2006. In first quarter 2007 the amortization of the intangible assets associated with the Chronimed acquisition expired, resulting in a decrease in amortization expense.

*Net Interest Expense*. Net interest expense was $3.3 million for the year ended December 31, 2007 compared to $3.0 million for the year ended December 31, 2006. The increase in interest expense was the result of higher average borrowing levels primarily created by growth in the Specialty Services segment and a reduction in claims payable.

*Provision for Income Taxes*. The reported provision for income taxes was $2.3 million for 2007 compared to $19.0 million for 2006. The decrease in the provision from 2006 to 2007 was due primarily to the establishment of a valuation allowance recorded against deferred tax assets of $25.7 million in 2006. At December 31, 2007, we had Federal net operating loss carryforwards of approximately $27.3 million, of which $8.6 million is subject to an annual limitation, all of which will begin expiring in 2017 and later.

*Net Income and Earnings Per Share*. We reported net income of $3.3 million, or $0.09 per share, for the year ended December 31, 2007, compared to a net loss of $38.3 million, or $1.03 per share, for the same period a year ago. The number of weighted average basic and diluted shares at December 31, 2007 was 37,647,270 and 38,491,009, respectively, compared to 37,303,531 for both at December 31, 2006.

***Year ended December 31, 2006 vs. December 31, 2005***

*Revenue*. Total reported revenue for the year ended December 31, 2006 increased $79.0 million, or 7.4%, to $1,151.9 million from $1,072.9 million for the same period in 2005. The 2005 results reflect the acquisition of Chronimed starting March 12, 2005. The year-over-year increase was concentrated in the Specialty Services segment and is primarily attributable to sales of new drugs, strong growth in infused products, new business related to CAP and the acquisitions of JPD, Inc d/b/a Northland Medical Pharmacy ("Northland") in October 2005 and Infusion West in March 2006. The increase is partially offset by the loss of PBM contracts.

Revenue for the year ended December 31, 2006 was $1,151.9 million compared to $1,187.0 million on a pro forma basis for the year ended December 31, 2005, a $35.1 million, or 3.0%, decrease. The discussion below explains the primary reasons for revenue changes in each of our segments, Specialty Services and PBM Services.

Specialty Services revenue for the year ended December 31, 2006 was $866.6 million compared to $802.6 million on a pro forma basis for the same period in 2005, a $64.0 million, or 8.0% increase. This increase was due primarily to sales of new specialty drugs under exclusive or preferred distribution arrangements, strong growth in infusion products, new business related to CAP, and the acquisition of Northland in October 2005 and Infusion West in March 2006.

PBM Services revenue for the year ended December 31, 2006 was $285.3 million compared to $384.4 million on a pro forma basis for the same period in 2005, a $99.1 million, or 25.8% decrease. The decline in revenue is due primarily to the loss of our customer Centene Corporation, which acquired its own PBM business and transitioned its PBM business with us to its own PBM throughout 2006. The decline in PBM revenue is partially offset by increased volume in our traditional mail business.

*Cost of Revenue and Gross Profit*. Reported cost of revenue for the year ended December 31, 2006 was $1,033.9 million compared to $956.5 million for the same period in 2005. The total gross profit rate as a percentage of revenue for the year ended December 31, 2006 was 10.2%, compared to 10.8% for the same period in 2005. The Specialty Services segment gross profit rate decreased primarily as a result of program changes associated with the implementation of Medicare Part D on January 1, 2006, and industry-wide reimbursement pressures. The PBM Services segment gross profit rate, which is lower than Specialty Services, increased in 2006 from 2005 due to improved generic utilization and favorable rate impact created from the loss of lower margin business in 2006, partially offset by a rate change by a large traditional mail services client.

Combined cost of revenue decreased $23.8 million, or 2.3%, to $1,033.9 million for the year ended December 31, 2006 from $1,057.7 million on a pro forma basis for the year ended December 31, 2005. Gross profit rate as a percentage of revenue decreased to 10.2% for the year ended December 31, 2006 compared to 10.9% on a pro forma basis for the same period in 2005. The Specialty Services gross profit decrease in 2006 was primarily the result of program changes associated with the implementation of Medicare Part D on January 1, 2006, and industry-wide reimbursement pressures. This was partially offset by an increase in PBM Services gross profit rate in 2006 due to improved generic utilization and favorable rate impact created from the loss of lower margin business in 2006 partially offset by a rate change by a large traditional mail client.

We continue to experience downward reimbursement pressure in both our Specialty Services and PBM Services segments as healthcare costs receive increasing scrutiny at local and national levels. In addition, the healthcare services industry continues to consolidate, creating larger and more aggressive competitors. In particular, we are beginning to see some of our competitors attempt to lock us out of certain specialty pharmacy contracts where we have been a provider in the past, which could cause a reduction in our revenue.

*Selling, General and Administrative Expenses*. For the year ended December 31, 2006, SG&A increased to $115.3 million, or 10.0% of total revenue, from $96.6 million, or 9.0% of total revenue, for the same period in 2005. The 2005 results reflect the acquisition of Chronimed starting March 12, 2005. The year-over-year increase in SG&A is primarily the result of additional ongoing operating expenses associated with acquisitions made since September 30, 2005, stock option expense due to the adoption of SFAS 123(R) at January 1, 2006, operating expense increases related to CAP, and severance expense related to staffing reductions. These expense increases were partially offset by a reduction in spending.

SG&A for the year ended December 31, 2006 was $115.3 million, or 10.0% of total revenue, compared to $107.1 million, or 9.0% of total revenue, on a pro forma basis for the year ended December 31, 2005. The increase in SG&A primarily is the result of ongoing operating expenses associated with acquisitions made since September 30, 2005, stock option expense due to the adoption of SFAS 123(R) at January 1, 2006, operating expense increases related to CAP, severance expense related to the departure of former senior management and general staff reduction, and general operating expense increases.

*Bad Debt Expense*. For the year ended December 31, 2006 we recorded bad debt expense of $12.4 million, a decrease of $0.4 million compared to $12.8 million in 2005. The decrease is the result of increased resources added to enhance our collection process and improve receivable collection performance.

Bad debt expense for the year ended December 31, 2006 was $12.4 million compared to $13.7 million on a pro forma basis for 2005, a decrease of $1.3 million. The decreased bad debt expense reflects a lower bad debt accrual rate due to an improvement in collections. The pro forma 2005 results reflect a fourth quarter charge of $7.1 million to reflect an increase in the allowance for doubtful accounts receivable created by lower than expected collections during the Chronimed merger integration period.

*Amortization of Intangibles*. For the year ended December 31, 2006 we recorded amortization expense of intangibles of $6.5 million compared to amortization expense from intangibles of $6.4 million in 2005. The increase is due to the amortization associated with the acquisition completed during 2006.

Amortization expense for the year ended December 31, 2006 was $6.5 million compared to $7.4 million on a pro forma basis for 2005, a decrease of $0.9 million. This decrease is due primarily to the write-off in 2005 of trade name assets associated with Natural Living, Inc. and Vitality Home Infusion Services, Inc. due to the rebranding strategy.

*Merger Related Expenses*. There were merger related expenses of $0.1 million in 2006. For the year ended December 31, 2005 merger related expenses were $4.6 million. The integration and other merger-related expenses include expenses incurred to consolidate the acquisition of Chronimed, including severance and rebranding costs.

Pro forma merger related expenses for the year ended December 31, 2005 were $6.6 million and reflected $2.0 million of merger-related expenses incurred by Chronimed from January 1, 2005 to March 12, 2005, the date of the Chronimed acquisition, in addition to those discussed above.

*Goodwill and Intangible Impairment*. There were no goodwill or intangible impairment write offs for the year ended December 31, 2006. The year ended December 31, 2005 included the write off of $5.8 million for the trade name intangible assets associated with Natural Living, Inc. and Vitality Home Infusion Services, Inc. The re-branding of all of our business lines to a single brand, BioScrip, prompted the write off of the existing trade name intangible assets. Also included in 2005 were goodwill and intangible impairment charges of $19.4 million, principally associated with the PBM Services segment. The PBM Services impairment is the result of the loss of the Centene contract and other related PBM Services contracts, and its negative impact on the long term financial outlook for the PBM Services business.

*Net Interest Expense*. Net interest expense was $3.0 million for the year ended December 31, 2006 compared to $0.4 million for the year ended December 31, 2005. Interest expense associated with our line of credit was higher in 2006 as our average borrowing levels were higher. The increase is principally the result of additional borrowings used to fund the acquisition of Infusion West, operating losses, declining PBM revenue and increased working capital needs associated with the CAP program. Interest expense for the line of credit was partially offset by interest income received on short term investments and money market accounts.

Net interest expense was $3.0 million for the year ended December 31, 2006 compared to $0.3 million on a pro forma basis for the year ended December 31, 2005.

*Provision for and Benefit from Income Taxes*. The reported provision for income taxes was $19.0 million for 2006 compared to a reported benefit from income taxes of $5.7 million for 2005. The 2006 tax provision includes the establishment of a valuation allowance recorded against deferred tax assets. At December 31, 2006, we had Federal net operating loss carryforwards of $21.6 million which begin expiring in 2017 and later.

*Net Income and Earnings Per Share*. We reported a net loss of $38.3 million, or $1.03 per share, for the year ended December 31, 2006, compared to a net loss of $23.8 million, or $0.70 per share, for the same period in 2005. The increase in net loss is due primarily to a $25.7 million income tax charge to establish a valuation allowance against deferred tax assets. The number of weighted average basic and diluted shares at December 31, 2006 was 37,303,531 compared to 34,128,650 at December 31, 2005, due to the acquisition and the related issuance of stock.

Net loss for the year ended December 31, 2006 was $38.3 million, or $1.03 per diluted share, compared to pro forma net loss of $24.9 million, or $0.73 per diluted share, for the year ended December 31, 2005.

**Liquidity and Capital Resources**

We utilize both funds generated from operations and available credit under our Facility (as defined below) for general working capital needs, capital expenditures and acquisitions.

For 2007, net cash provided by operating activities totaled $24.2 million, an improvement of $54.1 million over the $29.9 million used in operating activities for 2006. The cash provided in 2007 was primarily the result of net income of $3.3 million adjusted by non-cash depreciation and amortization of $7.0 million, an increase in accounts payable of $5.6 million and accrued expenses of $5.5 million, as well as a decrease in provision for losses on receivables of $5.1 million. These amounts were offset by a decrease in amounts due to Plan Sponsors of $5.7 million and claims payable of $4.4 million.

Net cash used in investing activities in 2007 was $5.5 million compared to net cash used in investing activities of $18.4 million in 2006. The change was driven primarily by the acquisition in 2006 of Infusion West.

Net cash used in financing activities in 2007 was $18.7 million compared to net cash provided by financing activities in 2006 of $46.8 million due to a reduction of the line of credit in 2007.

At December 31, 2007, we had working capital of $49.2 million compared to $37.0 million at December 31, 2006. The increase in working capital primarily is attributable to the reduction in outstanding borrowings and amounts due to Plan Sponsors partially offset by an increase in vendor payables.

At December 31, 2007 there were $33.8 million outstanding borrowings under our revolving credit facility (the “Facility”) with an affiliate of Healthcare Finance Group, Inc. (“HFG”), a $19.1 million decrease from December 31, 2006. Our revolving credit facility provides for borrowing up to $75 million at the London Inter-Bank Offered Rate (LIBOR) plus the applicable margin. The Facility term is through November 1, 2010. The Facility permits us to request an increase in the amount available for borrowing to up to $100 million, as well as to convert a portion of any outstanding borrowings from a Revolving Loan into a Term Loan. The borrowing base utilizes receivables balances and other related collateral as security under the Facility.

The weighted average interest rate on the line of credit was 7.24% during 2007 compared to 7.61% for 2006. At February 29, 2008 we had $31.0 million of credit available under the Facility.

The Facility contains various covenants that, among other things, require us to maintain certain financial ratios, as defined in the agreements governing the Facility. We were in compliance with all such covenants as of December 31, 2007.

On March 1, 2006, we acquired Infusion West for $13.1 million in cash. Direct expenses associated with the acquisition were less than $0.1 million. That acquisition was paid for with proceeds from the Facility. As we continue to grow, we anticipate that our working capital needs will also continue to increase. We have made substantial information technology (“IT”) systems investments in 2007 and will continue to invest in 2008 to improve efficiencies, internal controls, and data reporting and management. We believe that our cash on hand, together with funds available under the Facility and cash expected to be generated from operating activities will be sufficient to fund our anticipated working capital, IT systems investments and other cash needs for at least the next twelve months.

We also may pursue joint venture arrangements, business acquisitions and other transactions designed to expand our business, which we would expect to fund from borrowings under the Facility, other future indebtedness or, if appropriate, the private and/or public sale or exchange of our debt or equity securities.

At December 31, 2007, we had Federal net operating loss carryforwards of approximately $27.3 million, of which $8.6 million is subject to an annual limitation, all of which will begin expiring in 2017 and later. We have post apportioned state net operating loss carryforwards remaining of approximately $15.4 million, the majority of which will begin expiring in 2017 and later.

The following table sets forth our contractual obligations affecting cash in the future:

| | Payments Due in Period (in thousands) | | | | |
|---|---|---|---|---|---|
| **Contractual Obligations** | **Total** | **Less Than 1 Year** | **1-3 Years** | **4-5 Years** | **After 5 Years** |
| Line of credit(1) | $ 33,778 | $ 33,778 | $ — | $ — | $ — |
| Operating leases | 14,615 | 4,555 | 6,771 | 2,204 | 1,085 |
| Purchase commitment(2) | 23,850 | 23,850 | — | — | — |
| Total Contractual Cash Obligations | $ 72,243 | $ 62,183 | $ 6,771 | $ 2,204 | $ 1,085 |

(1) Interest on the line of credit is payable monthly. For additional information regarding the line of credit see Note 9 — Line of Credit.

(2) Commitment with a supplier to purchase established product quantities.

**Other Matters**

***Controls and Procedures***

As of the end of the period covered by this Annual Report, evaluations of disclosure controls and internal control over financial reporting were performed under the supervision and with the participation of management, including our Chief Executive Officer (“CEO”) and Chief Financial Officer (“CFO”). Based upon these evaluations, management believes our controls were effective as of December 31, 2007. See Part II, Item 9A. “Controls and Procedures” for a full discussion of the Evaluation of Disclosure Controls and Procedures, Management Report on Internal Control over Financial Reporting and our Management Remediation Plan.

**7A.** ***Quantitative and Qualitative Disclosures About Market Risk***

Exposure to market risk for changes in interest rates relates to our outstanding debt. At December 31, 2007 we did not have any long-term debt. We are exposed to interest rate risk primarily through our borrowing activities under our line of credit discussed in Item 7 of this report. A 1% increase in interest rates would result in an increase in annual interest expense of approximately $0.4 million, pre-tax, based upon the average daily balance during 2007. We do not use financial instruments for trading or other speculative purposes and are not a party to any derivative financial instruments.

At December 31, 2007, the carrying values of cash and cash equivalents, accounts receivable, accounts payable, claims payable, payables to plan sponsors and others, debt and line of credit approximate fair value due to their short-term nature.

Because management does not believe that our exposure to interest rate market risk is material at this time, we have not developed or implemented a strategy to manage this market risk through the use of derivative financial instruments or otherwise. We will assess the significance of interest rate market risk from time to time and will develop and implement strategies to manage that market risk as appropriate.

* * * * * * * * *

**Item 8.** ***Financial Statements and Supplementary Data***

**Report of Independent Registered Public Accounting Firm**

The Board of Directors and Stockholders of BioScrip, Inc.

We have audited the accompanying consolidated balance sheets of BioScrip, Inc. and subsidiaries as of December 31, 2007 and 2006, and the related consolidated statements of operations, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2007. Our audits also included the financial statement schedule listed in the Index at Item 15. These financial statements and schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). 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. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of BioScrip, Inc. and subsidiaries at December 31, 2007 and 2006, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 2007, in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

As discussed in Note 2 to the consolidated financial statements, effective January 1, 2007, the Company adopted Financial Accounting Standards Board Interpretation No. 48, *Accounting for Uncertainty in Income Taxes*. Also as discussed in Note 2 to the consolidated financial statements, effective January 1, 2006, the Company adopted SFAS No. 123(R), *Share-Based Payment*.

We have also audited, in accordance with the Standards of the Public Company Accounting Oversight Board (United States), BioScrip, Inc.'s internal control over financial reporting as of December 31, 2007, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated March 6, 2008 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

Minneapolis, Minnesota
March 6, 2008

**BIOSCRIP, INC. AND SUBSIDIARIES**

**CONSOLIDATED BALANCE SHEETS**
**December 31,**
**(in thousands, except for share amounts)**

| | 2007 | 2006 |
|---|---|---|
| **ASSETS** | | |
| **Current assets** | | |
| Cash and cash equivalents | $ — | $ — |
| Receivables, less allowance for doubtful accounts of $12,083 and $13,774 at December 31, 2007 and 2006, respectively | 128,969 | 135,139 |
| Inventory | 33,598 | 33,471 |
| Prepaid expenses and other current assets | 1,434 | 2,090 |
| Total current assets | 164,001 | 170,700 |
| Property and equipment, net | 11,742 | 10,409 |
| Other assets | 478 | 681 |
| Goodwill | 114,824 | 114,991 |
| Intangible assets, net | 5,777 | 8,675 |
| **Total assets** | $ 296,822 | $ 305,456 |
| **LIABILITIES AND STOCKHOLDERS' EQUITY** | | |
| **Current liabilities** | | |
| Line of credit | $ 33,778 | $ 52,895 |
| Accounts payable | 57,342 | 51,724 |
| Claims payable | 5,164 | 9,548 |
| Amounts due to plan sponsors | 4,568 | 10,280 |
| Accrued expenses and other current liabilities | 13,936 | 9,230 |
| Total current liabilities | 114,788 | 133,677 |
| Deferred taxes | 12,754 | 9,946 |
| Income taxes payable | 3,077 | — |
| **Total liabilities** | 130,619 | 143,623 |
| **Stockholders' equity** | | |
| Preferred stock, $.0001 par value; 5,000,000 shares authorized; no shares issued or outstanding | $ — | $ — |
| Common stock, $.0001 par value; 75,000,000 shares authorized; shares issued: 41,331,346 and 40,680,233, respectively; shares outstanding: 38,250,633 and 37,488,257, respectively | 4 | 4 |
| Treasury stock, shares at cost: 2,436,642 and 2,247,150, respectively | (9,399) | (8,002) |
| Additional paid-in capital | 244,186 | 239,315 |
| Accumulated deficit | (68,588) | (69,484) |
| **Total stockholders' equity** | 166,203 | 161,833 |
| **Total liabilities and stockholders' equity** | $ 296,822 | $ 305,456 |

The accompanying notes are an integral part of these consolidated financial statements.

**BIOSCRIP, INC. AND SUBSIDIARIES**

**CONSOLIDATED STATEMENTS OF OPERATIONS**
**Years Ended December 31,**
**(in thousands, except per share amounts)**

| | 2007 | 2006 | 2005 |
|---|---|---|---|
| Revenue | $ 1,197,732 | $ 1,151,940 | $ 1,072,895 |
| Cost of revenue | 1,060,717 | 1,033,884 | 956,519 |
| Gross profit | 137,015 | 118,056 | 116,376 |
| Selling, general and administrative expenses | 120,147 | 115,258 | 96,630 |
| Bad debt expense | 5,119 | 12,443 | 12,814 |
| Amortization of intangibles | 2,898 | 6,538 | 6,395 |
| Merger related expenses | — | 58 | 4,575 |
| Goodwill and intangible impairment | — | — | 25,165 |
| Income (loss) from operations | 8,851 | (16,241) | (29,203) |
| Interest expense, net | (3,270) | (3,018) | (392) |
| Income (loss) before provision for income taxes | 5,581 | (19,259) | (29,595) |
| Tax provision (benefit) | 2,264 | 19,030 | (5,748) |
| Net income (loss) | $ 3,317 | $ (38,289) | $ (23,847) |
| Basic income (loss) per share | $ 0.09 | $ (1.03) | $ (0.70) |
| Diluted income (loss) per share | $ 0.09 | $ (1.03) | $ (0.70) |
| Weighted average shares used in computing basic income (loss) per share | 37,647 | 37,304 | 34,129 |
| Weighted average shares used in computing diluted income (loss) per share | 38,491 | 37,304 | 34,129 |

The accompanying notes are an integral part of these consolidated financial statements.

**BIOSCRIP, INC. AND SUBSIDIARIES**

**CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY**
**(in thousands)**

| | Common Stock | Treasury Stock | Additional Paid-In Capital | Accumulated Deficit | Total Stockholders' Equity |
|---|---|---|---|---|---|
| Balance December 31, 2004 | $ 2 | $ (8,002) | $ 131,031 | $ (7,348) | $ 115,683 |
| Exercise of stock options and other related activities | — | — | 1,892 | — | 1,892 |
| Tax benefit recorded from option exercises | — | — | 475 | — | 475 |
| Shares issued in connection with Chronimed acquisition | 2 | — | 101,560 | — | 101,562 |
| Net loss | — | — | — | (23,847) | (23,847) |
| Balance December 31, 2005 | 4 | (8,002) | 234,958 | (31,195) | 195,765 |
| Exercise of stock options and other related activities | — | — | 1,356 | — | 1,356 |
| Tax benefit recorded from option exercises | — | — | 456 | — | 456 |
| Compensation under employee stock compensation plans | — | — | 2,545 | — | 2,545 |
| Net loss | — | — | — | (38,289) | (38,289) |
| Balance December 31, 2006 | 4 | (8,002) | 239,315 | (69,484) | 161,833 |
| Exercise of stock options | — | — | 1,867 | — | 1,867 |
| Surrender of stock to satisfy minimum tax withholding | — | (1,397) | — | — | (1,397) |
| Compensation under employee stock compensation plans | — | — | 3,004 | — | 3,004 |
| Cumulative effect of FIN 48 adoption | — | — | — | (2,421) | (2,421) |
| Net income | — | — | — | 3,317 | 3,317 |
| Balance December 31, 2007 | $ 4 | $ (9,399) | $ 244,186 | $ (68,588) | $ 166,203 |

The accompanying notes are an integral part of these consolidated financial statements.

**BIOSCRIP, INC. AND SUBSIDIARIES**

**CONSOLIDATED STATEMENTS OF CASH FLOWS**
**Years Ended December 31,**
**(in thousands)**

| | 2007 | 2006 | 2005 |
|---|---|---|---|
| **Cash flows from operating activities:** | | | |
| Net income (loss) | $ 3,317 | $ (38,289) | $ (23,847) |
| Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities: | | | |
| Depreciation | 4,192 | 4,316 | 3,520 |
| Amortization | 2,898 | 6,538 | 6,395 |
| Goodwill and intangible impairment | — | — | 25,165 |
| Change in deferred income tax | 2,808 | 20,297 | (6,032) |
| Tax benefit from exercise of stock options | — | 456 | 475 |
| Excess tax benefits relating to employee stock compensation | — | (19) | — |
| Compensation under employee stock compensation plans | 3,004 | 2,545 | 116 |
| Provision for losses on receivables | 5,119 | 12,443 | 12,814 |
| Changes in assets and liabilities, net of acquired assets: | | | |
| Receivables | 1,050 | (15,764) | (21,471) |
| Inventory | (127) | (7,109) | (3,556) |
| Prepaid expenses and other current assets | 859 | 1,108 | 1,154 |
| Loss on disposal of fixed assets | — | 237 | 464 |
| Accounts payable | 5,618 | 9,056 | 11,073 |
| Claims payable | (4,384) | (21,854) | 2,743 |
| Amounts due to plan sponsors | (5,712) | 573 | — |
| Accrued expenses and other current and non-current liabilities | 5,545 | (4,396) | (15,436) |
| Net cash provided by (used in) operating activities | 24,187 | (29,862) | (6,422) |
| **Cash flows from investing activities:** | | | |
| Purchases of property and equipment | (5,526) | (5,436) | (5,129) |
| Acquisitions, net of cash acquired | — | (13,097) | 6,918 |
| Decrease in other assets | — | 125 | 1,332 |
| Net cash (used in) provided by investing activities | (5,526) | (18,408) | 3,121 |
| **Cash flows from financing activities:** | | | |
| Repayments on line of credit | (1,219,876) | (985,916) | (744,295) |
| Borrowings on line of credit | 1,200,760 | 1,031,383 | 744,419 |
| Net proceeds from exercise of employee stock compensation plans | 1,867 | 1,356 | 1,776 |
| Excess tax benefits relating to employee stock compensation | — | 19 | — |
| Surrender of stock to satisfy minimum tax withholding | (1,397) | — | — |
| Principal payments on capital lease obligations | (15) | (93) | (35) |
| Net cash (used in) provided by financing activities | (18,661) | 46,749 | 1,865 |
| Net decrease in cash and cash equivalents | — | (1,521) | (1,436) |
| **Cash and cash equivalents-beginning of period** | — | 1,521 | 2,957 |
| **Cash and cash equivalents-end of period** | $ — | $ — | $ 1,521 |
| **DISCLOSURE OF CASH FLOW INFORMATION:** | | | |
| Cash paid during the period for interest | $ 3,471 | $ 2,849 | $ 613 |
| Cash paid during the period for income taxes | $ 1,599 | $ 2,484 | $ 1,620 |

The accompanying notes are an integral part of these consolidated financial statements

## NOTE 1 — NATURE OF BUSINESS

***Corporate Organization and Business***

BioScrip, Inc. and subsidiaries (the "Company" or "BioScrip") is a specialty pharmaceutical healthcare organization that partners with patients, physicians, healthcare payors and pharmaceutical manufacturers to provide access to medications and management solutions to optimize outcomes for chronic and other complex healthcare conditions. The Company's specialty pharmaceutical services ("Specialty Services") include the comprehensive support, dispensing and distribution, patient care management, data reporting and a range of other complex management services for certain medications including orals, injectables and infusibles used to treat patients living with chronic health conditions and are provided in various capacities to patients, physicians, healthcare payors and pharmaceutical manufacturers. The Company's pharmacy benefit management ("PBM") services include pharmacy network management, claims processing, benefit design, drug utilization review, formulary management and traditional mail order pharmacy fulfillment. These services are reported under two operating segments: (i) Specialty Services; and (ii) PBM and Traditional Mail Services (collectively, "PBM Services").

The Company distributes high-cost pharmaceuticals and provides clinically focused case and disease management programs to Members afflicted with chronic illnesses or genetic impairments. The disease states or conditions for which the Company has such programs include HIV/AIDS, Immune Deficiency, Cancer, Hemophilia, Multiple Sclerosis, Growth Hormone Deficiency, Gaucher's Disease, Rheumatoid Arthritis, Infertility, Hepatitis C, Psoriasis, Crohn's Disease and Transplants. The specialty drugs distributed through the BioScrip programs are dispensed and serviced from the Company's 40 specialty pharmacy locations across the United States.

On March 12, 2005 the Company acquired all of the issued and outstanding stock of Chronimed Inc. ("Chronimed") in a stock-for-stock transaction. The acquisition resulted in an organization that is able to offer broader disease coverage, focused therapy management, expanded national retail and mail distribution capabilities and a PBM platform.

***Basis of Presentation***

The Company's consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles ("GAAP").

***Reclassification***

Certain prior period amounts have been reclassified to conform to the current year presentation. Such reclassifications had no material effect on the Company's previously reported consolidated financial position, results of operations or cash flows.

## NOTE 2 — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

***Consolidation***

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries. On March 12, 2005 the Company acquired all the issued and outstanding capital stock of Chronimed Inc. On October 7, 2005 the Company acquired all of the issued and outstanding stock of JPD, Inc. d/b/a Northland Medical Pharmacy. On March 1, 2006 the Company acquired all of the issued and outstanding stock of Intravenous Therapy Services, Inc. All acquisitions have been consolidated since the date of purchase and all significant intercompany accounts and transactions have been eliminated in consolidation.

***Use of Estimates***

The preparation of financial statements in conformity with GAAP requires management to make certain estimates and assumptions. These estimates and assumptions affect the reported amounts of assets and liabilities

and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

***Receivables***

Receivables include amounts due from certain third party payors and patient co-payments for pharmacies owned by the Company, amounts due from plan sponsors under the Company's PBM agreements, amounts due from pharmaceutical manufacturers for rebates, and service fees resulting from the distribution of certain drugs through retail pharmacies.

***Allowance for Doubtful Accounts***

Allowances for doubtful accounts are based on estimates of losses related to customer receivable balances. The procedure for estimating the allowance for doubtful accounts requires significant judgment and assumptions. The risk of collection varies based upon the product, the payor (commercial health insurance, government, and physician), the patient's ability to pay the amounts not reimbursed by the payor and the point of distribution (retail, national mail). The Company estimates the allowance for doubtful accounts based upon a variety of factors including the age of the outstanding receivables and the historical experience of collections, adjusting for current economic conditions and, in certain cases, evaluating specific customer accounts for risk of loss. The Company periodically reviews the estimation process and makes changes to the estimates as necessary. When it is deemed probable that a customer account is uncollectible, that balance is written off against the existing allowance.

***Allowance for Contractual Discounts***

The Company is reimbursed for the medications and services it sells by Plan Sponsors. Revenues and related accounts receivable are recorded net of payor contractual discounts to reflect the estimated net billable amounts for the products and services delivered. The Company estimates the allowance for contractual discounts, based on historical experience and in certain cases on a customer-specific basis, given its interpretation of the contract terms or applicable regulations. However, the reimbursement rates are often subject to interpretation that could result in payments that differ from estimates. Additionally, updated regulations and contract negotiations occur frequently, necessitating the continual review and assessment of the estimation process.

***Inventory***

Inventory is stated at the lower of cost or market. Cost is determined using the first-in, first-out method. Inventory consists principally of purchased prescription drugs for the Company's traditional mail and specialty distribution operations. Included in inventory is a reserve for expired inventory.

***Property and Equipment***

Property and equipment is stated at cost less accumulated depreciation and amortization. Depreciation is calculated using the straight-line method over the estimated useful lives of assets. The estimated useful lives of the Company's assets are as follows:

| Asset | Useful Life |
|---|---|
| Computer and office equipment | 3-5 years |
| Furniture and fixtures | 5-7 years |

Leasehold improvements and leased assets are amortized using a straight-line basis over the related lease term or estimated useful life of the assets, whichever is less. The cost and related accumulated depreciation of assets sold or retired are removed from the accounts with the gain or loss, if applicable, recorded in the statement of operations. Maintenance and repair costs are expenses as incurred.

Costs relating to the development of software for internal purposes are charged to expense until technological feasibility is established in accordance with Statement of Position 98-1 "Accounting for the Costs of Computer Software Developed or Obtained for Internal Use". Thereafter, the remaining software production costs up to the date placed into production are capitalized and included as Property and Equipment. Amortization of the capitalized amounts commences on the date placed into production and is calculated using the straight-line method over the estimated economic life of the software.

***Claims Payable***

Claims payable represent the dollar value of prescriptions processed or "adjudicated" in the Company's PBM Services business that are to be reimbursed to participating network pharmacies as of the balance sheet date. The Company is responsible for all covered prescriptions provided to PBM plan enrollees (Members) processed through its network pharmacies during the contract period. Claims are adjudicated through its on-line adjudication system. These claims become a liability to the Company at the point of adjudication, which is when it has agreed that the prescription claim is valid, correctly priced and due to the network pharmacy for a participating PBM plan member.

***Amounts due to Plan Sponsors***

Amounts due to Plan Sponsors primarily represent overpayments that will be paid back to Plan Sponsors in Specialty Services. In addition, these payables include the sharing of manufacturer's rebates with the Plan Sponsors in the PBM Services segment.

***Rebates***

Manufacturers' rebates are primarily part of the Company's PBM Services segment and are recorded as estimates until such time as the rebate monies are received. These estimates are based on historical results and trends and are revised on a regular basis depending on the Company's latest forecasts, as well as information received from rebate sources. Should actual results differ, adjustments will be recorded in future earnings. In some instances, rebate payments are shared with the Company's managed care organizations. Rebates are recorded as a reduction of cost of goods sold.

***Revenue Recognition***

The Company generates revenue principally through the sale of prescription drugs, which are dispensed either through a pharmacy participating in its pharmacy network or a pharmacy owned by the Company. Revenue is generally derived under fee-for-service agreements; however, an immaterial amount of revenue is derived from capitated agreements where the fee is based on a per patient basis.

Fee-for-service agreements include: (i) specialty and mail service agreements, where the Company dispenses prescription medications through its pharmacy facilities and (ii) PBM agreements, where prescription medications are dispensed through pharmacies participating in its retail pharmacy network as well as through our traditional mail service facility. Under fee-for-service agreements, revenue for Specialty Services is recognized either at the time the drug is shipped in the case of most Specialty agreements or at the time of infusion when nursing services are provided and billed by the Company. Customers receive medication from the Company by picking it up from a retail location or by mail or other means of shipping. In those cases where the Company ships the medication, revenue is recognized at the point of shipment. At that point, the earnings process is considered complete and the Company has substantially accomplished the terms of the transaction Revenue for PBM Services is recognized when the pharmacy services are reported to us through the point of sale ("POS") claims processing system and the drug is dispensed to the Member. Fee-for-service agreements accounted for more than 95% of the Company's revenue for each of the years ended December 31, 2007, 2006 and 2005.

Revenue generated under PBM agreements is classified as either gross or net by based on whether the Company acts as a principal or an agent in the fulfillment of prescriptions through its retail pharmacy network. When the Company independently has a contractual obligation to pay a network pharmacy provider for benefits provided to its Plan Sponsors' Members, and therefore are the "primary obligor" as defined by Emerging Issues Task Force Issue No. 99-19, the Company includes payments (which include the drug ingredient cost) from these Plan Sponsors as revenue and payments to the network pharmacy providers as cost of revenue. These transactions require us to pay network pharmacy providers, assume credit risk of Plan Sponsors and act as a principal. If the Company we merely acts as an agent, and consequently administers Plan Sponsors' network pharmacy contracts, the Company does not have the primary obligation to pay the network pharmacy and assume credit risk and as such record only the administrative fees (and not the drug ingredient cost) as revenue.

***Cost of Revenue***

Cost of revenue includes the costs of prescription medications, pharmacy claims, fees paid to pharmacies, shipping and other direct and indirect costs associated with pharmacy management and administration, claims processing operations and mail order services, offset by volume and prompt pay discounts received from pharmaceutical manufacturers and distributors and total manufacturer rebates.

***Impairment of Long Lived Assets***

The Company evaluates whether events and circumstances have occurred that indicate the remaining estimated useful life of long lived assets, including intangible assets, may warrant revision or that the remaining balance of an asset may not be recoverable. The measurement of possible impairment is based on the ability to recover the balance of assets from expected future operating cash flows on an undiscounted basis. Impairment losses, if any, would be determined based on the present value of the cash flows using discount rates that reflect the inherent risk of the underlying business. During 2005, the Company implemented a rebranding of all our business lines to a single brand name, "BioScrip." As a result of that strategy the value of the trade names associated with our Natural Living, Inc. and Vitality Home Infusion Services, Inc. subsidiaries has been eliminated, and those assets have been removed from the balance sheet, resulting in a $5.8 million charge in the second quarter of 2005.

In the fourth quarter of 2005, as part of the Company's annual goodwill impairment testing, it determined that intangible assets associated with certain customer lists were no longer recoverable from future cash flows resulting in a $0.8 million intangible impairment charge in fourth quarter 2005. During 2007 and 2006, no impairment of intangibles occurred.

***Goodwill***

In accordance with Statement of Financial Accounting Standards ("SFAS"), SFAS 142, *Goodwill and Other Intangible Assets*, the Company evaluates goodwill for impairment based on a two-step process. The first step compares the fair value of a reporting unit with its carrying amount, including goodwill. The second step compares the implied fair value of reporting unit goodwill with the carrying amount of that goodwill. The measurement of possible impairment is based upon the comparison of the fair value of each reporting unit with the book value of its assets.

The Company has two reporting units; Specialty Services and PBM Services. The fair value of Specialty Services exceeded its carrying amount resulting in no impairment charges in fiscal years 2007, 2006 and 2005. In 2005, the fair value of PBM Services was less than its carrying amount, resulting in the write off of all goodwill associated with PBM Services, primarily as a result of contract terminations, including the termination of the Company's contract with Centene Corporation, the Company's largest PBM Services customer.

***Lease Accounting***

The Company accounts for leasing transactions by recording rent expense on a straight-line basis, starting on the date it gains possession of leased property, over the expected life of the lease. Lease terms are generally five years, with many containing options to extend for periods ranging from one to five years. The Company includes tenant improvement allowances and rent holidays received from landlords as adjustments reducing straight-line rent expense and the effect of any rent escalation clauses as adjustments to straight-line rent expense over the expected life of the lease.

***Income Taxes***

As part of the process of preparing the Company's consolidated financial statements, management is required to estimate income taxes in each of the jurisdictions in which it operates. The Company accounts for income taxes under SFAS 109, *Accounting for Income Taxes* ("SFAS 109"). SFAS 109 requires the use of the asset and liability method of accounting for income taxes. Under this method, deferred taxes are determined by calculating the future tax consequences attributable to differences between the financial accounting and tax bases of existing assets and liabilities. A valuation allowance is recorded against deferred tax assets when, in the opinion of management, it is more likely than not that the Company will not be able to realize the benefit from its deferred tax assets.

On January 1, 2007, the Company adopted the provisions of Financial Accounting Standards Board ("FASB"), FASB Interpretation No. 48 *Accounting for Uncertainty in Income Taxes* ("FIN 48"). FIN 48 establishes the accounting for uncertain tax positions. FIN 48 clarifies the accounting for income taxes by prescribing a recognition threshold and measurement attribute that a tax position is required to meet before being recognized in the financial statements and provides guidance on derecognition, measurement, classification, interest and penalties, accounting in interim periods, disclosure and transition. The Company files income tax returns, including returns for its subsidiaries, as prescribed by Federal tax laws and the tax laws of the state and local jurisdictions in which it operates. The Company's uncertain tax positions are related to tax years that remain subject to examination. Interest and penalties related to unrecognized tax benefits are recorded as income tax expense. (See Note 12 — Income Taxes of the Notes to the Consolidated Financial Statements for discussion of the effects of the Company's adoption of FIN 48.)

***Disclosure of Fair Value of Financial Instruments***

The Company's financial instruments consist mainly of cash and cash equivalents and its line of credit. The carrying amounts of cash, cash equivalents and the line of credit approximate fair value due to their fully liquid or short-term nature.

***Accounting for Stock-Based Compensation***

At December 31, 2007, the Company has a number of stock-based employee compensation plans (the "Plans") pursuant to which incentive stock options ("ISOs"), non-qualified stock options ("NQSOs"), restricted stock, performance units and performance share awards may be granted to employees and non-employee directors. Option and stock awards are typically settled by issuing authorized but unissued shares of the Company.

Prior to January 1, 2006, those plans were accounted for under the recognition and measurement provisions of Accounting Principles Board ("APB") Opinion No. 25, *Accounting for Stock Issued to Employees* ("APB 25"), and related interpretations, as permitted by SFAS No. 123, *Accounting for Stock-Based Compensation* ("SFAS 123"), issued by the FASB. Under APB 25, only the intrinsic value of stock options was recognized in the Statement of Operations for periods prior to January 1, 2006. Effective January 1, 2006, the Company adopted the fair value recognition provisions of SFAS No. 123(R), *Share-Based Payment* ("SFAS 123(R)"), using the modified-prospective-transition method. Under that transition method, compensation cost recognized during 2006 includes: (i) compensation cost for all share-based payments granted prior to, but not yet vested as of, January 1, 2006 based

on the grant date fair value estimated in accordance with the original provisions of SFAS 123, and (ii) compensation cost for all share-based payments granted subsequent to January 1, 2006, based on the grant-date fair value estimated in accordance with the provisions of SFAS 123(R). Results for prior periods have not been restated.

See Note 13 for additional information regarding stock-based compensation.

***Income (Loss) per Share***

Basic income (loss) per common share is based on the weighted average number of shares outstanding. Diluted income per share is based on the weighted average number of shares outstanding, including common stock equivalents, and diluted (loss) per share is based on the weighted average number of shares outstanding because the impact of common stock equivalents would be anti-dilutive (in thousands except per share data):

| | 2007 | 2006 | 2005 |
|---|---|---|---|
| Numerator: | | | |
| Net income (loss) | $ 3,317 | $ (38,289) | $ (23,847) |
| Denominator — Basic: | | | |
| Weighted average number of common shares outstanding | 37,647 | 37,304 | 34,129 |
| Basic income (loss) per common share | $ 0.09 | $ (1.03) | $ (0.70) |
| Denominator — Diluted: | | | |
| Weighted average number of common shares outstanding | 37,647 | 37,304 | 34,129 |
| Common share equivalents of outstanding stock options and restricted stock | 844 | — | — |
| Total diluted shares outstanding | 38,491 | 37,304 | 34,129 |
| Diluted income (loss) per common share | $ 0.09 | $ (1.03) | $ (0.70) |

Employee stock options and restricted stock awards of 3,259,893, 4,758,681 and 3,879,127 for 2007, 2006 and 2005, respectively, were excluded from the diluted net income per share calculation because their effect would be anti-dilutive.

***Recent Accounting Pronouncements***

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities — Including an Amendment of FASB Statement No. 115* ("SFAS 159"), which becomes effective for fiscal years beginning after November 15, 2007. SFAS 159 permits companies to choose to measure many financial instruments and certain other items at fair value on a per instrument basis, with changes in fair value recognized in earnings each reporting period. This will enable some companies to reduce volatility in reported earnings caused by measuring related assets and liabilities differently. SFAS 159 also establishes presentation and disclosure requirements designed to facilitate comparisons between companies that choose different measurement attributes for similar types of assets and liabilities. The Company is currently evaluating the impact, if any, that adopting SFAS 159 will have on its results of operations and its financial condition.

In September 2006, the FASB issued SFAS No. 157 *Fair Value Measurements* ("SFAS 157"). SFAS 157 defines fair value, establishes a framework for measuring fair value in GAAP, and expands disclosures about fair value measurements. A single definition of fair value, together with a framework for measuring fair value, should result in increased consistency and comparability in fair value measurements. SFAS 157 will apply whenever another standard requires or permits assets or liabilities to be measured at fair value, and does not expand the use of fair value to any new circumstances. SFAS 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. On February 12, 2008 the FASB approved

the Financial Staff Position ("FSP") No. SFAS 157-2, *Effective Date of FASB Statement No. 157* ("FSP FAS 157-2"), which delays the effective date of SFAS 157 to fiscal years beginning after November 15, 2008, and interim periods within those fiscal years for non-financial assets and non-financial liabilities, except for those items that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually). The Company is currently evaluating the impact, if any, that adopting SFAS 157 will have on its results of operations and its financial condition.

In December, 2007, the FASB issued SFAS No. 141(R), *Business Combinations* ("SFAS 141(R)"), which applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. An entity may not apply it before that date. SFAS 141(R) establishes principles and requirements for how the acquirer: i) recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed and any noncontrolling interest in the acquiree; ii) recognizes and measures the goodwill acquired in the business combination or a gain from a bargain purchase; and iii) determines what information to disclose to enable users of the financial statements to evaluate the nature and financial effects of the business combination. The Company does not expect the adoption of SFAS 141 (R) to have an effect on its results of operations and its financial condition unless it enters into a business combination after January 1, 2009.

**NOTE 3 — OPERATING SEGMENTS**

In accordance with SFAS No. 131, *"Disclosures about Segments of an Enterprise and Related Information"* ("SFAS 131"), and based on the nature of the Company's services, the Company aggregates its operating segments into two reportable segments: Specialty Services and PBM Services. SFAS 131 requires an enterprise to report segment information in the same way that management internally organizes its business for assessing performance and making decisions regarding allocation of resources. The Company evaluates the performance of operating segments and allocates resources based on income from operations.

The Specialty Services segment aggregates the Company's specialty pharmacy distribution and therapy management services. Specialty Services distribution occurs locally through community pharmacies, centrally through mail order facilities, and through our infusion pharmacies for patients requiring infused medications in the home or infused at a variety of sites including out ambulatory infusion sites. All Specialty Services target certain specialty medications that are used to treat patients living with chronic health conditions and are opportunities to provide therapy management and coordination of benefit services.

The PBM Services segment aggregates the Company's integrated pharmacy benefit management and traditional mail services. These Services are designed to offer third party administrators and other Plan Sponsors cost-effective delivery of pharmacy benefit plans including the low cost distribution of mail services for Plan Members who receive traditional maintenance medications.

The accounting policies applied to the business segments are the same as those described in the Summary of Significant Accounting Policies. The 2005 information below includes Chronimed beginning March, 2005 and Northland beginning October, 2005. The 2006 information below includes Intravenous Therapy Services, Inc. beginning March 1, 2006. Certain prior period amounts have been reclassified to conform to the current year presentation. Such reclassifications are deemed immaterial to segment data presented below. There is no effect on previously reported Income (loss) from operations.

**Segment Reporting Information**
**(in thousands)**

| | Years Ended December 31, | | |
|---|---|---|---|
| | 2007 | 2006 | 2005 |
| Revenue: | | | |
| Specialty Services | $ 974,201 | $ 866,622 | $ 688,512 |
| PBM Services | 223,531 | 285,318 | 384,383 |
| Total | $ 1,197,732 | $ 1,151,940 | $ 1,072,895 |
| Income (loss) from operations: | | | |
| Specialty Services | $ (2,397) | $ (19,533) | $ (5,831) |
| PBM Services | 11,248 | 3,350 | 6,368 |
| | 8,851 | (16,183) | 537 |
| Merger and integration | — | 58 | 4,575 |
| Goodwill and intangible impairment | — | — | 25,165 |
| Income (loss) from operations | 8,851 | (16,241) | (29,203) |
| Interest expense, net | (3,270) | (3,018) | (392) |
| Income tax expense (benefit) | 2,264 | 19,030 | (5,748) |
| Net (loss) income: | $ 3,317 | $ (38,289) | $ (23,847) |
| Depreciation Expense: | | | |
| Specialty Services | $ 3,691 | $ 3,591 | $ 2,411 |
| PBM Services | 501 | 725 | 1,109 |
| Total | $ 4,192 | $ 4,316 | $ 3,520 |
| Total assets: | | | |
| Specialty Services | $ 232,989 | $ 241,973 | $ 217,012 |
| PBM Services | 63,833 | 63,483 | 81,617 |
| Total | $ 296,822 | $ 305,456 | $ 298,629 |
| Capital expenditures: | | | |
| Specialty Services | $ 4,846 | $ 4,063 | $ 4,866 |
| PBM Services | 680 | 1,373 | 263 |
| Total | $ 5,526 | $ 5,436 | $ 5,129 |

The following table outlines by segment contracts with a Plan Sponsor having revenues that exceeded 10% of the Company's total revenues (in thousands):

| | For the Year Ended December 31, | |
|---|---|---|
| | 2007 | 2006 |
| PBM Services Revenue | $ 116,557 | $ 120,771 |
| Specialty Services Revenue | 31,061 | 25,688 |
| Total Services Revenue from Plan Sponsor | $ 147,618 | $ 146,459 |
| % of Total Revenue | 12% | 13% |

**NOTE 4 — ACQUISITIONS**

***Chronimed Inc. Acquisition***

On March 12, 2005 the Company acquired all of the issued and outstanding stock of Chronimed in a stock-for-stock transaction pursuant to which each share of Chronimed common stock was exchanged for 1.12 shares of the Company's common stock. The results of operations of Chronimed are included in the Consolidated Statement of Operations beginning March 12, 2005. The acquisition of Chronimed added 28 specialty pharmacies throughout the U.S. to the Company's existing pharmacies and Chronimed's operations have been included in the Specialty Services segment. The acquisition has been accounted for in accordance with SFAS No. 141, *Business Combinations*, from the date of acquisition.

The aggregate purchase price paid for Chronimed was $105.3 million including direct expenses of $3.7 million associated with the acquisition. The 14,380,551 shares of common stock exchanged and 2,612,146 stock options assumed in the acquisition were valued using the average market price of the Company's common stock during the period beginning two days before and ending two days after the revised merger agreement was announced. The purchase price was allocated to the acquired assets and liabilities based on management's estimates of their fair value and an independent valuation.

The purchase price paid for Chronimed resulted in the fair value of assets acquired being in excess of the net asset value of the business. Goodwill, described in SFAS 141, Paragraph 43 as "the excess of the cost of an acquired entity over the net of the amounts assigned to assets acquired and liabilities assumed," was recognized and was consistent with the rationale for the acquisition as follows:

- the opportunity to combine the companies' individual strengths in payor contracting, physician sales, manufacturer services, clinical management and fulfillment;
- the opportunity to sell the Company's products through Chronimed's existing retail pharmacies;
- the opportunity to broaden the Company's suite of disease states and customer base;
- the expansion of the Company's retail pharmacy coverage;
- the opportunity to create significant mail-operations synergies; and
- the opportunity to create corporate function and other cost synergies, which will enable the combined entity to grow and improve margins.

The following table sets forth the allocation of the purchase price as of December 31, 2005:

**Purchase Price Allocation**
**(in thousands)**

| | |
|---|---|
| Purchase price: | |
| Value of stock exchanged | $ 90,192 |
| Value of stock options assumed | 11,370 |
| Transaction costs | 3,696 |
| Total purchase price | 105,258 |
| Less: net tangible assets as of March 12, 2005 | 58,316 |
| Excess of purchase price over net tangible assets acquired | $ 46,942 |
| Allocation of excess purchase price: | |
| Customer lists and tradenames | $ 9,560 |
| Goodwill | 37,382 |
| Total | $ 46,942 |

Customer lists acquired from Chronimed were being amortized over twenty-four months. In conjunction with the rebranding of all business lines to a single brand, the tradenames acquired from Chronimed were fully amortized as of December 31, 2005.

The following table sets forth the estimated fair value of the tangible assets and liabilities acquired with the purchase of Chronimed:

**Net Tangible Assets Acquired**
**(in thousands)**

| | | |
|---|---|---|
| Cash and short term investments | $ 20,788 | |
| Accounts receivable | 42,591 | |
| Inventory | 9,661 | |
| Prepaids and other current assets | 1,077 | |
| Fixed assets | 3,771 | |
| Deferred tax assets | 2,682 | |
| Long term assets | 143 | |
| Total assets acquired | | 80,713 |
| Accounts payable | (5,075) | |
| Accrued expenses | (13,052) | |
| Accrued severance | (1,013) | |
| Deferred tax liability | (3,257) | |
| Total liabilities assumed | | (22,397) |
| Net tangible assets acquired | | $ 58,316 |

The excess of the purchase price over the fair value of the identifiable net assets and the fair value of the identifiable intangible assets acquired was allocated to goodwill and was assigned to the Specialty Services segment.

As part of the merger, the Company consolidated Chronimed's Minnetonka, Minnesota mail service operations into the Company's higher capacity mail distribution operation in Columbus, Ohio and closed the Minnetonka mail facility. Severance costs of $1.0 million were included in the purchase price and were paid out by December 31, 2005.

The following unaudited consolidated pro forma financial information for the year ended December 31, 2005 has been prepared assuming Chronimed was acquired as of the beginning of 2005, utilizing the purchase method of accounting, with certain pro forma adjustments for amortization of intangibles. The pro forma financial information is presented for informational purposes only and is not necessarily indicative of the actual results had the acquisition occurred at the beginning of the period. This pro forma financial information is not intended to be a projection of future operating results.

**Pro Forma Statements of Operations**
**(unaudited)**

| | Twelve Months Ended December 31, 2005 |
|---|---|
| Revenue | $ 1,186,974 |
| Net (loss) income | $ (24,915) |
| Basic income (loss) per common share | $ (0.73) |
| Diluted income (loss) per common share | $ (0.73) |

***Northland Medical Pharmacy Acquisition***

On October 7, 2005 the Company acquired all of the issued and outstanding stock of JPD, Inc. d/b/a Northland Medical Pharmacy ("Northland"), a community-based specialty pharmacy located in Columbus, Ohio for $12.0 million in cash. Northland complements the Company's expanding community pharmacy model.

***Intravenous Therapy Service Acquisition***

On March 1, 2006 the Company acquired all of the issued and outstanding stock of Intravenous Therapy Services, Inc. ("Infusion West"), a specialty home infusion company located in Burbank, California for approximately $13.1 million in cash, plus a potential earn-out payment contingent on achieving certain future performance benchmarks. The addition of Infusion West enhances the Company's ability to service infusion patients on both the East and West coasts and complements its strategic objective of expanding its infusion operations nationally.

The operating results of each of these acquisitions are included in the Company's consolidated statement of operations from the date of each acquisition. Pro forma results of operations for the Northland and Infusion West acquisitions have not been presented since the effects of these business acquisitions were not material to the Company's financial performance either individually or in the aggregate.

**NOTE 5 — RESTRUCTURING**

The acquisition of Chronimed resulted in the consolidation of certain finance and information technology functions. The Company's two Rhode Island offices, which included finance and IT functions, were closed as a result of these consolidations. These functions were fully transitioned to the Company's Minnesota offices as of December 31, 2005.

In connection with the consolidation of the finance and IT departments as described above, throughout the second half of 2005, the Company terminated 67 employees. All of these terminations were the result of the purchase of Chronimed and were expensed in the Specialty Services segment. Severance costs in connection with this restructuring were recorded in accordance with SFAS No. 146, *Accounting for Costs Associated with Exit or Disposal Activities*, with the expense being allocated over the estimated retention period of employees. Severance costs of $2.0 million were recorded in SG&A expenses for employee separation costs in 2005, in connection with the termination of these employees. In September and December of 2005 the two Rhode Island offices were closed, resulting in $0.4 million of expense recorded in SG&A. All of these costs were recorded in the Specialty Services segment. All restructuring costs were paid out as of December 31, 2006.

**Restructuring Costs**
**(in thousands)**

| | |
|---|---|
| Provisions for restructuring | $ 2,370 |
| Payments for restructuring | (1,073) |
| Liability at December 31, 2005 | 1,297 |
| Provisions for restructuring | 58 |
| Payments for restructuring | (1,355) |
| Liability at December 31, 2006 | $ — |

**NOTE 6 — GOODWILL AND INTANGIBLES**

The Company follows SFAS 141 and Statement of Financial Accounting Standard No. 142, *Goodwill and Other Intangible Assets*, ("SFAS 142") in accounting and reporting for its business combinations, goodwill and intangible assets. SFAS 141 requires all business combinations initiated after June 30, 2001 to be accounted for using the purchase method of accounting. SFAS 142 states that goodwill is no longer subject to amortization over its estimated useful life. Goodwill is subject to at least an annual assessment for impairment by applying a fair-value based test. Management assesses impairment in the fourth quarter of each year or whenever there is an impairment indicator. Under SFAS 141, an acquired intangible asset should be separately recognized and amortized over its useful life (unless an indefinite life) if the benefit of the intangible asset is obtained through contractual or other legal rights, or if the intangible asset can be sold, transferred, licensed, rented or exchanged regardless of the acquirer's intent to do so.

The following table provides a reconciliation of goodwill (in thousands):

| | Total |
|---|---|
| Balance as of December 31, 2005 | $ 104,268 |
| Goodwill acquired | 10,654 |
| Goodwill adjustments | 69 |
| Balance as of December 31, 2006 | 114,991 |
| Goodwill acquired | — |
| Goodwill adjustments | (167) |
| Balance as of December 31, 2007 | $ 114,824 |

Currently all goodwill is in the Specialty Services segment. Portions of goodwill are expected to be deductible for income tax purposes.

The following table details the acquired intangible assets and their accumulated amortization as of December 31, 2007 (in thousands):

| | Weighted Average Life (in months) | As of December 31, 2007 | | As of December 31, 2006 | |
|---|---|---|---|---|---|
| | | Gross Carrying Amount | Accumulated Amortization | Gross Carrying Amount | Accumulated Amortization |
| Non-compete agreements(1) | 15.3 | $ 3,900 | $ (2,736) | $ 3,900 | $ (1,931) |
| Customer lists(2) | 88.6 | 11,000 | (6,387) | 20,200 | (13,494) |
| Total | | $ 14,900 | $ (9,123) | $ 24,100 | $ (15,425) |

(1) A non-compete agreement valued at $0.5 million was added for the Infusion West acquisition in 2006. The Roslyn non-compete agreement of $0.7 million was fully amortized in 2006.

(2) Customer lists acquired from Chronimed were fully amortized in 2007.

The amortization expense for the years ended December 31, 2007, 2006 and 2005 was $2.9 million, $6.5 million and $6.4 million, respectively. The estimated amortization expense for the next five years is as follows (in thousands):

| For the year ending December 31, | |
|---|---|
| 2008 | $ 1,935 |
| 2009 | $ 1,372 |
| 2010 | $ 1,230 |
| 2011 | $ 1,146 |
| 2012 | $ 94 |

The Company's net intangible assets as of December 31, 2007 are composed of customer relationships and non compete agreements associated with the acquired businesses. The adjusted expected amortizable life of these assets ranges from two to ten years.

**NOTE 7 — RELATED PARTY TRANSACTIONS**

One of the Company's former board members, who resigned in February 2006, was a partner of the Company's primary outside legal services firm. Fees were paid to that legal firm of $1.6 million, $1.7 million, and $2.1 million for the years ended December 31, 2007, 2006 and 2005, respectively.

**NOTE 8 — PROPERTY AND EQUIPMENT**

Property and equipment, at cost, consists of the following at December 31 (in thousands):

| | 2007 | 2006 |
|---|---|---|
| Computer and office equipment, including equipment acquired under capital leases | $ 11,679 | $ 10,375 |
| Work in Progress | 2,985 | 265 |
| Furniture and fixtures | 2,816 | 2,763 |
| Leasehold improvements | 7,525 | 6,571 |
| | 25,005 | 19,974 |
| Less: Accumulated depreciation | (13,263) | (9,565) |
| Property and equipment, net | $ 11,742 | $ 10,409 |

Depreciation expense for the years ended December 31, 2007, 2006 and 2005 was $4.2 million, $4.3 million and $3.5 million, respectively.

**NOTE 9 — LINE OF CREDIT**

The Company's revolving credit facility ("Facility") with an affiliate of Healthcare Finance Group, Inc., provides for borrowing up to $75 million at the London Inter-Bank Offered Rate (LIBOR) plus the applicable margin. The Facility term is through November 1, 2010. The Facility permits the Company to request an increase in the amount available for borrowing to up to $100 million, as well as to convert a portion of any outstanding borrowings from a Revolving Loan into a Term Loan. The borrowing base utilizes receivables balances and other related collateral as security under the Facility. There was $33.8 million and $52.9 million outstanding under our revolving credit facility as of December 31, 2007 and 2006, respectively. The weighted average interest rate on the Facility during 2007 was 7.24%.

The Facility contains various covenants that, among other things, require the Company to maintain certain financial ratios, as defined in the agreements governing the Facility. The Company was in compliance with all covenants as of December 31, 2007.

**NOTE 10 — TREASURY STOCK**

On February 27, 2003, the Executive Committee of the Board of Directors approved a stock repurchase program authorizing the Company to repurchase up to an aggregate of $10.0 million of its Common Stock in open market or private transactions. No stock was repurchased during 2007, 2006 or 2005, however, during 2007 189,492 shares were returned in payment of tax withholding obligations on the vesting of restricted stock awards. As of December 31, 2007, approximately $4.9 million of the $10.0 million authorized remains available for additional share repurchases. The Company holds a total of 2,436,642 shares of treasury stock acquired under current and prior repurchase programs.

**NOTE 11 — COMMITMENTS AND CONTINGENCIES**

***Legal Proceedings***

On February 14, 2005, a complaint was filed in the Alabama Circuit Court for Barbour County, captioned *Eufaula Drugs, Inc. v. ScriptSolutions* [sic], one of approximately fourteen substantially identical complaints commenced in Alabama courts against various unrelated pharmacy benefit management companies. On April 8, 2005, the plaintiff filed an amended complaint substituting the Company's, BioScrip PBM Services f/k/a ScripSolutions ("PBM Services") subsidiary as the defendant, alleging breach of contract and related tort and equitable claims on behalf of a putative nationwide class of pharmacies alleging insufficient reimbursement for prescriptions dispensed, principally on the theory that PBM Services was obligated to update its prescription pricing files on a daily rather than weekly basis. The complaint seeks unspecified money damages and injunctive relief. PBM Services sought unsuccessfully to remove the action to Federal court. On February 5, 2007, the court denied PBM Services' motion to dismiss the action for lack of jurisdiction and failure to state a claim, and on February 16, 2007, PBM Services answered the complaint denying the material allegations. The parties are now engaged in discovery into the question of class certification only. BioScrip intends to deny the allegations and intends to defend vigorously against the action. While the Company is confident in its position, it does not believe that an adverse ruling in this matter would have a material adverse effect on its business, operations, financial position or results of operations.

The U.S. Attorney's Office in Boston and the Department of Justice informed the Company that its Chronimed Holdings, Inc. d/b/a StatScript Pharmacy ("StatScript") subsidiary, was named as a defendant in a *qui tam* law suit filed by a whistleblower against Serono, Inc., and several other defendants in the Federal district court for the District of Massachusetts alleging claims under the Federal False Claims Act. In May 2007, the complaint was

served on the Company and other defendants by the relators because the Federal government and various state governments on behalf of which the relators alleged claims declined to intervene to prosecute the claims and the Federal government decided not to pursue earlier conversations it had initiated into possible settlement of the claims alleged in the relators' complaint. The action is captioned *United States ex rel. Driscoll, et al. v. Serono, Inc., et al.*, Civil Action No. 00-11680GAO (D. Mass.). The complaint alleges that the Company and other defendant pharmacy companies violated the Federal False Claims Act and various states' false claims-like acts by receiving from Serono but not reporting in unspecified Medicare and Medicaid reimbursement claims alleged discounts on certain purchases of Serono's product, Serostim. The Company and numerous other defendants moved to dismiss the complaint with prejudice for failure to state a claim, failure to plead with particularity, expiration of the statute of limitations, and other grounds. The court heard oral argument on the dismissal motions in January 2008 and a decision is expected soon. There have been no other proceedings in the action. The Company denies the allegations and intends to defend vigorously against them. Given the preliminary stage of these matters, the Company is unable to assess the probable outcomes of these proceedings or their financial impact.

In July 2007, a complaint was filed in Federal court in the Southern District of Ohio naming the Company's subsidiary, Chronimed Holdings, Inc. as a defendant. The plaintiffs are several members of the DiCello family who sold all the stock of an Ohio pharmacy company known as Northland to BioScrip in 2005. The action is captioned *JDP, Inc., et al. v. Chronimed Holdings, Inc.*, Civil Action No. 2:07:646 (Frost). The complaint alleges that the plaintiffs were entitled to receive an additional purchase price payment in 2007 under the stock purchase agreement based on Northland's 2006 EBITDA, a position the Company disputes, and the complaint seeks damages of at least $5.64 million and other relief under several legal theories. The Company moved to stay the lawsuit and compel arbitration of the disagreement under the terms of the stock purchase agreement. The district court denied the motion to compel arbitration but granted a stay pending the Company's appeal of the denial to the Sixth Circuit Court of Appeals, where briefing on the motion to compel arbitration has been completed. It is expected that the appellate court will schedule oral argument on the appeal shortly. There have been no other proceedings in the action. The Company denies the allegations and intends to defend vigorously against the matters. While the Company is confident in its position, an adverse ruling in this matter would not have a material adverse effect on its business, operations or financial position.

***Government Regulation***

Various Federal and state laws and regulations affecting the healthcare industry do or may impact the Company's current and planned operations, including, without limitation, Federal and state laws prohibiting kickbacks in government health programs, Federal and state antitrust and drug distribution laws, and a wide variety of consumer protection, insurance and other state laws and regulations. While management believes that the Company is in substantial compliance with all existing laws and regulations material to the operation of its business, such laws and regulations are subject to rapid change and often are uncertain in their application. As controversies continue to arise in the healthcare industry (for example, regarding the efforts of Plan Sponsors and pharmacy benefit managers to limit formularies, alter drug choice and establish limited networks of participating pharmacies), Federal and state regulation and enforcement priorities in this area can be expected to increase, the impact of which on the Company cannot be predicted. There can be no assurance that the Company will not be subject to scrutiny or challenge under one or more of these laws or that any such challenge would not be successful. Any such challenge, whether or not successful, could have a material adverse effect upon the Company's financial position, results of operations and cash flows. Violation of the Federal anti-kickback statute, for example, may result in substantial criminal penalties, as well as suspension or exclusion from the Medicare and Medicaid programs. Further, there can be no assurance that the Company will be able to obtain or maintain any of the regulatory approvals that may be required to operate its business, and the failure to do so could have a material adverse effect on the Company's financial position, results of operations and cash flows.

***Operating Leases***

The Company leases its facilities and certain equipment under various operating leases with third parties. Facility lease terms are generally five years, the majority containing options to extend for periods ranging from one to five years. Approximately 80% of these leases contain escalation clauses that increase base rent payments based upon either the Consumer Price Index or an agreed upon schedule. New or renegotiated leases may contain periods of free rent, or rent holidays, ranging from one to six months. Equipment leases are generally for periods of three to five years.

The future minimum lease payments under operating leases at December 31 are as follows (in thousands):

| | |
|---|---|
| 2008 | $ 4,555 |
| 2009 | 3,965 |
| 2010 | 2,806 |
| 2011 | 1,382 |
| 2012 | 822 |
| Thereafter | 1,085 |
| Total | $ 14,615 |

Rent expense for leased facilities and equipment was approximately $4.4 million, $3.9 million and $4.3 million for the years ended December 31, 2007, 2006 and 2005, respectively.

## NOTE 12 — INCOME TAXES

The Company's Federal and state income tax provision (benefit) is summarized in the following table (in thousands):

| | For the Years Ended December 31, | | |
|---|---|---|---|
| | 2007 | 2006 | 2005 |
| Current | | | |
| Federal | $ (501) | $ (2,408) | $ 341 |
| State | (43) | 978 | (57) |
| Total Current | (544) | (1,430) | 284 |
| Deferred | | | |
| Federal | 2,448 | 17,832 | (4,862) |
| State | 360 | 2,628 | (1,170) |
| Total Deferred | 2,808 | 20,460 | (6,032) |
| Total Provision for (Benefit from) Income Taxes | $ 2,264 | $ 19,030 | $ (5,748) |

The effect of temporary differences that give rise to a significant portion of deferred taxes is as follows (in thousands):

| | For the Years Ended December 31, | |
|---|---|---|
| | 2007 | 2006 |
| Deferred tax assets: | | |
| Reserves not currently deductible | $ 7,305 | $ 8,560 |
| Net operating loss carryforwards | 8,287 | 8,452 |
| Intangibles | 3,788 | 3,298 |
| Accrued expenses | 1,804 | 1,968 |
| Stock based compensation (123R) | 1,718 | 1,025 |
| Property basis differences | 1,336 | 707 |
| Other | 2,088 | 1,354 |
| Subtotal deferred tax assets | 26,326 | 25,364 |
| Deferred tax liabilities: | | |
| Goodwill | (12,486) | (9,646) |
| Less: valuation allowance | (26,594) | (25,664) |
| Net deferred tax (liability) asset | $ (12,754) | $ (9,946) |

During the fourth quarter of 2006, the Company concluded that it was more likely than not that its deferred tax assets would not be realized. Accordingly, a valuation allowance of $25.7 million was recorded against all of the Company's deferred tax assets at December 31, 2006. The Company continually assesses the necessity of a valuation allowance. Based on this assessment, the Company has concluded that the valuation allowance, in the amount of $26.6 million, is still required. If the Company determines in a future period that it is more likely than not that part or all of the deferred tax assets will be realized, the Company will reverse part or all of the valuation allowance.

At December 31, 2007, the Company had Federal net operating loss ("NOL") carryforwards of approximately $27.3 million, of which $8.6 million is subject to an annual limitation, all of which will begin expiring in 2017 and later. The Company has post apportioned state NOL carryforwards remaining of approximately $15.4 million, the majority of which will begin expiring in 2017 and later.

The Company's reconciliation of the statutory rate to the effective income tax rate is as follows (in thousands):

| | 2007 | 2006 | 2005 |
|---|---|---|---|
| Tax (benefit) provision at statutory rate | $ 1,897 | $ (6,548) | $ (10,062) |
| State tax (benefit) provision, net of Federal taxes | 366 | 208 | (576) |
| Non-deductible goodwill | — | — | 5,926 |
| Merger related expenses | — | — | 223 |
| Change in tax contingencies | (1,165) | 128 | (744) |
| Rate change on deferred items | — | — | (463) |
| Valuation allowance changes affecting income tax expense | 930 | 25,664 | 48 |
| Other | 236 | (422) | (100) |
| Provision for income taxes | $ 2,264 | $ 19,030 | $ (5,748) |

The Company adopted the provisions of FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes*, ("FIN 48") effective January 1, 2007. As a result of the adoption of FIN 48, the Company recorded a $2.4 million increase in the liability for unrecognized tax benefits, which was recorded as an adjustment to the opening balance of accumulated deficit on January 1, 2007. At the adoption date of January 1, 2007, the Company had

approximately $4.8 million of unrecognized income tax benefits, including interest of approximately $0.7 million. A reconciliation of the beginning and ending amount of gross unrecognized tax benefits is as follows (in thousands):

| | |
|---|---|
| Unrecognized tax benefits balance at January 1, 2007 | $ 4,137 |
| Gross increases for tax positions of prior years | 284 |
| Gross decreases for tax positions of prior years | (380) |
| Gross increases for tax positions taken in current year | 6 |
| Settlements with taxing authorities | (114) |
| Lapse of statute of limitations | (993) |
| Unrecognized tax benefits balance at December 31, 2007 | $ 2,940 |

The total amount of unrecognized tax benefits that would affect the Company's effective tax rate, if recognized, is $2.7 million as of December 31, 2007.

The Company's policy for recording interest and penalties associated with uncertain tax positions is to record such items as a component of income tax expense in the statement of income. As of January 1, 2007 and December 31, 2007, the Company had approximately $0.7 million and $0.5 million of accrued interest related to uncertain tax positions, respectively.

The Company files income tax returns, including returns for its subsidiaries, with Federal, state and local jurisdictions. The Company's uncertain tax positions are related to tax years that remain subject to examination. As of December 31, 2007, U.S. tax returns for 2003, 2005, 2006 and 2007 remain subject to examination by Federal tax authorities. Tax returns for the years 2002 through 2007 remain subject to examination by state and local tax authorities for a majority of the Company's state and local filings.

During January 2008, the Company settled certain controversies with taxing authorities. The settlement called for payment of $63,000 of tax and interest. The remaining amount of $0.3 million of unrecognized tax benefits and interest for this tax position will be reversed during first quarter 2008 through goodwill and is recorded as part of accrued expenses and other current liabilities on the Company's Consolidated Balance Sheet.

**NOTE 13 — STOCK-BASED COMPENSATION**

The Company has a number of stock-based employee compensation plans (the "Plans") pursuant to which incentive stock options ("ISOs"), non-qualified stock options ("NQSOs"), restricted stock, performance units and performance share awards may be granted to employees and non-employee directors. Option and stock awards are typically settled by issuing authorized but unissued shares of the Company. In 2001, the stockholders approved the Company's 2001 Incentive Stock Plan (the "2001 Plan"). Under the 2001 Plan 5,750,000 shares are authorized for issuance. As of December 31, 2007, there were 186,496 shares available for grant under the Plans.

The provisions of the Plans allow plan participants to use shares to cover tax withholding on stock options. Upon exercise of the stock options, participants have taxable income subject to statutory withholding requirements. The number of shares issued to participants may be reduced by the number of shares having a market value equal to the minimum statutory withholding requirements for Federal, state and local tax purposes.

***Stock Options***

On March 12, 2005 the Company assumed all the option plans from Chronimed as part of the acquisition. Previously granted Chronimed options assumed by the Company in 2005 totaled 2,612,146. Vesting on the Chronimed options was accelerated to be fully vested at the date of acquisition.

Options granted under the Plans typically vest over a three-year period and, in certain limited instances, fully vest upon a change in control of the Company. In addition, such options are generally exercisable for 10 years after the date of grant, subject to earlier termination in certain circumstances. The exercise price of ISOs granted under

the Plans will not be less than 100% of the fair market value of the common stock on the date of grant (110% for ISOs granted to more than a 10% stockholder).

The 1996 Directors Stock Incentive Plan, (the "Directors Plan"), which expired in 2006, was adopted to attract and retain qualified individuals to serve as non-employee directors of the Company ("Outside Directors"), to provide incentives and rewards to such directors and to align more closely the interests of such directors with those of the Company's stockholders. Under the Directors Plan there were 500,000 shares authorized for issuance. The exercise price of such options is equal to the fair market value of the Common Stock on the date of grant. Options granted under the Directors Plan vest over three years. As of December 31, 2007, options to purchase 325,000 shares are outstanding at an average exercise price of $6.17. The number of shares exercisable was 270,007.

For the years 2007 and 2006, the fair value of each option award on the date of the grant was calculated by using a Binomial option-pricing model and is amortized to expense on a straight line basis over the requisite service period. For 2005, a Black-Scholes option-pricing model was used to calculate the fair value of each option award on the date of the grant. The pricing models use the assumptions noted in the following table. Expected volatility is based on the historical volatility of the Company's stock. The risk-free interest rate for periods within the contractual life of the option is based on the U.S. Treasury yield curve in effect at the time of the grant. The expected life of options granted is derived from previous history of stock exercises from the grant date and represents the period of time that options granted are expected to be outstanding. The Company uses historical data to estimate option exercise and employee termination assumptions under the valuation models. The Company has never paid dividends on its common stock and does not anticipate doing so in the foreseeable future.

| | 2007 | 2006 | 2005 |
|---|---|---|---|
| Expected volatility | 54.4% | 53.7% | 69.5% |
| Risk-free interest rate | 4.70% | 4.56% | 4.98% |
| Expected life of options | 5.2 years | 5.5 years | 4.5 years |
| Dividend rate | — | — | — |
| Fair value of options | $ 2.29 | $ 1.67 | $ 3.74 |

Compensation cost charged against income was $1.9 million for the year ended December 31, 2007, and $2.2 million for the year ended December 31, 2006. In accordance with SFAS 123(R) the Company did not record a tax benefit relating to the exercise of stock options for the years ending December 31, 2007 and 2006, due to the Company's net operating losses.

The following table illustrates the effect on net income and earnings per share for 2005 had the Company applied the fair value recognition provisions of SFAS 123 to options granted under the Company's stock option plans in all periods presented prior to adopting SFAS 123(R). For purposes of this pro forma disclosure, the value of the options is estimated using a Black-Scholes option-pricing formula and is amortized to expense on a straight-line basis over the options' vesting periods (in thousands, except per share amounts).

| | 2005 |
|---|---|
| Net (loss) income, as reported | $ (23,847) |
| Add: Stock award-based employee compensation included in reported net income, net of related tax effect | 27 |
| Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effect | (2,023) |
| Pro forma net (loss) income | $ (25,843) |
| Earnings per share: | |
| Basic — as reported | $ (0.70) |
| Basic — pro forma | $ (0.76) |
| Diluted — as reported | $ (0.70) |
| Diluted — pro forma | $ (0.76) |

As a result of the adoption of SFAS 123(R) the Company now classifies cash flows from tax benefits in excess of the tax deductions of the compensation cost as financing cash inflows. Prior to the adoption of SFAS 123(R), the Company presented the tax benefit resulting from the exercise of stock options as a cash inflow from operating activities in the Statement of Cash Flows. Under the modified prospective method, prior periods are not restated to reflect adoption of SFAS 123(R).

Stock option activity through December 31, 2007 is as follows:

| | Options | Weighted Average Exercise Price | Aggregate Intrinsic Value (millions) | Weighted Average Remaining Contractual Life |
|---|---|---|---|---|
| Balance, December 31, 2006 | 5,438,318 | $ 6.77 | $ 1.5 | 6.7 years |
| Granted | 586,986 | 4.40 | | |
| Exercised | (433,624) | 4.31 | | |
| Forfeited | (93,045) | 4.28 | | |
| Expired | (292,296) | 7.65 | | |
| Balance, December 31, 2007 | 5,206,339 | $ 6.71 | $ 11.4 | 5.9 years |
| Outstanding options less expected forfeitures at December 31, 2007 | 4,844,602 | $ 6.90 | $ 10.0 | 5.6 years |
| Exercisable at December 31, 2007 | 3,673,666 | $ 7.80 | $ 5.8 | 4.7 years |

Included above are 50,000 options granted outside the Plans as inducements to recruit new employees during the year ended December 31, 2007 as permitted under Rule 4350(i) of the NASDAQ Listing Qualification requirements.

The weighted-average grant-date fair value of options granted during the years ending December 31, 2007, 2006, and 2005, was $2.29, $1.67, and $3.74, respectively. The total intrinsic value of options exercised during the years December 31, 2007, 2006, and 2005, was $1.3 million, $0.4 million, and $1.0 million, respectively.

Cash received from option exercises under share-based payment arrangements for the years ended December 31, 2007, 2006, and 2005, was $1.9 million, $1.4 million and $1.8 million, respectively.

The maximum term of stock options under these plans is ten years. Options outstanding as of December 31, 2007 expire on various dates ranging from April 2008 through December 2017. The following table outlines our outstanding and exercisable stock options as of December 31, 2007:

| | Options Outstanding | | | Options Exercisable | |
|---|---|---|---|---|---|
| Range of Option Exercise Price | Options Outstanding | Weighted Average Exercise Price | Weighted Average Remaining Contractual Life | Options Exercisable | Weighted Average Exercise Price |
| $ 1.93 - $ 5.20 | 1,937,480 | $ 2.93 | 6.8 Years | 892,740 | $ 3.02 |
| $ 5.57 - $ 7.03 | 1,337,052 | 6.24 | 5.9 Years | 1,044,452 | 6.30 |
| $ 7.26 - $ 9.56 | 1,149,060 | 8.11 | 6.0 Years | 953,727 | 8.17 |
| $ 9.60 - $13.06 | 406,080 | 12.03 | 3.9 Years | 406,080 | 12.03 |
| $15.13 - $20.25 | 376,667 | 17.75 | 2.8 Years | 376,667 | 17.75 |
| | 5,206,339 | $ 6.71 | 5.9 Years | 3,673,666 | $ 7.80 |

As of December 31, 2006 and 2005, the exercisable portion of outstanding options was approximately 3.6 million shares and approximately 4.7 million shares, respectively.

Stock option activity for non-vested shares through December 31, 2007 is as follows:

| | Options | Weighted Average Grant Date Fair Value |
|---|---|---|
| Balance, December 31, 2006 | 1,798,764 | $ 2.35 |
| Granted | 586,986 | $ 2.29 |
| Vested | (754,378) | $ 2.70 |
| Forfeited | (98,699) | $ 2.05 |
| Balance, December 31, 2007 | 1,532,673 | $ 2.17 |

As of December 31, 2007, there was $1.6 million of unrecognized compensation cost related to non-vested share-based compensation arrangements granted. That cost is expected to be recognized over a weighted-average period of 1.8 years.

As compensation expense for options granted is recorded over the requisite service period of options, future stock-based compensation expense may be greater as additional options are granted.

***Restricted Stock***

Under the Plans, the Company's Board of Directors may grant performance or other restricted stock awards to key employees. The Company's Board of Directors may make the issuance of common stock subject to the satisfaction of one or more employment, performance goals or period, purchase or other conditions. During the year ending December 31, 2007, the Company issued restricted stock awards totaling 271,493 shares with a fair market value of $3.37 per share. Included in these shares are 213,993 restricted stock awards granted outside the Plans as inducements to recruit new employees during the year ended December 31, 2007 as permitted under Rule 4350(i) of the NASDAQ Listing Qualification requirements. The fair value of each stock award on the date of the grant was calculated by using a Monte Carlo valuation model for performance shares and 100% of the fair market value on date of grant for other restricted stock awards and is amortized to expense on a straight line basis.

The Company incurred stock-based compensation expense of $1.1 million, $0.4 million and $0.1 million for the years ending December 31, 2007, 2006 and 2005, respectively. In accordance with SFAS 123(R), the Company did not realize a tax benefit relating to the vesting of performance shares for the years ending December 31, 2007 and 2006, due to the Company's net operating losses.

Restricted stock award activity through December 31, 2007 is as follows:

| | Restricted Stock | Weighted Average Award Date Fair Value | Weighted Average Remaining Recognition Period |
|---|---|---|---|
| Balance, December 31, 2006 | 944,826 | $ 1.15 | |
| Granted | 271,493 | $ 3.37 | |
| Awards vested | (468,244) | $ 1.20 | |
| Canceled | (75,004) | $ 0.75 | |
| Balance, December 31, 2007 | 673,071 | $ 2.06 | 0.9 years |

As of December 31, 2007, there was $0.8 million of unrecognized compensation cost related to non-vested share-based compensation arrangements granted under the Plans. That cost is expected to be recognized over a weighted-average period of 0.9 years. The total grant date fair market value of awards vested during the years ended December 31, 2007, 2006 and 2005 was $0.6 million, $0.5 million and $0.0 million, respectively. The total intrinsic

value of restricted stock awards released during the years December 31, 2007, 2006 and 2005 was $3.9 million, $0.5 million and $0.0, respectively.

As compensation expense for restricted stock awards granted is recorded over the requisite service period of the awards, future stock-based compensation expense may be greater if additional performance shares are granted.

***Performance Units***

Under the Plans, the Company's Board of Directors may grant performance units to key employees. The Company's Board of Directors establishes the terms and conditions of the performance units including the performance goals, the performance period and the value for each performance unit. If the performance goals are satisfied, the Company shall pay the key employee an amount in cash equal to the value of each performance unit at the time of payment. In no event shall a key employee receive an amount in excess of $1.0 million in respect of performance units for any given year. As of December 31, 2007 there have been no performance units granted.

## NOTE 14 — CONCENTRATION OF CREDIT RISK

The following table outlines contracts with Plan Sponsors having revenues and/or accounts receivable that individually exceeded 10% of the Company's total revenues and/or accounts receivable during the applicable time period:

| | Plan Sponsor | |
|---|---|---|
| | A | B |
| Year ended December 31, 2005 | | |
| % of total revenue | 12% | 13% |
| % of total accounts receivable at period end | * | 16% |
| Year ended December 31, 2006 | | |
| % of total revenue | * | 13% |
| % of total accounts receivable at period end | * | 17% |
| Year ended December 31, 2007 | | |
| % of total revenue | * | 12% |
| % of total accounts receivable at period end | * | 19% |

* Less than 10%.

Plan Sponsor (A) is in the PBM Services segment

Plan Sponsor (B) revenue and accounts receivable is primarily in the PBM Services segment with a lesser amount in the Specialty Services segment.

## NOTE 15 — DEFINED CONTRIBUTION PLAN

The Company maintains a deferred compensation plan under Section 401(k) of the Internal Revenue Code. Under the Plan, employees may elect to defer up to 50% of their salary, subject to Internal Revenue Service limits. The Company may make a discretionary matching contribution. The Company recorded matching contributions in selling, general and administrative expenses of $1.0 million, $0.5 million and $0.2 million in the years ended December 31, 2007, 2006, and 2005, respectively.

**NOTE 16 — SELECTED QUARTERLY FINANCIAL DATA (UNAUDITED)**

A summary of quarterly financial information for fiscal 2007 and 2006 is as follows (in thousands except per share data):

| | First Quarter | Second Quarter | Third Quarter | Fourth Quarter |
|---|---|---|---|---|
| **2007:** | | | | |
| Revenue(3) | $ 296,218 | $ 294,737 | $ 297,580 | $ 309,197 |
| Gross profit(3) | $ 32,556 | $ 32,909 | $ 35,369 | $ 36,181 |
| Net income (loss) | $ (1,347) | $ 482 | $ 1,666 | $ 2,516 |
| Basic income (loss) per share | $ (0.04) | $ 0.01 | $ 0.04 | $ 0.07 |
| Diluted income (loss) per share | $ (0.04) | $ 0.01 | $ 0.04 | $ 0.06 |
| **2006:** | | | | |
| Revenue(1)(3) | $ 299,551 | $ 279,454 | $ 280,810 | $ 292,125 |
| Gross profit(3) | $ 30,120 | $ 28,415 | $ 29,264 | $ 30,257 |
| Net loss(2) | $ (1,156) | $ (5,710) | $ (3,388) | $ (28,035) |
| Basic loss per share | $ (0.03) | $ (0.15) | $ (0.09) | $ (0.75) |
| Diluted loss per share | $ (0.03) | $ (0.15) | $ (0.09) | $ (0.75) |

(1) The Company acquired Infusion West in March, 2006.

(2) In the fourth quarter of 2006, the Company recorded a $25.7 million income tax charge to establish a valuation allowance for deferred tax assets.

(3) Certain prior period amounts have been reclassified to conform to the current year presentation. Such reclassifications had no effect on the Company's previously reported consolidated financial position, results of operations or cash flows.

**Item 9.** ***Changes in and Disagreements with Accountants on Accounting and Financial Disclosure***

None.

**Item 9A.** ***Controls and Procedures***

***Evaluation of Disclosure Controls and Procedures***

As of the end of the period covered by this Annual Report, we evaluated the effectiveness of the design and operation of our disclosure controls. This evaluation was performed under the supervision and with the participation of management including our Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO"). Disclosure controls are controls and procedures (as defined in the Exchange Act Rule 13d-15(e) and 15d-15(e)) designed to reasonably assure that information required to be disclosed in our reports filed under the Exchange Act, such as this Annual Report, is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms. Disclosure controls are also designed to reasonably assure that such information is accumulated and communicated to our management, including the CEO and CFO, as appropriate, to allow timely decisions regarding required disclosure.

The evaluation of our disclosure controls included a review of the controls objectives and design, our implementation of the controls and the effect of the controls on the information generated for use in this Annual Report. Based upon the controls evaluation, our CEO and CFO have concluded that our disclosure controls as of December 31, 2007 were effective.

Based on its evaluation of the effectiveness of the design and operation of our internal control over financial reporting as of December 31, 2007, management has evaluated and verified through testing that the material weakness reported in the 2006 Form 10-K related to information technology general controls has been effectively remediated and information technology general controls are operating effectively as of December 31, 2007. Specifically, the controls related to information technology general controls which have been remediated as of December 31, 2007 are:

- Segregation of duties and restriction of employee access to applications, databases, and operating systems;
- Documentation, testing, approval and migration of system changes to production environments; and
- Monitoring of personnel in the information technology function with update access to the production databases supporting significant applications.

**Management Report on Internal Control over Financial Reporting**

Our management is responsible for establishing and maintaining adequate internal control over financial reporting. Internal control over financial reporting is a process designed by, or under the supervision of, our CEO and CFO, and effected by our board of directors, management, and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles and includes those policies and procedures that:

- Pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the Company's financial transactions;
- Provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that our revenues and expenditures are being made only in accordance with authorizations of our management and directors; and
- Provide reasonable assurance regarding the prevention or timely detection of unauthorized acquisition, use or disposition of our assets that could have a material effect on our financial statements.

Management assessed our internal control over financial reporting as of December 31, 2007, the end of our fiscal year. Management based its assessment on criteria established in Internal Control — Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. Management's assessment

included an evaluation of such elements as the design and operating effectiveness of key financial reporting controls, process documentation, accounting policies, and our overall control environment.

Based on management's assessment of internal control over financial reporting our management believes that as of December 31, 2007, our internal control over financial reporting was effective. Our independent registered public accounting firm, Ernst & Young LLP, has issued an attestation report on the Company's internal control over financial reporting which is included herein.

**Inherent Limitations on Control Systems**

Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, will be or have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty, and that breakdowns can occur because of simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the control. The design of any system of controls also is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions; over time, control may become inadequate because of changes in conditions, or the degree of compliance with the policies or procedures may deteriorate.

**Changes in Internal Control over Financial Reporting**

As noted above under Evaluation of Disclosure Controls and Procedures, we remediated the material weaknesses reported in the 2006 Form 10-K related to information technology general controls during 2007. Actions taken in the fourth quarter of 2007 that are reasonably likely to have materially affected internal controls over financial reporting include:

- Retraining information technology personnel on policies and procedures;
- Improving logical and hardware security throughout our infrastructure.

Other than the remediation of the above items to improve internal control over financial reporting there have been no changes in our internal control over financial reporting identified in connection with the evaluation required by paragraph (d) of Exchange Act Rules 13a-15 or 15d-15 that occurred during our fourth fiscal quarter that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

**Report of Independent Registered Public Accounting Firm**

The Board of Directors and Stockholders of
BioScrip, Inc.

We have audited BioScrip, Inc.'s internal control over financial reporting as of December 31, 2007, based on criteria established in Internal Control — Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). BioScrip, Inc.'s management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, BioScrip, Inc. maintained, in all material respects, effective internal control over financial reporting as of December 31, 2007, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of BioScrip, Inc. and subsidiaries as of December 31, 2007 and 2006, and the related consolidated statements of operations, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2007 of BioScrip, Inc. and our report dated March 6, 2008 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

Minneapolis, Minnesota
March 6, 2008

**Item 9B.** ***Other Information***

None.

**PART III**

**Item 10.** ***Directors, Executive Officers and Corporate Governance***

The sections under the heading ***"Election of Directors — Current Directors and Nominees for Director," "Corporate Governance and Board Matters" and "Executive Officers"*** in our definitive proxy statement to be filed with the SEC on or before March 31, 2008 in connection with our 2008 Annual Meeting of Stockholders are incorporated herein by reference.

**Item 11.** ***Executive Compensation***

The section under the heading ***"Corporate Governance"*** entitled ***"Compensation of Directors"*** and the sections under the heading ***"Executive Compensation"*** entitled ***"Compensation Discussion and Analysis," "Compensation Committee Report," "Compensation Committee Interlocks and Insider Participation," "Summary Compensation Table," "All Other Compensation," "Grant of Plan Based Awards," "Outstanding Equity Awards at Fiscal Year End," "Option Exercises and Stock Vested"*** and ***"Employment and Severance Agreements"*** in our definitive proxy statement to be filed with the SEC on or before March 31, 2008 in connection with our 2008 Annual Meeting of Stockholders are incorporated herein by reference.

**Item 12.** ***Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters***

The information under the heading ***"Common Stock Ownership by Certain Beneficial Owners and Management"*** in our definitive proxy statement to be filed with the SEC on or before March 31, 2008 in connection with our 2008 Annual Meeting of Stockholders is incorporated herein by reference.

**Item 13.** ***Certain Relationships and Related Transactions, and Director Independence***

The information under the heading ***"Corporate Governance"*** entitled ***"Director Independence"*** and ***"Review, Approval or Ratification of Transactions with Related Persons"*** in our definitive proxy statement to be filed with the SEC on or before March 31, 2008 in connection with our 2008 Annual Meeting of Stockholders is incorporated herein by reference.

**Item 14.** ***Principal Accountant Fees and Services***

The section under the heading ***"Ratification of Ernst & Young LLP as the Company's Independent Auditors for the Year Ending December 31, 2008"*** in our definitive proxy statement to be filed with the SEC on or before March 31, 2008 in connection with our 2008 Annual Meeting of Stockholders is incorporated herein by reference.

## PART IV

**Item 15.** ***Exhibits and Financial Statement Schedules***



All other schedules not listed above have been omitted since they are not applicable or are not required.

**3. Exhibits:**

| Exhibit Number | Description | Location |
|---|---|---|
| 2.1 | Agreement and Plan of Merger, dated as of August 9, 2004, among MIM Corporation, Chronimed Acquisition Corp. and Chronimed Inc. | (1) (Exhibit 99.2) |
| 2.2 | Amendment No. 1 dated January 3, 2005 to Agreement and Plan of Merger dated August 9, 2004 by and among MIM Corporation, Chronimed Acquisition Corp. and Chronimed Inc. | (2) (Exhibit 10.1) |
| 3.1 | Second Amended and Restated Certificate of Incorporation | (3) (Exhibit 4.1) |
| 3.2 | Amended and Restated By-Laws | (4) (Exhibit 3.1) |
| 4.1 | Specimen Common Stock Certificate | (5) (Exhibit 4.1) |
| 4.2 | Amended and Restated Rights Agreement, dated as of December 3, 2002 between MIM Corporation and American Stock Transfer and Trust Company | (6) (Exhibit 4.2) |
| 4.3 | First Amendment, dated December 13, 2006, to the Amended and Restated Rights Agreement, dated as of December 3, 2002 (the "Rights Agreement"), between the Company and American Stock Transfer & Trust Company, as Rights Agent | (7) (Exhibit 4.3) |
| 10.1 | Amended and Restated 1996 Incentive Stock Plan | (8) |
| 10.2 | Amended and Restated 1996 Non-Employee Director's Stock Incentive Plan | (9) |
| 10.3 | Amended and Restated 2001 Incentive Stock Plan | (10) |
| 10.4 | Employment Letter, dated October 15, 2001, between MIM Corporation and Russell J. Corvese | (11) (Exhibit 10.51) |
| 10.5 | Amendment, dated September 19, 2003, to Employment Letter Agreement between MIM Corporation and Russel J. Corvese | (12) (Exhibit 10.46) |
| 10.6 | Amendment, dated December 1, 2004, to Employment Letter Agreement between MIM Corporation and Russel J. Corvese | (13) (Exhibit 10.1) |
| 10.7 | Separation Agreement between BioScrip, Inc. and Henry F. Blissenbach | (14) (Exhibit 99.1) |
| 10.8 | Employment offer letter, dated July 18, 2005, from BioScrip, Inc. to Brian Reagan | (5) (Exhibit 10.61) |
| 10.9 | Amendment to Change of Control Severance Agreement between BioScrip, Inc. and Brian Reagan | (5) (Exhibit 10.62) |
| 10.10 | Severance Letter Agreement, dated August 17, 2006, between BioScrip, Inc. and Brian Reagan | (15) (Exhibit 10.1) |

| Exhibit Number | Description | Location |
|---|---|---|
| 10.11 | Severance Agreement, dated August 24, 2006, between BioScrip, Inc. and Barry A. Posner | (16) (Exhibit 10.1) |
| 10.12 | Restated Employment Agreement, dated November 29, 2006, between BioScrip, Inc. and Richard H. Friedman | (17) (Exhibit 10.1) |
| 10.13 | Amendment, effective November 1, 2007, to Restated Employment Agreement dated November 29, 2006, between BioScrip, Inc. and Richard H. Friedman | (18) (Exhibit 10.1) |
| 10.14 | Severance Agreement, dated August 2, 2007 between BioScrip, Inc. and Stanley G. Rosenbaum | (19) (Exhibit 10.1) |
| 10.15 | Amended and Restated Loan and Security Agreement, dated as of September 26, 2007, among, MIM Funding, LLC, BioScrip Pharmacy Services, Inc., BioScrip Infusion Services, Inc., BioScrip Pharmacy (NY), Inc., BioScrip PBM Services, LLC, BioScrip Pharmacy, Inc., Natural Living, Inc., and BioScrip Infusion Services, LLC as Borrowers, and HFG Healthco-4 LLC, as Lender | * |
| 10.16 | Amended and Restated Pledge Agreement, dated as of November 1, 2007 among BioScrip, Inc., Chronimed Inc., MIM Funding, LLC, BioScrip Pharmacy Services, Inc., BioScrip Infusion Services, Inc., BioScrip Pharmacy (NY), Inc., BioScrip PBM Services, LLC, BioScrip Pharmacy, Inc., Natural Living, Inc., and BioScrip Infusion Services, LLC, and HFG Healthco-4 LLC, | * |
| 10.17 | Amended and Restated Guaranty, effective as of October 1, 2007, by BioScrip, Inc. and Chronimed, Inc. in favor of HFG Healthco-4 LLC | * |
| 10.18 | Refinancing Arrangements Agreement among BioScrip Pharmacy Services, Inc., BioScrip Infusion Services, Inc., BioScrip Pharmacy (NY), Inc., BioScrip PBM Services, LLC, BioScrip Pharmacy, Inc., Natural Living, Inc., BioScrip Infusion Services, LLC and MIM Funding, LLC | * |
| 21.1 | List of Subsidiaries | * |
| 23.1 | Consent of Ernst and Young LLP | * |
| 31.1 | Certification of Richard H. Friedman pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 | * |
| 31.2 | Certification of Stanley G. Rosenbaum pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 | * |
| 32.1 | Certification of Richard H. Friedman pursuant to 18 U.S. C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 | * |
| 32.2 | Certification of Stanley G. Rosenbaum pursuant to 18 U.S. C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 | * |

(1) Incorporated by reference to the indicated exhibit to the Company's Current Report on Form 8-K filed on August 9, 2004., SEC Accession No. 0001089355-04-000197

(2) Incorporated by reference to the indicated exhibit to the Company's Current Report on Form 8-K filed on January 5, 2005, SEC Accession No. 0001014739-05-000007.

(3) Incorporated by reference to the indicated exhibit to the Company's Current Report on Form 8-K filed on March 17, 2005, SEC Accession No. 0000950123-05-003294.

(4) Incorporated by reference to the indicated exhibit to the Company's Current Report on Form 8-K filed on May 16, 2007, SEC Accession no. 0000950123-07-007569.

(5) Incorporated by reference to the indicated exhibit to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2005 filed with the SEC on March 31, 2006, SEC Accession no. 0000950123-06-004022

(6) Incorporated by reference to Post-Effective Amendment No. 3 to the Company's form 8-A/A dated December 4, 2002.

(7) Incorporated by reference to the indicated exhibit to the Company's Current Report on Form 8-K filed on December 14, 2006, SEC Accession No. 0000950123-06-0155184.

(8) Incorporated by reference from the Company's definitive proxy statement for its 1999 annual meeting of stockholders filed with the Commission July 7, 1999.

(9) Incorporated by reference from the Company's definitive proxy statement for its 2002 annual meeting of stockholders filed with the Commission April 30, 2002.

(10) Incorporated by reference from the Company's definitive proxy statement for its 2003 annual meeting of stockholders filed with the Commission April 30, 2003.

(11) Incorporated by reference to the indicated exhibit to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2001, SEC Accession No. 0001089355-02-000248.

(12) Incorporated by reference to the indicated exhibit to the Company's Annual Report on Form 10-K filed on for the fiscal year ended December 31, 2003, filed March 15, 2004, SEC Accession No. 001014739-04-000021.

(13) Incorporated by reference to the indicated exhibit to the Company's Current Report on Form 8-K filed on December 1, 2004, SEC Accession No. 0001014739-04-000082

(14) Incorporated by reference to the indicated exhibit to the Company's Current Report on Form 8-K filed on March 1, 2006, SEC Accession No. 0000950123-06-002440.

(15) Incorporated by reference to the indicated exhibit to the Company's Current Report on Form 8-K filed on August 21, 2006, SEC Accession No. 0000950123-06-010723.

(16) Incorporated by reference to the indicated exhibit to the Company's Current Report on Form 8-K filed on August 25, 2006, SEC Accession No. 0000950123-06-010904.

(17) Incorporated by reference to the indicated exhibit to the Company's Current Report on Form 8-K filed on December 4, 2006, SEC Accession No. 0000950123-06-014788.

(18) Incorporated by reference to the indicated exhibit to the Company's Current Report on Form 8-K filed on November 9, 2007, SEC Accession No. 0000950123-07-007569

(19) Incorporated by reference to the indicated exhibit to the Company's Current Report on Form 8-K filed on August 3, 2007, SEC Accession No. 0000950123-07-010803

* Filed with this Annual Report on Form 10-K.

**SIGNATURES**

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, on March 7, 2008.

**BIOSCRIP INC.**

/s/ Stanley G. Rosenbaum
Stanley G. Rosenbaum
Chief Financial Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

| i. Signature | Title(s) | Date |
|---|---|---|
| /s/ Richard H. Friedman<br>Richard H. Friedman | Chairman of the Board and Chief Executive Officer (principal executive officer) | March 7, 2008 |
| /s/ Stanley G. Rosenbaum<br>Stanley G. Rosenbaum | Chief Financial Officer (principal financial officer) | March 7, 2008 |
| /s/ Charlotte W. Collins<br>Charlotte W. Collins | Director | March 7, 2008 |
| /s/ Louis T. DiFazio<br>Louis T. DiFazio, Ph.D. | Director | March 7, 2008 |
| /s/ Myron Z. Holubiak<br>Myron Z. Holubiak | Director | March 7, 2008 |
| /s/ David R. Hubers<br>David R. Hubers | Director | March 7, 2008 |
| /s/ Michael Kooper<br>Michael Kooper | Director | March 7, 2008 |
| /s/ Richard L. Robbins<br>Richard L. Robbins | Director | March 7, 2008 |
| /s/ Stuart A. Samuels<br>Stuart A. Samuels | Director | March 7, 2008 |
| /s/ Steven K. Schelhammer<br>Steven K. Schelhammer | Director | March 7, 2008 |

**Bioscrip, Inc. and Subsidiaries**

**Schedule II — Valuation and Qualifying Accounts**
**(in thousands)**

| | Balance at Beginning of Period | Write-Off of Receivables | Charged to Costs and Expenses | Other Accounts | Balance at End of Period |
|---|---|---|---|---|---|
| Year ended December 31, 2005 | | | | | |
| Accounts receivable(1) | $ 2,883 | $ (6,922) | $ 12,814 | $ 5,631 | $ 14,406 |
| Accounts receivable, TennCare®(2) | $ 357 | $ (357) | $ — | $ — | $ — |
| Year ended December 31, 2006 | | | | | |
| Accounts receivable | $ 14,406 | $ (13,075) | $ 12,443 | $ — | $ 13,774 |
| Year ended December 31, 2007 | | | | | |
| Accounts receivable | $ 13,774 | $ (6,810) | $ 5,119 | $ — | $ 12,083 |

(1) Allowance and reserve on balance sheet of Chronimed, acquired March 12, 2005, and Northland, acquired October 7, 2005.

(2) Amounts credited to the TennCare® reserve account and reductions in related liability accounts

**EXHIBIT INDEX**

(Exhibits being filed with this Annual Report on Form 10-K)

| | |
|---|---|
| 21.1 | List of Subsidiaries |
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| 31.2 | Certification of Stanley G. Rosenbaum pursuant to 18 U.S.C. Section 1350,as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 |
| 32.1 | Certification of Richard H. Friedman pursuant to 18 U.S. C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 |
| 32.2 | Certification of Stanley G. Rosenbaum pursuant to 18 U.S. C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 |

Exhibit 10.15

**AMENDED AND RESTATED**

**LOAN AND SECURITY AGREEMENT**

Dated as of September 26, 2007

Among

**MIM FUNDING, LLC,**

**BIOSCRIP PHARMACY SERVICES, INC.,**

**BIOSCRIP INFUSION SERVICES, INC.,**

**BIOSCRIP PHARMACY (NY), INC.,**

**BIOSCRIP PBM SERVICES, LLC,**

**BIOSCRIP PHARMACY, INC.,**

**NATURAL LIVING, INC.,**

**and**

**BIOSCRIP INFUSION SERVICES, LLC**
as Borrowers,

and

**HFG HEALTHCO-4 LLC**
as Lender

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**AMENDED AND RESTATED LOAN AND SECURITY AGREEMENT**, dated as of September 26, 2007, among MIM Funding, LLC, a limited liability company organized under the laws of the State of Delaware ("***MIM Funding***"), BioScrip Pharmacy Services, Inc., a corporation organized under the laws of the State of Ohio ("***Pharmacy Services***"), BioScrip Infusion Services, Inc., a corporation organized under the laws of the State of California ("***Infusion Services Inc***"), BioScrip Pharmacy (NY), Inc., a corporation organized under the laws of the State of New York ("***Pharmacy (NY)***"), BioScrip PBM Services, LLC, a limited liability company organized under the laws of the State of Delaware ("***PBM Services***"), BioScrip Pharmacy, Inc., a corporation organized under the laws of the State of Minnesota ("***Pharmacy***"), Natural Living, Inc., a corporation organized under the laws of the State of New York ("***Natural Living***") and BioScrip Infusion Services, LLC, a limited liability company organized under the laws of the State of Delaware ("***Infusion Services LLC***" and together with MIM Funding, Pharmacy Services, Infusion Services Inc, Pharmacy (NY), PBM Services, Pharmacy and Natural Living, each a "***"Borrower***" and collectively, jointly and severally, the "***Borrowers***") and HFG HEALTHCO-4 LLC, a Delaware limited liability company (together with its successors and assigns, the "***Lender***").

Certain terms that are capitalized and used throughout this Agreement are defined in Exhibit I to this Agreement. References herein, and in the Exhibits and Schedules hereto, to the "Agreement" refer to this Agreement, as amended, restated, modified or supplemented from time to time in accordance with its terms (this "***Agreement***").

Reference is hereby made to that certain Loan and Security Agreement, dated as of November 1, 2000, between MIM Funding and the Lender (as amended, modified or supplemented prior to the date hereof, the "***Original Agreement***"). MIM Funding intends on the Initial Funding Date to restructure and refinance the Original Agreement to add the other Borrowers and restructure the financing terms, including revolving advances to the Borrowers, jointly and severally, on a continuing basis secured by substantially all of the assets of the Borrowers, including their Receivables. The Lender is prepared to make Revolving Loans to the Borrowers, secured by substantially all of the assets of the Borrowers, including their Receivables and guarantied by the Guaranty provided by the Parent, on the terms and subject to the conditions set forth herein.

Accordingly, the parties hereby amend and restate the Original Agreement as follows:

## ARTICLE I.
## COMMITMENT; AMOUNTS AND TERMS OF THE REVOLVING LOAN

§ 1.01. Revolving Advances. (a) The Lender agrees to lend from time to time to the Borrowers, subject to and upon the terms and conditions herein set forth, on any Funding Date, such amounts as, in accordance with the terms hereof, may be requested by the Borrower Representative on behalf of the Borrowers from time to time (each such borrowing, a "***Revolving Advance***" and the aggregate outstanding principal balance of all Revolving Advances from time to time, the "***Revolving Loan***").

(b) Each Revolving Advance shall be made on the date specified in the Borrower's Certificate, or telephonic notice confirmed in writing, as described in Section 1.03 hereof.

§ 1.02. Revolving Commitment and Borrowing Limit. (a) The Revolving Loan at any time shall not exceed an amount equal to the lesser of (i) $75,000,000 (such amount, or such other amount after giving effect to any increase pursuant to the provisions of Section 1.02(d) hereof, the "***Revolving Commitment***"), and (ii) the Borrowing Base as of such time (the lesser of (i) and (ii) being the "***Borrowing Limit***").

(b) Subject to the limitations herein and of Exhibit II hereof, the Borrowers may borrow, repay (without premium or penalty) and reborrow under the Revolving Commitment from time to time during the term of this Agreement. The Revolving Loan shall not exceed, and the Lender shall not have any obligation to make any Revolving Advance which shall result in the Revolving Loan being in excess of, the Revolving Commitment.

(c) If at any time the Revolving Loan exceeds the Borrowing Limit at such time, the Borrowers shall promptly, in accordance with Article III hereof, eliminate such excess by paying an amount equal to such excess until such excess is eliminated in full.

(d) The Borrowers may request the Lender to increase the Revolving Commitment up to a maximum of $100,000,000 and the Lender, in its sole discretion upon any such request, may decide to increase the Revolving Commitment. Each such increase shall be in an amount equal to $5,000,000 or an integral multiple thereof and the Borrowers shall, upon the effective date of such increase, pay to the Lender a fee in an amount equal to 0.70% of any increase in the Revolving Commitment.

§ 1.03. Notice of Borrowing; Borrower's Certificate. Whenever the Borrowers desire a Revolving Advance be made, the Borrower Representative shall give the Lender, not later than 11:00 a.m. (New York time) on the Business Day of the proposed Funding Date of such Revolving Advance, Written Notice or telephonic notice from an Authorized Representative confirmed promptly by a Written Notice (which notice, in each case, shall be irrevocable) of the desire to make a borrowing of a Revolving Advance. Each notice of borrowing under this Section 1.03 shall (i) be signed by an Authorized Representative of the Borrower Representative, and (ii) be substantially in the form of Exhibit VII-B hereto (each, a "***Borrower's Certificate***") and specify the date on which the Borrowers desire to make a borrowing of a Revolving Advance (which in each instance shall be a Funding Date), the amount of the proposed Revolving Advance and shall have attached to it the most recent Borrowing Base Certificate.

§ 1.04. Termination of Revolving Commitment. On the Maturity Date, the Revolving Commitment shall be cancelled automatically. In addition, prior to the Maturity Date, the Borrowers may terminate the Revolving Commitment pursuant to Section 6.07(b). Upon such cancellation, the Revolving Loan (together with all other Lender Debt) shall become, without further action by any Person, immediately due and payable together with all accrued interest thereon to such date plus any fees (including, as applicable, the Early Termination Fee) premiums, charges or costs provided for hereunder.

§ 1.05. Interest and Fees. (a) Interest. The Borrowers shall, upon demand, pay interest on the Revolving Loan on (i) each Interest Payment Date and (ii) the Maturity Date (whether by acceleration or otherwise), in each case, at an interest rate per annum equal to LIBOR *plus* the Applicable Margin.

(b) Default Interest. Notwithstanding anything to the contrary contained herein, while any Event of Default is continuing, interest on the Revolving Loan shall be payable on demand at a rate *per annum* equal to 4.00% in excess of the rate then otherwise applicable to the Revolving Loan

(c) Non-Utilization Fee. The Borrowers shall pay to the Lender on the first Funding Date of each Month and the Maturity Date a fee (the "***Non-Utilization Fee***") equal to 0.35% *per annum* on the average amount, calculated on a daily basis, by which the Commitment exceeded, during the prior Month, the Revolving Loan.

(d) A/R Fee. The Borrowers shall pay to the Lender the A/R Fee on the first Business Day of each Month.

(e) Payments on Due Date. The Borrowers shall on the date when due and payable make payments of any amounts due hereunder in immediately available funds, and if such amounts are not received on the date when due and payable, the Borrowers shall have been deemed to have requested a Revolving Advance in such amount, which Revolving Advance, to the extent that conditions precedent have been satisfied with respect thereto, shall be applied by the Lender to satisfy in full such payment obligation.

§ 1.06. Voluntary Reductions. The Borrowers may on any Funding Date reduce the outstanding principal amount of the Revolving Loan.

§ 1.07. Computation of Interest; Payment of Fees. (a) Interest on the Revolving Loans and fees and other amounts calculated by the Lender on the basis of a rate per annum shall be computed on the basis of actual days elapsed over a 360-day year.

(b) Whenever any payment to be made hereunder or under any other Document shall be stated to be due and payable on a day which is not a Business Day, such payment shall be made on the next succeeding Business Day and such extension of time shall in such case be included in computing interest on such payment.

§ 1.08. Procedures for Payment. (a) Each payment hereunder and under the other Documents shall be made not later than 12:00 noon (New York City time) on the day when due in lawful money of the United States of America to the Lender without counterclaim, offset, claim or recoupment of any kind and free and clear of, and without deduction for, any present or future withholding or other taxes, duties or charges of any nature imposed on such payments or prepayments by or on behalf of any Governmental Entity thereof or therein, except for Excluded Taxes. If any such taxes, duties or charges are so levied or imposed on any payment to the Lender, the Borrowers will make additional payments in such amounts as may be necessary so that the net amount received by the Lender, after withholding or deduction for or on account of all taxes, duties or charges, including deductions applicable to additional sums payable under this Section 1.08, will be equal to the amount provided for herein.

Whenever any taxes, duties or charges are payable by the Borrowers with respect to any payments hereunder, the Borrowers shall furnish promptly to the Lender information, including certified copies of official receipts (to the extent that the relevant governmental authority delivers such receipts), evidencing payment of any such taxes, duties or charges so withheld or deducted. If the Borrowers fail to pay any such taxes, duties or charges when due to the appropriate taxing authority or fails to remit to the Lender the required information evidencing payment of any such taxes, duties or charges so withheld or deducted, the Borrowers shall indemnify the Lender for any incremental taxes, duties, charges, interest or penalties that may become payable by the Lender as a result of any such failure.

(b) Notwithstanding anything to the contrary contained in this Agreement, the Borrowers agree to pay any present or future stamp or documentary taxes, any intangibles tax or any other sales, excise or property taxes, charges or similar levies now or hereafter assessed that arise from and are attributable to any payment made hereunder or from the execution, delivery of, or otherwise with respect to, this Agreement or any other Documents and any and all recording fees relating to any Documents securing any Lender Debt ("***Other Taxes***").

(c) The Borrowers shall indemnify the Lender for the full amount of any taxes, duties or charges other than Excluded Taxes (including, without limitation, any taxes other than Excluded Taxes imposed by any jurisdiction on amounts payable under this Section 1.08) duly paid or payable by the Lender and any liability (including penalties, interest and expenses) arising therefrom or with respect thereto. Indemnification payments shall be made within 30 days from the date the Lender makes written demand therefor. The Lender shall provide to the Borrowers a statement, supported when applicable by documentary evidence, explaining the amount of any such liability it incurs, which statement shall be conclusive absent manifest error.

(d) Without prejudice to the survival of any other agreement of the Borrowers hereunder, the agreements and obligations of the Borrowers contained in this Section 1.08 shall survive the payment in full of principal and interest hereunder.

§ 1.09. Indemnities. (a) The Borrowers hereby agree to indemnify the Lender on demand against any loss or expense which the Lender or a branch or an Affiliate of the Lender actually incurs as a consequence of: (i) any default in payment or prepayment of the principal amount of any Revolving Advance made to it or any portion thereof or interest accrued thereon, as and when due and payable (at the due date thereof, by irrevocable notice of payment or prepayment, or otherwise); (ii) the effect of the occurrence of any Event of Default upon any Revolving Advance made to it; (iii) the payment or prepayment of the principal amount of any Revolving Advance made to it or any portion thereof, on any day other than a Funding Date; or (iv) the failure by the Borrowers to accept a Revolving Advance after it has requested such borrowing, conversion or renewal; in each case including, but not limited to, any loss or expense sustained or incurred in liquidating or employing deposits from third parties acquired to effect or maintain such Revolving Advance or any portion thereof; provided, however, that so long as no Event of Default is continuing, no payment shall be made with respect to any loss or expense that is being contested in good faith by the Borrower. The Lender shall provide to the Borrowers a statement, supported when applicable by documentary evidence, explaining the amount of any such loss or expense it incurs, which statement shall be conclusive absent manifest error.

(b) The Borrowers hereby agree to indemnify and hold harmless the Lender, the Program Manager and their respective Affiliates, (together with their respective directors, officers, agents, representatives, shareholders, lenders, counsel and employees, each an "***Indemnified Party***"), from and against any and all losses, claims, damages, costs, expenses (including reasonable counsel fees and disbursements) and liabilities which are actually incurred by such Indemnified Party arising out of the commitments hereunder to make the Revolving Advances, or the financings contemplated hereby, the other Documents, the Collateral (including, without limitation, the use thereof by any of such Persons or any other Person, the exercise by the Lender of rights and remedies or any power of attorney with respect thereto, and any action or inaction of the Lender under and in accordance with any Documents), the use of proceeds of any financial accommodations provided hereunder, any investigation, litigation or other proceeding (brought or threatened) relating thereto, or the role of any such Person or Persons in connection with the foregoing, whether or not any Indemnified Party is named as a party to any legal action or proceeding ("***Claims***"). The Borrowers will not, however, be responsible to any Indemnified Party hereunder for any Claims to the extent that a court having jurisdiction shall have determined by a final nonappealable judgment that any such Claim shall have arisen out of or resulted directly and principally from (i)(1) actions taken or omitted to be taken by such Indemnified Party by reason of the bad faith, willful misconduct or gross negligence of any Indemnified Party, or (2) in violation of any law or regulation applicable to such Indemnified Party (except to the extent that such violation is attributable to any breach of any representation, warranty or agreement by or on behalf of any Borrower or any of its designees, in each case, as determined by a final nonappealable decision of a court of competent jurisdiction), or (ii) a successful claim by a Borrower against such Indemnified Party ("***Excluded Claims***"). The Indemnified Party shall give the Borrowers prompt Written Notice of any Claim setting forth a description of those elements of the Claim of which such Indemnified Party has knowledge. The Lender, as an Indemnified Party, shall be permitted hereunder to select counsel to defend such Claim with the consent of the Borrowers, such consent not to be unreasonably withheld, at the expense of the Borrowers and, if such Indemnified Party shall decide to do so, then all such Indemnified Parties shall select the same counsel to defend such Indemnified Parties with respect to such Claim; provided, however, that if any such Indemnified Party shall in its reasonable opinion consider that the retention of one joint counsel as aforesaid shall result in a conflict of interest, such Indemnified Party may, at the expense of the Borrower, select its own counsel to defend such Indemnified Party with respect to such Claim. The Indemnified Parties and the Borrowers and their respective counsel shall cooperate with each other in all reasonable respects in any investigation, trial and defense of any such Claim and any appeal arising therefrom.

§ 1.10. Telephonic Notice. Without in any way limiting the Borrowers' obligation to confirm in writing any telephonic notice of a borrowing, conversion or renewal, the Lender may act without liability upon the basis of telephonic notice believed by the Lender in good faith to be from an Authorized Representative of any Borrower or the Borrower Representative prior to receipt of written confirmation.

§ 1.11. Maximum Interest. (a) No provision of this Agreement shall require the payment to the Lender or permit the collection by the Lender of interest in excess of the maximum rate of interest from time to time permitted (after taking into account all

consideration which constitutes interest) by laws applicable to the Lender Debt and binding on the Lender (such maximum rate being the Lender's "***Maximum Permissible Rate***").

(b) If the amount of interest (computed without giving effect to this Section 1.11) payable on any Interest Payment Date in respect of the preceding interest computation period would exceed the amount of interest computed in respect of such period at the Maximum Permissible Rate, the amount of interest payable to the Lender on such date in respect of such period shall be computed at the Maximum Permissible Rate.

(c) If at any time and from time to time: (i) the amount of interest payable to any Lender on any Interest Payment Date shall be computed at the Maximum Permissible Rate pursuant to the preceding subsection (b); and (ii) in respect of any subsequent interest computation period the amount of interest otherwise payable to the Lender would be less than the amount of interest payable to the Lender computed at the Maximum Permissible Rate, then the amount of interest payable to the Lender in respect of such subsequent interest computation period shall continue to be computed at the Maximum Permissible Rate until the amount of interest payable to the Lender shall equal the total amount of interest which would have been payable to the Lender if the total amount of interest had been computed without giving effect to the preceding subsection (b).

## ARTICLE II.
## GENERAL PAYMENT MECHANICS; GOVERNMENTAL ENTITIES PAYMENT MECHANICS; MISDIRECTED PAYMENTS

§ 2.01. General Payment Mechanics. (a) On or prior to the Initial Funding Date, each of the Borrower Representative, the applicable Borrowers, the Lender and each Lockbox Bank shall have entered into the Depositary Agreements and shall have caused the Lockbox Banks to establish the Lender Lockboxes and the Lender Lockbox Accounts.

(b) Each Borrower shall prepare, execute and deliver to each non-Governmental Entity who is or is proposed to be a payor of Receivables and that has not previously received such Notice or is not sending payments to a Lender Lockbox or Lender Lockbox Account in the manner required hereunder, with copies to the Lender, on or prior to the Initial Funding Date, a Notice to Obligors addressed to each such non-Governmental Entity, which Notice to Obligors shall state that all present and future Receivables owing to such Borrower are subject to a Lien in favor of the Lender and that all checks from such non-Governmental Entity on account of Receivables shall be sent to a Lender Lockbox and all wire transfers from such non-Governmental Entity on account of Receivables shall be wired directly into a Lender Lockbox Account.

(c) Each Borrower covenants and agrees that, on and after the Initial Funding Date, all invoices (and, if provided by such Borrower, return envelopes) to be sent to non-Governmental Entities shall set forth only the address of a Lender Lockbox as a return address for payment of Receivables, and only a Lender Lockbox Account with respect to wire transfers for payment of Receivables. Each Borrower hereby further covenants and agrees to instruct and notify each of the members of its accounting and collections staff to provide identical information in communications with non-Governmental Entities with respect to Collections.

§ 2.02. Governmental Entities Payment Mechanics. (a) On or prior to the Initial Funding Date, each of the Borrower Representative, the applicable Borrowers, the Lender and each Lockbox Bank shall have entered into the Depositary Agreements, and the Borrowers shall have caused the Lockbox Banks to establish the Borrower Lockboxes and the Borrower Lockbox Accounts. Each Borrower shall prepare, execute and deliver to each Governmental Entity or its fiscal intermediary who is or is proposed to be an Obligor of Receivables and that has not previously received such Notice or is not sending payments to a Borrower Lockboxes or a Borrower Lockbox Account in the manner required hereunder, with copies to the Lender, on or prior to the Initial Funding Date, Notices to Governmental Entities, which Notices to Governmental Entities shall provide that all checks from Governmental Entities on account of Receivables shall be sent to a Borrower Lockbox and all wire transfers on account of Receivables shall be wired directly into a Borrower Lockbox Account.

(b) Each Borrower covenants and agrees that, on and after the Initial Funding Date, all invoices to be sent to Governmental Entities (and, if provided by such Borrower, return envelopes) shall set forth only the address of a Borrower Lockbox as a return address for payment of Receivables, and only a Borrower Lockbox Account with respect to wire transfers for payment of Receivables. Each Borrower further covenants and agrees to instruct and notify each of the members of its accounting and collections staff to provide identical information in communications with Governmental Entities with respect to Collections.

(c) Each Borrower shall maintain its Borrower Lockbox Accounts exclusively for the receipt of payments on account of Receivables from Governmental Entities. Each Borrower shall take all actions necessary to ensure that no payments from any Person other than a Governmental Entity shall be deposited in the Borrower Lockbox Accounts.

§ 2.03. Misdirected Payments; EOB's. (a) In the event that any Borrower receives a Misdirected Payment in the form of a check, such Borrower shall immediately send such Misdirected Payment, in the form received by such Borrower, by overnight delivery service to the appropriate Lender Lockbox or Borrower Lockbox, as the case may be, together with the envelope in which such payment was received. In the event a Borrower receives a Misdirected Payment in the form of cash or wire transfer, such Borrower shall immediately wire transfer the amount of such Misdirected Payment directly to a Lender Lockbox Account. All Misdirected Payments shall be sent promptly upon receipt thereof, and in no event later than the close of business, on the first Business Day after receipt thereof.

(b) [Intentionally Omitted.]

(c) Each Borrower hereby agrees and consents to the Lender taking such actions, solely during the continuation of an Event of Default, as are reasonably necessary to ensure that future payments from the Obligor of a Misdirected Payment shall be made in accordance with the Notice previously delivered to such Obligor, including, without limitation, to the maximum extent permitted by law, (i) the Lender, its assigns or designees, or any member of the Lender Group executing on such Borrower's behalf and delivering to such Obligor a new Notice, and (ii) the Lender, its assigns or designees, or any member of the Lender Group contacting such Obligor by telephone to confirm the instructions previously set forth in the Notice to such Obligor. At any time, upon the Lender's request, a Borrower shall promptly (and

in any event, within two Business Days from such request) take such similar actions as the Lender may request..

§ 2.04. No Rights of Withdrawal. None of the Borrowers nor the Borrower Representative shall have any rights of direction or withdrawal with respect to amounts held in the Lender Lockbox Accounts.

**ARTICLE III.**
**COLLECTION AND DISTRIBUTION**

§ 3.01. Collections on the Receivables. The Lender shall be entitled with respect to all Receivables, (i) to receive and to hold as collateral all Receivables and all Collections on Receivables in accordance with the terms of the Depositary Agreements, and (ii) to have and to exercise any and all rights to collect, record, track and, during the continuance of an Event of Default, take all actions to obtain Collections with respect to all Receivables.

§ 3.02. Distribution of Funds. On each Funding Date, and *provided*, that (i) no Event of Default is continuing, and (ii) the Program Manager shall have received all Receivable Information for the period since the immediately prior Funding Date, the Lender shall distribute any and all Collections received in the Collection Account prior to 12:00 p.m. (New York City time) on the immediately prior Funding Date as follows: **FIRST**, to the Lender, an amount in cash equal to the Fee and Interest Shortfall, if any, until such amount has been paid in full; **SECOND**, to the Lender, an amount in cash equal to the Borrowing Base Deficiency, if any, until such amount is paid in full; **THIRD**, to the Lender, an amount in cash equal to the payment, if any, of principal on the Revolving Loan due and payable on such Funding Date, until such amount has been paid in full; **FOURTH**, to the Lender, an amount in cash equal to the payment of any other Lender Debt due and payable on such Funding Date, if any, until such amount has been paid in full; **FIFTH**, to the Borrower Representative on behalf of the Borrowers, all remaining amounts of Collections, as requested.

§ 3.03. Distribution of Funds at the Maturity Date or Upon an Event of Default. At the Maturity Date or upon the occurrence and during the continuance of an Event of Default, subject to the rights and remedies of the Lender pursuant to Section 4.02 hereof, the Lender shall distribute any and all Collections as follows: **FIRST**, to the Lender, an amount in cash equal to any and all accrued fees and collection costs as set forth in Sections 1.05 and 6.05, until such amount has been paid in full; **SECOND**, to the Lender, an amount in cash equal to all accrued and unpaid interest on the Revolving Loan (at the rates established under Section 1.05) until such amount has been paid in full; **THIRD**, to the Lender, an amount in cash equal to the principal amount of the Revolving Loan, until such amount is paid in full; **FOURTH**, to the Lender, an amount in cash equal to the payment of any other Lender Debt due and payable on such date, until such amount has been paid in full; and **FIFTH**, to the Borrower Representative on behalf of the Borrowers, all remaining amounts of Collections.

§ 3.04. Allocation of Servicing Responsibilities. (a) Tracking of Collections and other transactions pertaining to the Receivables shall be administered by the Program Manager in a manner consistent with the terms of this Agreement. The responsibilities

of the Borrowers to the Program Manager have been set forth in Exhibit X attached hereto. Each Borrower shall cooperate fully with the Program Manager in establishing and maintaining the Transmission of the Receivable Information, including, without limitation, the matters described in Exhibit X, and shall provide promptly to the Program Manager such other information necessary or desirable for the administration of Collections on the Receivables as may be reasonably requested from time to time.

(b) Each Borrower hereby agrees to perform the administration and servicing obligations set forth in Exhibit X hereto with respect to its Receivables (the "***Servicing Responsibilities***"). The Lender may, at any time following the occurrence of an Event of Default (and shall, without requirement of notice to any party, upon an Event of Default resulting from the events described in clauses (f) or (m) of Exhibit V hereto) appoint another Person to succeed any Borrower in the performance of the Servicing Responsibilities (which replacement shall be effectuated through the outplacement to a third-party collection firm obligated to use commercially reasonable efforts to maximize collections in accordance with the provisions of Article 9 of the UCC).

§ 3.05. Distributions to the Borrowers Generally. Distributions to the Borrowers on each Funding Date shall be deposited in the Borrower Account.

## ARTICLE IV.
## REPRESENTATIONS AND WARRANTIES; COVENANTS; EVENTS OF DEFAULT

§ 4.01. Representations and Warranties; Covenants. Each Borrower makes on the Initial Funding Date and on each subsequent Funding Date, the representations and warranties set forth in Exhibit III hereto, and hereby agrees to perform and observe the covenants set forth in Exhibit IV hereto.

§ 4.02. Events of Default; Remedies. (a) If any Event of Default shall occur and be continuing, the Lender may, by Written Notice to the Borrower Representative, take either or both of the following actions: (x) declare the Maturity Date to have occurred, and (y) without limiting any rights hereunder and subject to applicable law, replace any Borrower in the performance of any or all of the Servicing Responsibilities; provided, that with respect to the Event of Default in clause (f) of Exhibit V, the Maturity Date shall be deemed to have occurred automatically and without notice. Upon any such declaration or designation, the Lender shall have, in addition to the rights and remedies which it may have under this Agreement, all other rights and remedies provided after default under the UCC and under other applicable law, which rights and remedies shall be cumulative.

(b) Right of Set-Off. Each Borrower hereby irrevocably authorizes and instructs the Lender to set-off the full amount of any Lender Debt due and payable against (*i*) any Collections, or (*ii*) the principal amount of any Revolving Advance requested on or after such due date. No further notification, act or consent of any nature whatsoever is required prior to the right of the Lender to exercise such right of set-off; *provided*, *however*, a member of the Lender Group shall promptly notify the Borrower Representative: (1) a set-off pursuant to this Section

4.02 occurred, (2) the amount of such set-off and (3) a description of the Lender Debt that was due and payable.

§ 4.03. Attorney-in-Fact. Each Borrower hereby irrevocably designates and appoints the Lender, the Program Manager and each other Person in the Lender Group, to the extent permitted by applicable law and regulation, as such Borrower's attorneys-in-fact, which irrevocable power of attorney is coupled with an interest, with authority, upon the continuance of an Event of Default (and to the extent not prohibited under applicable law and regulations) to (*i*) endorse or sign such Borrower's name to financing statements, remittances, invoices, assignments, checks, drafts, or other instruments or documents in respect of the Collateral, including the Receivables, (*ii*) notify Obligors to make payments on the Receivables directly to the Lender, and (*iii*) bring suit in such Borrower's name and settle or compromise such Receivables as the Lender or the Program Manager may, in its discretion, deem appropriate.

## ARTICLE V.
## SECURITY

§ 5.01. Grant of Security Interest. (a) As collateral security for the Borrower's joint and several obligations to pay the Lender Debt when due and payable and its indemnification obligations hereunder, each Borrower hereby grants to the Lender a first priority Lien on and security interest in and right of set-off against all of the rights, title and interest of the Borrowers in and to: (i) to the maximum extent permitted by law, the Lockboxes and the Lockbox Accounts; (ii) all Receivables of the Borrowers whether now owned or hereafter acquired; (iii) any and all amounts held in any Accounts maintained at Bank of America, N.A., UMB Bank or any other bank in respect of any of the foregoing or in compliance with any terms of this Agreement; (iv) all shares of capital stock, limited liability company interests, membership interests and all other interests held by a Borrower in a Subsidiary of such Borrower, whether held now or obtained in the future by such Borrower; and (v) all proceeds of the foregoing; (all of the foregoing clauses (i) through (v) inclusive, the "***Collateral***"). This Agreement shall be deemed to be a security agreement as understood under the UCC.

(b) Each Borrower agrees to execute, and hereby authorizes the Lender to file, one or more financing statements or continuation statements or amendments thereto or assignments thereof in respect of the Lien created pursuant to this Section 5.01 which may at any time be required or, in the opinion of the Lender, be desirable, and to do so without the signature of such Borrower where permitted by law.

## ARTICLE VI.
## MISCELLANEOUS

§ 6.01. Amendments, etc. (a) No amendment or waiver of any provision of this Agreement or consent to any departure therefrom by a party hereto shall be effective unless in a writing signed by the Lender and the Borrowers and then such amendment, waiver or consent shall be effective only in the specific instance and for the specific purpose for which given. No failure on the part of the Lender or the Borrowers to exercise, and no delay in exercising, any right hereunder shall operate as a waiver thereof; nor shall any single or partial

exercise of any right hereunder preclude any other or further exercise thereof or the exercise of any other right.

(b) The parties hereto agree to make any change, modification or amendment to this Agreement as may be requested by Fitch Ratings, Moody's Investors Service, Inc. or any other rating agency then rating the receivables finance program of the Lender, so long as any such change, modification or amendment does not materially adversely affect the parties hereto (each a "***Rating Agency Amendment***").

§ 6.02. Notices, etc. (a) All notices and other communications hereunder shall, unless otherwise stated herein, be in writing (which may include facsimile communication) and shall be faxed or delivered or sent by electronic mail, (i) to the Lender (and the Lender hereby agrees that notices to or for its benefit may be delivered to the Program Manager and such delivery to the Program Manager shall be deemed received by the Lender), at its address set forth under its name on Schedule I hereof or at such other address as shall be designated by such party in a Written Notice to the other parties hereto, and (ii) to any Borrower (and the Borrowers hereby agree that notices to or for their benefit may be delivered to the Borrower Representative and such delivery to the Borrower Representative shall be deemed received by the Borrowers) at the address set forth on Schedule I hereof or at such other address as shall be designated by such party in a Written Notice to the other parties hereto, (iii) to the Program Manager at the addresses set forth on Schedule I attached hereto and as such schedule may be amended from time to time by the Lender. Notices and communications by facsimile shall be effective when sent and confirmation received (and shall be promptly followed by hard copy), and notices and communications sent by other means shall be effective when received. Notices delivered through electronic communications to the extent provided in paragraph (b) below, shall be effective as provided in said paragraph (b).

(b) Notices and other communications hereunder may be delivered or furnished by electronic communication pursuant to commercially reasonable procedures mutually approved by the Borrower Representative, the Program Manager and the Lender; provided that the foregoing shall not apply to any notices or other communications to any party if such party has notified the other parties that it is incapable of receiving or does not wish to receive notices and other communications by electronic communication. Such electronic communications may be limited by the Program Manager or the Lender to particular notices or communications. All notices and other communications sent to an e-mail address shall be deemed received upon the sender's receipt of an acknowledgement from the intended recipient (such as by the "return receipt requested" function, as available, return e-mail or other written acknowledgement); provided that if such notice or other communication is not sent during the normal business hours of the recipient, such notice or communication shall be deemed to have been sent at the opening of business on the next business day for the recipient.

§ 6.03. Assignability. (a) This Agreement shall inure to the benefit of and be binding upon the parties hereto and their respective permitted successors and assigns.

(b) The Borrowers may not assign their rights or obligations hereunder or any interest herein without the prior written consent of the Lender.

§ 6.04. Further Assurances. Each Borrower shall, at its cost and expense, upon the reasonable request of the Lender, duly execute and deliver, or cause to be duly executed and delivered, to the Lender such further instruments and do and cause to be done such further acts as may be necessary or proper in the reasonable opinion of the Lender to carry out more effectively the provisions and purposes of this Agreement.

§ 6.05. Costs and Expenses; Collection Costs. (a) The Borrowers jointly and severally agree to pay (i) on the Initial Funding Date and (ii) with respect to costs and expenses incurred thereafter, within seven days of invoicing therefor and after reasonable verification by the Borrowers of such costs and expenses, which shall in no event exceed such seven-day period, all reasonable costs and expenses in connection with the preparation, execution and delivery of this Agreement and any waiver, modification, supplement or amendment hereto, including, without limitation, the reasonable fees and out-of-pocket expenses of counsel for the Lender and its Affiliates and all costs and expenses, if any (including reasonable counsel fees and expenses), of the Lender and its Affiliates in connection with the waiver, amendment and enforcement of this Agreement.

(b) The Borrowers jointly and severally further agree to pay on the Initial Funding Date (and with respect to costs and expenses incurred following the Initial Funding Date, within seven days of invoicing therefor) (i) all reasonable costs and expenses incurred by the Lender or its agent in connection with (x) semi-annual audits of the Receivables, (y) all audits conducted in connection with any material change in the Receivables or a change in the Credit and Collection Policy (z) and all audits conducted during the continuance of an Event of Default, (ii) all reasonable costs and expenses incurred by the Program Manager to accommodate any significant coding or data system changes necessitated by the Borrowers that would affect the transmission or interpretation of data received through the interface, and (iii) all reasonable costs and expenses incurred by the Lender for additional time and material expenses of the Program Manager resulting from a lack of either cooperation or responsiveness of the Borrowers to agreed-upon protocol and schedules with the Program Manager; provided, that the Borrowers have been informed of the alleged lack of cooperation or responsiveness and has been provided the opportunity to correct such problems.

(c) In the event that the Lender shall retain an attorney or attorneys to collect, enforce, protect, maintain, preserve or foreclose its interests with respect to this Agreement, any other Documents, any Lender Debt, any Receivable or the Lien on any Collateral or any other security for the Lender Debt or under any instrument or document delivered pursuant to this Agreement, or in connection with any Lender Debt, the Borrowers shall jointly and severally pay all of the reasonable costs and expenses of such collection, enforcement, protection, maintenance, preservation or foreclosure, including reasonable attorneys' fees, which amounts shall be part of the Lender Debt, and the Lender may take judgment for all such amounts. The attorneys' fees arising from such services, including those of any appellate proceedings, and all reasonable out-of-pocket expenses, charges, costs and other fees incurred by such counsel in any way or with respect to or arising out of or in connection with or relating to any of the events or actions described in this Section 6.05 shall be payable by the Borrowers, on an a joint and several basis, to the Lender on demand (with interest accruing from the eighth day following the date of such demand, and shall be additional obligations under this Agreement). Without limiting the generality of the foregoing, such expenses, costs, charges and fees may include:

recording costs, appraisal costs, paralegal fees, costs and expenses; accountants' fees, costs and expenses; court costs and expenses; photocopying and duplicating expenses; court reporter fees, costs and expenses; long distance telephone charges; air express charges; telegram charges; telecopier charges; secretarial overtime charges; and expenses for travel, lodging and food paid or incurred in connection with the performance of such legal services.

§ 6.06. Confidentiality. (a) Each of the Borrowers and the Lender hereby acknowledge that this Agreement, the other Documents and documents delivered hereunder, thereunder or in connection with, including, without limitation, any information relating to the Borrowers or any member of the Lender Group contain confidential and proprietary information. Unless otherwise required by applicable law, the Borrowers and the Lender each hereby agrees to maintain the confidentiality of this Agreement (and all drafts, memos and other documents delivered in connection therewith including, without limitation, any information relating to the Borrowers or any member of the Lender Group delivered hereunder or under the other Documents) in communications with third parties and otherwise and to take all reasonable actions to prevent the unauthorized use or disclosure of and to protect the confidentiality of such confidential information; provided, that, such confidential information may be disclosed to a third party (i) subject to an agreement to keep same confidential (1) the Borrowers' legal counsel, accountants, auditors, investors and creditors, (2) the Program Manager, the Parent, the Person then fulfilling the "Servicing Responsibilities" hereunder, each member of the Lender Group, investors in and creditors of the Lender, appropriate rating agencies with respect to the Lender, and each of their respective legal counsel, accountants, advisers and auditors, (3) to any other Person with the written consent of the applicable other party hereto, which consent shall not be unreasonably withheld; (ii) subject to reasonable prior notice to the extent practicable and not prohibited by law, (1) pursuant to subpoena or other court or legal process and (2) to the extent reasonably required in connection with any litigation or proceeding to which any party hereto is a party; (iii) to any Person if such information otherwise becomes available to such Person or publicly available through no fault of any party governed by this Section 6.06; (iv) to any Governmental Entity requesting such information; and (v) in compliance with any law, rule, regulation or order applicable to one of the parties hereto.

(b) The parties hereto understand and agree that the other parties may suffer irreparable harm if any party breaches its obligations under this Section 6.06 and that monetary damages shall be inadequate to compensate the injured party for such breach. Accordingly, each party agrees that, in the event of a breach by such party of Section 6.06(a), the injured party, in addition and not in limitation of its rights and remedies under law, shall be entitled to a temporary restraining order, preliminary injunction and permanent injunction to prevent or restrain any such breach.

(c) The Lender and the Borrowers each hereby agrees to, and the Lender shall take reasonable steps to cause each member of the Lender Group to, comply with all applicable state or federal statutes or regulations relating to patient medical record confidentiality.

Notwithstanding anything to the contrary described herein, from the commencement of discussions with respect to the transactions, each of the Borrowers and the Lender, and each of their respective employees, representatives or other agents, are, and hereby confirm that they have been, permitted to disclose to any and all persons, without limitations of any kind, the tax

treatment and tax structure of the transactions and all materials of any kind (including opinions or other tax analyses) that are or have been provided to such parties related to such tax treatment and tax structure; provided, however, that the foregoing permission to disclose the tax treatment and tax structure does not permit the disclosure of the identity of the parties to the transactions or the amounts paid in connection with the transactions; and provided further, that the tax treatment and tax structure shall be kept confidential to the extent necessary to comply with federal or state securities laws.

§ 6.07. Term and Termination; Early Termination Fee; Prepayment Fee. (a) This Agreement shall have an initial term commencing on the Initial Funding Date and expiring on November 1, 2010 (the "***Initial Term***"). Thereafter, the term of this Agreement shall be automatically extended for annual successive terms (each, a "***Renewal Term***") commencing on the first day following the Initial Term or a Renewal Term, as the case may be, and expiring on the date twelve months thereafter, unless the Lender or the Borrower Representative provides Written Notice not less than 90 days prior to the expiration of the Initial Term or a Renewal Term, as the case may be, that such Person does not intend to extend the term of this Agreement; provided, however, that if an Event of Default shall have occurred and be continuing at the end of the Initial Term or a Renewal Term, as the case may be, this Agreement will not automatically be extended without the prior written consent of the Lender. Any Borrower shall pay to the Lender on the first day of each Renewal Term a fee equal to 0.20% of the Commitment then in effect. Upon the payment in full of all Lender Debt, the Lender shall take all actions and deliver all assignments, certificates, releases, notices and other documents, at the Borrowers' expense, as the Borrowers may reasonably request to effect such termination.

(b) The Borrowers may terminate this Agreement at any time prior to the Maturity Date upon (i) lapse of not less than ten days' prior Written Notice (which shall be irrevocable) to the Lender and (ii) payment in full of all Lender Debt, including, without limitation, all applicable accrued and unpaid fees, charges and costs, all as provided hereunder, and in such occurrence of clauses (i) and (ii) the commitment hereunder shall be deemed to be terminated.

(c) Upon the termination of this Agreement (for any reason other than the default hereof by the Lender or a Rating Agency Amendment that the Borrowers, in their reasonable judgment and in good faith determines is unacceptable) prior to the Scheduled Maturity Date, the Borrowers shall jointly and severally pay to the Lender an early termination fee in an amount equal to the Early Termination Fee.

(d) The termination of this Agreement shall not affect any rights of the Lender or any obligations of the Borrowers arising on or prior to the effective date of such termination, and the provisions hereof shall continue to be fully operative until all Lender Debt incurred on or prior to such termination has been paid and performed in full.

(e) Upon the giving of notice that an Event of Default has occurred and is continuing under this Agreement, all Lender Debt shall be due and payable on the date of such Event of Default specified in such notice. Upon the (i) the termination of all commitments and obligations of the Lender, and (ii) the payment in full of all Lender Debt, the Lender shall, at the Borrowers' request and sole cost and expense, execute and deliver to the Borrower

Representative such documents as the Borrower Representative shall reasonably request to evidence such termination.

(f) The Liens and rights granted to the Lender hereunder with respect to the Collateral shall continue in full force and effect, notwithstanding the termination of this Agreement, until all of the Lender Debt has been indefeasibly paid in full in cash.

(g) Notwithstanding the foregoing, if after receipt of any payment of all or any part of the Lender Debt, the Lender is for any reason compelled to surrender such payment to any Person or entity because such payment is determined to be void or voidable as a preference, an impermissible setoff, a diversion of trust funds or for any other reason, this Agreement shall continue in full force (except that the Revolving Commitment of the Lender shall have been terminated), and the Borrowers shall be jointly and severally liable to, and shall indemnify and hold the Lender harmless for the amount of such payment surrendered until the Lender shall have been finally and irrevocably paid in full. The provisions of the foregoing sentence shall be and remain effective notwithstanding any contrary action which may have been taken by the Lender in reliance upon such payment, and any such contrary action so taken shall be without prejudice to the Lender's rights under this Agreement and shall be deemed to have been conditioned upon such payment having become final and irrevocable.

§ 6.08. No Liability of Lender. (a) Neither this Agreement nor any document executed in connection herewith shall constitute an assumption by the Lender of any obligation to any Obligor or any plan participant of the Obligor, or any obligation of the Borrowers.

(b) Notwithstanding any other provision herein, no recourse under any obligation, covenant, agreement or instrument of the Lender contained herein or with respect hereto shall be had against any Related Person whether arising by breach of contract, or otherwise at law or in equity (including any claim in tort), whether express or implied, it being understood that the agreements and other obligations of the Lender herein and with respect hereto are solely its corporate obligations; provided, however, nothing herein above shall operate as a release of any liability which may arise as a result of such Related Person's gross negligence or willful misconduct. The provisions of this Section 6.08 shall survive the termination of this Agreement.

§ 6.09. Joint and Several Liability; Designation and Appointment of Borrower Representative. (a) Each Borrower agrees that each reference to "the Borrowers" in this Agreement shall be deemed to refer to each such Borrower, jointly and severally with the other Borrowers. Each Borrower (i) shall be jointly and severally liable for the obligations, duties and covenants of each other such Borrower under this Agreement and the acts and omissions of each other such Borrower including, without limitation, under Article VI hereof, and (ii) jointly and severally makes each representation and warranty for itself and each other such Borrower under this Agreement. Notwithstanding the foregoing, if, in any action to enforce the Lender Debt against any Borrower or any proceeding to allow or adjudicate a claim hereunder, a court of competent jurisdiction determines that enforcement of the joint and several obligations of all of the Borrowers against such Borrower for the full amount of the Lender Debt is not lawful under, or would be subject to avoidance under Section 548 of the United States

Bankruptcy Code or any applicable provision of Federal or state law, the liability of such Borrower hereunder shall be limited to the maximum amount lawful and not subject to avoidance under such law.

(b) Each Borrower hereby irrevocably designates and appoints BioScrip Pharmacy Services, Inc. as its exclusive representative under this Agreement (the "***Borrower Representative***") to deliver and receive all notices and Written Notices on behalf of such Borrower and to receive on behalf of such Borrower and distribute all distributions of the Borrowers in accordance with the respective interests of the Borrowers and to take such other actions as are set forth in this Agreement. Each Borrower hereby unconditionally releases the Lender, the Program Manager and any member of the Lender Group with respect to any claims, obligations or duties that such Persons may otherwise have been deemed to possess absent the designation and appointment contained in this Section 6.09(b)

§ 6.10. Entire Agreement; Severability. (a) This Agreement, including all exhibits and schedules hereto and the documents referred to herein, embody the entire agreement and understanding of the parties concerning the subject matter contained herein. This Agreement supersedes any and all prior agreements and understandings between the parties, whether written or oral.

(b) If any provision of this Agreement shall be declared invalid or unenforceable, the parties hereto agree that the remaining provisions of this Agreement shall continue in full force and effect.

§ 6.11. **GOVERNING LAW. THIS AGREEMENT SHALL, IN ACCORDANCE WITH SECTION 5-1401 OF THE GENERAL OBLIGATIONS LAW OF THE STATE OF NEW YORK, BE GOVERNED BY THE LAWS OF THE STATE OF NEW YORK, WITHOUT REGARD TO ANY CONFLICT OF LAWS PRINCIPLES THEREOF THAT WOULD CALL FOR THE APPLICATION OF THE LAWS OF ANY OTHER JURISDICTION, EXCEPT TO THE EXTENT THAT THE VALIDITY OR PERFECTION OF THE SECURITY INTEREST GRANTED HEREUNDER, OR REMEDIES RELATED THERETO, IN RESPECT OF ANY PARTICULAR COLLATERAL ARE GOVERNED BY THE LAWS OF A JURISDICTION OTHER THAN THE STATE OF NEW YORK.**

§ 6.12. **WAIVER OF JURY TRIAL, JURISDICTION AND VENUE. EACH OF THE PARTIES HERETO HEREBY WAIVES ALL RIGHTS TO A TRIAL BY JURY IN THE EVENT OF ANY LITIGATION WITH RESPECT TO ANY MATTER RELATED TO THIS AGREEMENT, AND HEREBY IRREVOCABLY CONSENTS TO THE JURISDICTION OF THE STATE AND FEDERAL COURTS LOCATED IN NEW YORK COUNTY, NEW YORK CITY, NEW YORK IN CONNECTION WITH ANY ACTION OR PROCEEDING ARISING OUT OF OR RELATING TO THIS AGREEMENT. IN ANY SUCH LITIGATION, EACH OF THE PARTIES HERETO WAIVES PERSONAL SERVICE OF ANY SUMMONS, COMPLAINT OR OTHER PROCESS AND AGREES THAT SERVICE THEREOF MAY BE MADE BY CERTIFIED OR REGISTERED MAIL DIRECTED TO THE**

**PARTIES HERETO AT THEIR ADDRESSES SET FORTH ON THE SIGNATURE PAGE HEREOF.**

§ 6.13. Execution in Counterparts. This Agreement may be executed in counterparts, each of which when so executed shall be deemed to be an original and all of which when taken together shall constitute one and the same agreement.

§ 6.14. No Proceedings. The Borrowers hereby agree that they will not institute against the Lender any proceeding of the type referred to in clause (f) of Exhibit V so long as any senior indebtedness issued by the Lender shall be outstanding or there shall not have elapsed one year plus one day since the last day on which any such senior indebtedness shall have been outstanding.

§ 6.15. Survival of Termination. All indemnities contained herein shall survive the termination hereof unless otherwise provided. In addition, the provisions of Sections 4.02(b), 6.05, 6.06, 6.08, 6.09, 6.14 and this Section 6.15 shall survive any termination of this Agreement.

§ 6.16. Addition or Removal of Borrowers. (a) Subject to the conditions set forth below, upon 30-days' prior written request from time to time of the Borrower Representative, the Lender hereby agrees to the adding of other Persons designated by the Borrower Representative as additional Borrowers hereunder (each such event, an "***Addition***"); provided, that, in the reasonable commercial judgment of the Lender and its designees and assignees):

(i) the Lender, in its commercially reasonable discretion, shall have agreed in writing to such Addition;

(ii) no Event of Default is existing and the proposed Addition shall not cause, or not reasonably be expected to cause, an Event of Default unless waived in writing by the Lender;

(iii) as of the effective date of such Addition, such applicable conditions precedent set forth in Exhibit II hereto shall have been fulfilled with respect to such Person;

(iv) as of the effective date of such Addition, each applicable representation and warranty set forth in Exhibit III hereto shall be true and correct in all material respects with respect to such Person;

(v) the Lender shall have received a certificate from the Program Manager stating that all computer linkups and interfaces necessary or desirable, in the sole discretion of the Program Manager, to effectuate the transactions and information transfers under this Agreement with respect to the Addition are fully operational to the satisfaction of the Program Manager and the Program Manager shall have received an interface fee for each additional computer interface;

(vi) such Person shall execute such agreements, instruments and documents as the Purchaser may reasonably request, in form and substance satisfactory to the Purchaser to effectuate the Addition, including without limitation (x) the appropriate subscription agreement in the form of Exhibit XV attached (the "***Subscription Agreement***") to this Agreement whereby such Person agrees to be bound by the terms of this Agreement, and (y) financing statements covering Collateral, including Receivables, of such Person; and

(vii) the Lender shall have been provided with such information (whether financial or otherwise) and time necessary and desirable (in the sole discretion of the Lender) to make the assessments hereunder; and

(b) Subject to the conditions set forth below, upon 30-days' prior written request from time to time of the Borrower Representative, the Lender hereby agrees to the removal of any Borrower designated by the Borrower Representative from time to time (each such event, a ***"Removal"***); provided, that, in the reasonable commercial judgment of the Lender:

(i) the Lender, in its sole discretion, shall have agreed in writing to such Removal;

(ii) no Event of Default is existing and the proposed Removal shall not cause, or not reasonably be expected to cause, an Event of Default;

(iii) after giving effect to such Removal, the aggregate minimum Tangible Net Worth of the remaining Borrowers hereunder shall (x) equal at least $5,000,000, and (y) not have decreased as a result of the Removal (combined with all other Removals) by greater than 25%;

(iv) such Person shall execute such agreements, instruments and documents as the Lender may reasonably request, in form and substance satisfactory to the Lender to effectuate the Removal, including without limitation an amendment to this Agreement effectuating such Removal;

(v) the Lender, have been provided with such information (whether financial or otherwise) and time necessary and desirable (in the sole discretion of the Lender) to make the assessments hereunder; and

(vi) the Lender shall have received all Collections with respect to Eligible Receivables (that have not become Denied Receivables) attributable to such Person.

(c) Notwithstanding any Removal of a Person as a Borrower made in accordance with the provisions of Section 6.16(b), the provisions of Article IV (and the representations and warranties with respect thereto) and Sections 1.08, 1.09, 6.05, 6.06. 6.08 and 6.14 shall, with respect to such Person, survive such Removal.

§ 6.17. USA PATRIOT ACT. Each Borrower acknowledges and consents that, in accordance with the reporting requirements of the USA PATRIOT Act (Title III of Pub. L. 107-56 (signed into law October 26, 2001)) (the ***"Act"***), the Lender may require

information to obtain, verify and record information that identifies such Borrower, which information includes the name and addresses of such Borrower and its principals, as well as any other information that will allow the Lender to identify such Borrower and its principals in accordance with, and otherwise comply with the requirements of, the Act.

IN WITNESS WHEREOF, the parties have caused this Agreement to be executed by their respective officers thereunto duly authorized, as of the date first above written.

**HFG HEALTHCO-4 LLC,**
**as Lender**

**By: HFG Healthco-4, Inc., a member**

By: _____
Name:
Title:

**BIOSCRIP INFUSION SERVICES, INC.**

By: _____
Name:
Title:

**MIM FUNDING, LLC**

By: _____
Name:
Title:

**BIOSCRIP PBM SERVICES, LLC**

By: _____
Name:
Title:

**BIOSCRIP PHARMACY SERVICES, INC.**

By: _____
Name:
Title:

**NATURAL LIVING, INC.**

By: _____
Name:
Title:

**BIOSCRIP PHARMACY (NY), INC.**

By: _____
Name:
Title:

**BIOSCRIP INFUSION SERVICES, LLC**

By: _____
Name:
Title:

**BIOSCRIP PHARMACY, INC.**

By: _____
Name:
Title:

EXHIBIT I

DEFINITIONS

As used in the Agreement (including its Exhibits and Schedules), the following terms shall have the following meanings (such meanings to be equally applicable to both the singular and plural forms of the terms defined):

"***Accounts***" means all accounts (including, without limitation, all Receivables), all general intangibles, related goodwill and all other obligations for the payment of money arising out of a Borrower's sale of merchandise or rendition of services in the ordinary course of business, whether now existing or hereafter arising, including all rights to reimbursement under any agreements with and payments from Obligors and all proceeds of any of the foregoing.

"***Accounts Receivable Turnover***" means, at any date, for the 12-month period then most recently ended, the product obtained by multiplying (a) the quotient obtained by dividing (i) the average of the Receivables of the Borrowers over the three month period ending on such date, *by* (ii) average revenue of the Borrowers generated from Receivables over the three month period ending on such date, *by* (b) 365 days.

"***Accrued Amounts***" means, as at any date, the aggregate amount of accrued but unpaid (whether or not due and payable) (a) interest, (b) Non-Utilization Fees, and (c) A/R Fees.

"***Acquisition***" means the acquisition by a Borrower of a business or of businesses through asset purchase, stock purchase, assumption of obligations, merger, consolidation or similar business combination.

"***Addition***" has the meaning set forth in Section 6.16(a).

"***Affiliate***" means, as to any Person, any other Person that, directly or indirectly, is in control of, is controlled by or is under common control with such Person or is a director or officer of such Person. For the purposes of this definition, "control", when used with respect to any specified Person, means the power to direct the management and policies of such Person, directly or indirectly, whether through the ownership of voting securities, by contract or otherwise.

"***Agreement***" has the meaning set forth in the preamble hereto.

"***Applicable Margin***" for any Interest Period, means the relevant amount, based on the Debt/EBITDA Ratio for the fiscal quarter ended immediately prior to the commencement of such Interest Period, set forth in the table below as the "Applicable Margin":

| Debt/EBITDA Ratio is: | Applicable Margin: |
|---|---|
| < 1.00:1.00 | 1.00% |
| ³ 1.00:1.00 but <1.50:1.00 | 1.45% |

| Debt/EBITDA Ratio is: | Applicable Margin: |
|---|---|
| ³ 1.50:1.00 but < 2.00:1.00 | 1.75% |
| ³ 2.00:1.00 | 2.00% |

"***A/R Fee***" means the account receivable tracking fee, due on the first Business Day of each Month, in an amount equal to:

$$\frac{\text{AORA x TD x } 0.25\%}{360}$$

where:

AORA = The average outstanding amount of the Revolving Loan for the prior Month, calculated as the arithmetic average of all daily balances

TD = The actual amount of days in such prior Month.

"***Authorized Representative"*** means each Person designated from time to time, as appropriate, in a Written Notice by the Borrowers to the Lender for the purposes of giving notices of borrowing, conversion or renewal of Revolving Advances, which designation shall continue in force and effect until terminated in a Written Notice to the Lender.

"***Availability"*** means, at any date of determination, the amount of the difference between (i) the Borrowing Limit and (ii) the Lender Debt.

"***Borrower***" and "***Borrowers***" has the meaning set forth in the preamble hereto.

"***Borrower Account***" means initially account # 000009069730 at Bank of America, N.A., ABA # 011500010, or, thereafter, such other bank account designated by the Borrower Representative by Written Notice to the Lender and the Program Manager from time to time.

"***Borrower Lockbox***" means the lockboxes set forth on Schedule IV hereto to receive checks with respect to Receivables payable by Governmental Entities.

"***Borrower Lockbox Account***" means the accounts set forth on Schedule IV hereto in the name of the Borrowers and associated with the Borrower Lockbox established and controlled by the Borrowers to deposit Collections from Governmental Entities, including Collections received in the Borrower Lockbox and Collections received by wire transfer directly from Governmental Entities, all as more fully set forth in the Depositary Agreement.

"***Borrower Representative***" has the meaning set forth in Section 6.09(b).

"***Borrower's Certificate***" has the meaning set forth in Section 1.03.

"***Borrowing Base***" means, as of any time, an amount equal to (i) 85% of the Expected Net Value of Eligible Receivables as of such time (subject to adjustment upward to 90% upon the request of the Borrower Representative and the approval of the Lender based upon mutually acceptable terms, such approval not to be unreasonably withheld) in each case and at all times as determined by reference to and as set forth in the most recent Borrowing Base Certificate delivered to the Lender by the Borrowers as of such time pursuant to Exhibit IV, clause (k)(*i*) *minus* (ii) Accrued Amounts and unpaid expenses under Sections 1.05 and 6.05 as of such time.

"***Borrowing Base Certificate***" means a certificate (which may be sent by Transmission) signed by the Borrowers and the Borrower Representative, substantially in the form of Exhibit VII-A hereto, which shall provide the most recently available information (including updated information) with respect to the Eligible Receivables of the Borrowers (segregated by the classes set forth in Schedule V attached hereto) that is set forth in the general trial balance of each of the Borrowers.

"***Borrowing Base Deficiency***" means, as of any date, the positive difference, if any, between (x) the Revolving Loan, *minus* (y) the Borrowing Base indicated on the most recent Borrowing Base Certificate.

"***Borrowing Limit***" has the meaning set forth in Section 1.02.

"***Business Day***" means any day on which banks are not authorized or required to close in New York City, New York.

*"**Capital Expenditures**"* means, with respect to any Person for any period, the aggregate of all expenditures (including, without limitation, obligations created under Capital Leases in the year in which created but excluding payments made thereon) of any Person in respect of the purchase or other acquisition of fixed or capital assets.

"***Capital Lease***" means, as applied to any Person, any lease of any Property (whether real, personal or mixed) by that Person as lessee, the obligations of which are required, in accordance with GAAP, to be capitalized on the balance sheet of that Person.

"***Chief Financial Officer***" means the Chief Financial Officer or the Vice President — Finance of the Borrowers.

"***Change of Control***" means any Borrower shall have consummated or have entered into any transaction or agreement which shall result in the consummation of (a) the sale, lease, transfer, assignment or other disposition of all or substantially all of the assets or Property of a Borrower to any Person or group (as such term is defined in Section 13(d)(3) of the Securities Exchange Act of 1934, as amended); (b) the liquidation or dissolution of (or the adoption of a plan of liquidation by) a Borrower; (c) the merger or consolidation of any Borrower into or with another Person; (d) the acquisition of all or a substantial portion of the assets of any Person; or (e) any transaction the result of which is that any Person or group (as such term is defined in Section 13(d)(3) of the Securities Exchange Act of 1934, as amended)

beneficially owns, directly or indirectly, more of the voting stock of a Borrower than is owned on the date hereof, other than a Permitted Acquisition.

"***Claims***" has the meaning set forth in Section 1.09(b).

"***CMS***" means the Centers for Medicare and Medicaid Services of the United States Department of Health and Human Services.

"***Collateral***" has the meaning set forth in Section 5.01(a).

"***Collection Account***" means the Lender's account maintained at The Bank of New York, ABA # 021000018, GLA 111565, For Further Credit to Account #205779, Ref: HEALTHCO-4/LCHI, Attn: Scott Tepper, or such other bank account designated by the Lender from time to time.

"***Collections***" means all cash collections, wire transfers, electronic funds transfers and other cash proceeds of Receivables deposited in or transferred to the Collection Account, including, without limitation, all cash proceeds thereof.

"***Consolidated Capital Expenditure***" means, for any period, the Capital Expenditures of the Parent and its Subsidiaries for such period, determined on a consolidated basis in accordance with GAAP.

"***Consolidated EBITDA***" means, for any period, the EBITDA of the Parent and its Subsidiaries for such period, determined on a consolidated basis in accordance with GAAP.

"***Consolidated Fixed Charge Coverage Ratio***" for any period, means the ratio of (x) Consolidated EBITDA of the Parent and its Subsidiaries for such period, to (y) the sum of each of the following items to the extent paid or payable by the Borrowers in cash during such period: (i) the current portion long-term Debt, plus (ii) the current portion of Capital Leases, plus (iii) Consolidated Capital Expenditures (to the extent not funded by or being acquired under permitted purchase money loans or capital leases), plus (iv) Consolidated Interest Expense, plus (v) taxes, plus (vi) payment of dividends, distributions, advances, and loans to officers, Affiliates, and shareholders.

"***Consolidated Interest Expense***" means, for any period, the Interest Expense of the Parent and its Subsidiaries for such period, determined on a consolidated basis in accordance with GAAP.

"***Consolidated Liquidity***" means, at any date of determination, the positive difference, if any, between (x) the Borrowing Base (without regard to the Revolving Commitment), and (y) the principal amount then outstanding under the Revolving Loan.

"***Consolidated Net Worth***" means, at any date of determination, an amount equal to (a) the total assets of the Parent and its Subsidiaries on a consolidated basis minus (b) the Total Liabilities.

***"Consolidated Tangible Net Worth"*** means with respect to the Parent and its Subsidiaries determined on a consolidated basis, at any date of determination, (i) the sum of capital stock, capital in excess of par or stated value of shares of its capital stock, retained earnings and any other account which, in accordance with GAAP constitutes stockholder's equity, less (ii) treasury stock and any minority interest in subsidiaries, less (iii) the amount of any write-up subsequent to the date of the Original Agreement in the value of any asset above the cost or depreciated cost thereof and less (iv) all intangible assets, including, without limitation, goodwill, which would be classified as such in accordance with GAAP.

"***Consolidated Total Net Income***" means, for any period, the total Net Income of the Parent and its Subsidiaries for such period, determined on a consolidated basis.

***"Consolidated Working Capital"*** means at any date of determination, an amount equal to Current Assets minus Current Liabilities.

"***Credit and Collection Policy***" means those receivables credit and collection policies and practices of the Borrowers in effect on the date of the Agreement and attached as Schedule II hereto.

***"Current Assets"*** means, at any date of determination, the aggregate amount of all assets of the Parent and its Subsidiaries on a consolidated basis that would be classified as current assets at such date, computed and calculated in accordance with GAAP, adjusted for prepaid expenses and "other current assets".

***"Current Liabilities"*** means, at any date of determination, the aggregate amount of all liabilities of the Parent and its Subsidiaries on a consolidated basis (including tax and other proper accruals) which would be classified as current liabilities at such date, computed and calculated in accordance with GAAP and shall exclude any borrowings under the Agreement.

"***Debt***" means as to any Person (without duplication): (i) all obligations of such party for borrowed money, (ii) all obligations of such party evidenced by bonds, notes, debentures, or other similar instruments, (iii) all obligations of such party to pay the deferred purchase price of property or services (other than trade payables in the ordinary course of business), (iv) all Capital Leases of such party, (v) all Debt of others directly or indirectly Guaranteed (which term shall not include endorsements in the ordinary course of business) by such party, (vi) all obligations secured by a Lien existing on property owned by such party, whether or not the obligations secured thereby have been assumed by such party or are non-recourse to the credit of such party (but only to the extent of the value of such property), and (vii) all reimbursement obligations of such party (whether contingent or otherwise) in respect of letters of credit, bankers' acceptance and similar instruments.

"***Debt/EBITDA Ratio***" means the ratio, as determined as at the end of each fiscal quarter of the Parent, of (x) Debt of the Borrowers to (y) Consolidated EBITDA for the immediately prior fiscal quarter period considered on an annualized basis (by multiplying such amount by 4); *provided that* restructuring charges not exceeding the positive difference, if any, between (i) $5,000,000 minus (ii) restructuring charges excluded from the calculation of the

Debt/EBITDA Ratio in the three immediately prior fiscal quarters, shall be added back to Consolidated EBITDA to the extent that such charges had reduced Consolidated EBITDA.

"***Default***" means an event, act or condition which with the giving of notice or the lapse of time, or both, would constitute an Event of Default.

"***Defaulted Receivable***" means a Receivable (i) as to which the Obligor thereof or any other Person obligated thereon has taken any action, or suffered any event to occur, of the type described in paragraph (f) of Exhibit V, or (ii) which, consistent with the Credit and Collection Policy, would be written off the applicable Borrower's books as uncollectible.

"***Delinquent Receivable***" means a Receivable (a) that has not been paid in full on or following the 180th day following the date of original invoicing thereof, or (b) that is a Denied Receivable.

"***Denied Receivable***" means any Receivable as to which any related representations or warranties have been discovered at any time to have been breached.

"***Depositary Agreements***" means those certain Depositary Account Agreements, dated the date hereof, among the applicable Borrowers, the Lender, and each Lockbox Bank, in substantially the form attached hereto as Exhibit XIII, as such agreement may be amended, modified or supplemented from time to time in accordance with its terms.

"***Documents***" means this Agreement, the Depositary Agreement, each Borrower's Certificate, each Borrowing Base Certificate, and each other document or instrument now or hereafter executed and delivered to the Lender by or on behalf of any Borrower pursuant to or in connection herewith or therewith.

"***Early Termination Fee***" as a percentage of the Commitment, means (i) from September 26, 2007 until and including November 1, 2007, 1.50%, (ii) from November 2, 2007 until and including November 1, 2008, 1.00%, (iii) from November 2, 2008 until and including November 1, 2009, 0.50%, and (iv) from November 2, 2009 until November 1, 2010, 0.25%.

"***EBITDA***" means, for any period, the sum (determined without duplication on a consolidated basis) for the Borrowers and Subsidiaries of (a) net income (or net loss) of the Borrowers and Subsidiaries (calculated before extraordinary items), *plus* (b) Consolidated Interest Expense for such period deducted in the determination of such net income (or net loss) *plus* (c) depreciation, amortization and other non-cash items for such period to the extent included in the determination of net income (or net loss) (which shall include, to the extent included in the determination of net income (or net loss), non-cash option expenses in accordance with GAAP under Financial Accounting Standards Board Section 123(R)) *plus or minus* (d) all taxes accrued for such period on or measured by income to the extent deducted or credited in determining such net income (or net loss) *minus or plus* (e) gains (or losses) from asset dispositions or liquidations outside of the normal course of business to the extent included in determining such net income (or net loss) *plus* (f) losses due to asset impairment.

"***Eligibility Criteria***" means the criteria and basis for determining whether a

Receivable qualifies as an Eligible Receivable, all as set forth in Exhibit VIII hereto, as such Eligibility Criteria may be modified from time to time by the Lender in its good faith discretion and based on historical performance and other Borrower-related or Obligor-related factually-based credit criteria upon Written Notice to the Borrower Representative.

"***Eligible Investments***" means one or more of the following:

(a) direct obligations of, and obligations fully guaranteed by, the United States of America, or any agency or instrumentality of the United States of America the obligations of which are backed by the full faith and credit of the United States of America, that are non-callable, that have a fixed dollar amount of principal due at maturity that cannot vary or change, and, if rated by Standard & Poor's, do not have an 'r' highlighter affixed to its rating; or

(b) securities bearing interest or sold at a discount issued by any corporation incorporated under the laws of the United States of America or any State thereof which have a long-term unsecured debt rating in the highest rating category of at least two rating agencies; and, in the case of Standard & Poor's rating, that such securities do not have an 'r' highlighter affixed to its rating; or

(c) commercial paper with (i) an original maturity of less than 270 days, (ii) a rating in the highest rating category of at least two rating agencies, and (iii) if rated by Standard & Poor's, no 'r' highlighter affixed to its rating; or

(d) certificates of deposit of, banker's acceptances issued by, or federal funds sold by, any depository institution or trust company (including any bank incorporated under the laws of the United States of America or any State thereof and subject to supervision and examination by federal and/or state authorities) so long as at the time of such investment or contractual commitment providing for such investment such depository institution or trust company has a short-term unsecured debt rating in the highest rating category (without regard to modifiers such as "+" or "-") of at least two rating agencies and *provided*, that each such investment has an original maturity of less than 365 days, and *provided*, *further* that in the case of a Standard & Poor's rating, that such investment does not have an 'r' highlighter affixed to its rating; or

(e) repurchase agreements governing direct general obligations of the United States of America having a maturity of not more than 60 days from the date of acquisition with an obligor having the highest rating category of at least two rating agencies at the time of such investment *provided*, that in the case of a Standard & Poor's rating, that such investment does not have an 'r' highlighter affixed to its rating; or

(f) shares of no-load money market funds (i) rated in the highest rating category by at least two rating agencies or (ii) the assets of which are invested solely in investments of the type specified in clauses (a), (b), (c) or (d) of the definition of Eligible Investments.

"***Eligible Receivables***" means Receivables that satisfy the Eligibility Criteria.

"***Employee Benefit Plan***" means any employee benefit plan within the meaning of § 3(3) of ERISA maintained by any Borrower, any of its respective ERISA Affiliates, or with respect to which any of them have any liability.

"***ERISA***" means the Employee Retirement Income Security Act of 1974, as amended.

"***ERISA Affiliate***" means any entity which is under common control with any Borrower within the meaning of ERISA or which is treated as a single employer with such Borrower under the Internal Revenue Code of 1986, as amended.

"***Event of Default***" means any of the events specified in Exhibit V hereto.

"***Excluded Claims***" has the meaning set forth in Section 1.09(b).

"***Excluded Taxes***" means taxes upon or determined by reference to the Lender's net income imposed by the jurisdiction in which such Lender is organized or has its principal or registered office.

"***Expected Net Value***" means, with respect to any Eligible Receivable, the gross unpaid amount of such Receivable on date of creation thereof, times the Net Value Factor.

"***Fee and Interest Shortfall***" as of any Funding Date, shall mean the amount, if any, of fees or interest that is due and payable and has not otherwise been paid in full by the Borrower.

"***Funding Date***" means, at the sole discretion of the Lender, each Business Day after the Initial Funding Date until the Maturity Date or such other dates as the Lender may establish from time to time, *provided* that there shall be a minimum of one Funding Date per week for the Borrowers to be able to borrow.

"***GAAP***" means generally accepted accounting principles in the United States of America, applied on a consistent basis as set forth in Opinions of the Accounting Principles Board of the American Institute of Certified Public Accountants or in statements of the Financial Accounting Standards Board or the rules and regulations of the Securities and Exchange Commission or their respective successors and which are applicable in the circumstances as of the date in question.

"***Governmental Entity***" means the United States of America, any state, any political subdivision of a state and any agency or instrumentality of the United States of America or any state or political subdivision thereof and any entity exercising executive, legislative, judicial, regulatory or administrative functions of or pertaining to government. Payments from Governmental Entities shall be deemed to include payments governed under the Social Security Act (42 U.S.C. §§ 1395 *et seq.*), including payments under Medicare, Medicaid and TRICARE/CHAMPUS, and payments administered or regulated by CMS.

"***Guaranty***" by any Person means any obligation, contingent or otherwise, of such

Person directly or indirectly guaranteeing any Debt or other obligation of any other Person and, without limiting the generality of the foregoing, any obligation, direct or indirect, contingent or otherwise, of such Person (i) to purchase or pay (or advance or supply funds for the purchase or payment of) such Debt or other obligation (whether arising by virtue of partnership arrangements, by agreement to keep-well, to purchase assets, goods, securities or services, to take-or-pay), or (ii) entered into for the purpose of assuring in any other manner the obligee of such Debt or other obligation of the payment thereof or to protect the obligee of such Debt or other obligation of the payment thereof or to protect the obligee against loss in respect thereof (in whole or in part), *provided* that the term Guaranty shall not include endorsements for collection or deposit in the ordinary course of business. The term "Guarantee" used as a verb has a corresponding meaning.

"***Indemnified Party***" has the meaning set forth in Section 1.09.

"***Initial Funding Date***" means the date of the initial Revolving Advance hereunder.

"***Initial Term***" has the meaning set forth in Section 6.07(a).

"***Interest Expense***" means, with respect to any Person for any period, the gross interest expense of such Person (exclusive of interest income) during such period as determined in accordance with GAAP.

"***Interest Payment Date***" means the last day of each Interest Period, or if such day is not a Business Day, the next succeeding Business Day.

"***Interest Period***" means, with respect to a Revolving Advance, the period commencing on, as the case may be, the borrowing or conversion date with respect to such Revolving Advance and ending one month thereafter; *provided*, that no Interest Period may be selected that expires later than the Scheduled Maturity Date; and *provided*, *further*, that any Interest Period that begins on the last Business Day of a Month (or on a day for which there is no numerically corresponding day in the Month at the end of the Interest Period) shall, subject to the foregoing proviso, end on the last Business Day of a Month.

"***Invoice Date***" means, with respect to any Receivable, the date set forth on the related invoice or statement.

"***Last Service Date***" means, with respect to any Receivable that is not a Rebate Receivable, the earlier of (i) the date on which the applicable Borrower has received the data required to bill such Receivable and (ii) the last day for submission of the related claim under any related contracts.

"***Lender***" has the meaning set forth in the preamble hereto.

"***Lender Debt***" means, without duplication, and includes any and all amounts due, whether now existing or hereafter arising, under the Agreement, including, without limitation, any and all principal, interest, penalties, fees, charges, premiums, indemnities and costs owed or owing to the Lender, the Program Manager or the Program Manager by any Borrower, or any

Affiliate of a Borrower, arising under or in connection with this Agreement or the Depositary Agreement, in each instance, whether absolute or contingent, direct or indirect, secured or unsecured, due or not, arising by operation of law or otherwise, and all interest and other charges thereon, including, without limitation, post-petition interest whether or not such interest is an allowable claim in a bankruptcy.

"***Lender Group***" means (i) the Lender, the Program Manager and the Program Manager, and (ii) the Lender's agents and delegates identified from time to time to effectuate this Agreement.

"***Lender Lockbox***" means the lockboxes located at the address set forth on Schedule IV to receive checks with respect to Receivables payable by Insurers.

"***Lender Lockbox Account***" means the accounts at the Lockbox Bank as set forth on Schedule IV as associated with the Lender Lockbox and established by the Borrowers to deposit Collections, including Collections received in the Lender Lockbox and Collections received by wire transfer directly from Insurers, all as more fully set forth in the Depositary Agreement.

"***LIBOR***" for any Interest Period, means the rate per annum established by the Program Manager two Business Days prior to the first day of each Interest Period based on an annualized 30-day interest rate (calculated on the basis of actual days elapsed over a 360-day year) equal to the offered rate for deposits in U.S. dollars in the London interbank market which is published by the British Bankers' Association and currently appears on the Reuters Screen LIBO Page (or any successor page) as of 11:00 a.m. (London time) on such day, provided that if more than one rate is specified on Reuters Screen LIBO Page, LIBOR shall be a rate per annum equal to the arithmetic mean of all such rates

"***Lien***" means any lien, mortgage, security interest, tax lien, pledge, hypothecation, assignment, preference, priority, other charge or encumbrance, or any other type of preferential arrangement of any kind or nature whatsoever by or with any Person (including, without limitation, any conditional sale or title retention agreement), whether arising by contract, operation of law, or otherwise.

"***Lockbox***" means either the Borrower Lockbox or the Lender Lockbox, as the context requires.

"***Lockbox Account***" means either the Borrower Lockbox Account or the Lender Lockbox Account, each associated with the respective Lockbox to deposit Collections, including Collections received by wire transfer directly, all as more fully set forth in the Depositary Agreement.

"***Lockbox Banks***" means each of Bank of America, N.A. and UMB Bank as lockbox bank under the applicable Depositary Agreement

"***Material Adverse Effect***" means any event, condition, change or effect that (a) has a materially adverse effect on the business, Properties, operations or financial condition of (i) the Borrowers on a consolidated basis, (ii) any Borrower, or the Parent on a consolidated basis,

(b) materially impairs the ability of the Borrowers on a consolidated basis or any Borrower to perform their respective obligations under this Agreement or any other Document, (c) materially impairs the validity or enforceability of, or materially impairs the rights, remedies or benefits available to the Lender under this Agreement or any other Document

"***Maturity Date***" means the earlier of (a) the Scheduled Maturity Date, and (b) the occurrence of an Event of Default unless such event is waived by the Lender in writing.

"***Maximum Permissible Rate***" has the meaning set forth in Section 1.11(a).

"***Misdirected Payment***" means any form of payment in respect of a Receivable made by an Obligor in a manner other than as provided in the Notice sent to such Obligor.

"***Month***" means a calendar month.

"***Multiemployer Plan***" means a plan, within the meaning of § 3(37) of ERISA, as to which any Borrower or any ERISA Affiliate contributed or was required to contribute within the preceding five years.

***Net Income***" means, for any period, for any Person, the net income (loss) of such Person for such period determined in accordance with GAAP.

"***Net Value Factor***" means, initially, the percentages set forth on Schedule V attached hereto, as such percentages may be adjusted, upwards or downwards on a prospective basis with Written Notice to the Borrower, in the good faith discretion of the Lender but in consultation with the Borrowers, based on (i) the historical actual final collections received on the Receivables within 180 days of the Invoice Date of such Receivables (without regard to the factors set forth in the definition of "Defaulted Receivable"), divided by (ii) the gross value of such Receivables.

"***Non-Utilization Fee***" has the meaning set forth in Section 1.05(c).

"***Notice to Governmental Entities***" means a notice letter on a Borrower's corporate letterhead in substantially the form attached hereto as Exhibit IX-A.

"***Notice to non-Governmental Entities***" means a notice letter on a Borrower's corporate letterhead in substantially the form attached hereto as Exhibit IX-B.

"***Notice to Obligors***" means either a Notice to Governmental Entities or a Notice to non-Governmental Entities, as the context requires.

"***Obligor***" means each Person who is responsible for the payment of all or any portion of a Receivable.

"***Original Agreement***" has the meaning set forth in the preamble.

"***Other Taxes***" has the meaning set forth in Section 1.08.

"***Parent***" means BioScrip, Inc.

"***PBGC***" means the Pension Benefit Guaranty Corporation or any entity succeeding to all or any of its functions under ERISA.

"***Permitted Acquisition***" means an Acquisition; *provided* that (1) both before and immediately after giving effect to such proposed Acquisition (including without limitation, compliance with the financial covenants on a *pro forma* basis after giving effect to the proposed Acquisition), no Default or Event of Default has or will occur or be continuing, (2) the proposed Acquisition is of a business or businesses involving the rendition of pharmacy benefit (including specialty pharmacy products and services) and/or formulary management services or rebate administration services, the sale of medical and/or pharmaceutical products or the rendition of medical services, (3) the proposed Acquisition is accretive to both (x) EBITDA and (y) the sum of Net Income plus the amortization of goodwill related to the Acquisition of the acquiring Borrower, (4) the proposed Acquisition is not subject to, and is not reasonably likely to subject any Borrower to, any governmental investigation, material litigation or other material liabilities for which adequate reserves are not available or have not been taken, (5) the applicable Borrower is the surviving Person, (6) such surviving Person shall have a Tangible Net Worth that is no less than the Tangible Net Worth of such Borrower, (7) the applicable Borrower has delivered to the Lender and Healthco-4 financial statements for the trailing 12 month period prior to the Acquisition on a *pro forma* basis giving effect to the proposed Acquisition and such financial statements show that the Acquisition would not cause and would not be reasonably likely to cause an Event of Default, (8) with respect to any single Acquisition (i) the Total Consideration (as hereinafter defined) does not exceed $50,000,000 and (ii) the cash paid in connection with such Acquisition, together with any liabilities assumed in connection therewith, does not exceed $25,000,000, and (9) with respect to any two or more Acquisitions in a 12-month period (i) the aggregate Total Consideration does not exceed $70,000,000 and (ii) the aggregate cash paid in connection with such Acquisitions, together with any liabilities assumed in connection therewith, does not exceed $55,000,000. For the purposes hereof, the "***Total Consideration***" of an Acquisition shall mean the aggregate of all cash paid, liabilities assumed and the fair market value of any equity interests issued as consideration for such Acquisition.

"***Permitted Lien***" means a Lien that is expressly subordinated in writing to the Lien created hereunder in a manner acceptable to the Lender, in its sole discretion, and, with respect to any such Lien existing on the Initial Funding Date, is described on Schedule III hereto.

"***Person***" means an individual, partnership, corporation (including a business trust), limited liability company, joint stock company, trust, unincorporated association, joint venture or other entity, or a government or any political subdivision or agency thereof.

"***Pledge Agreement***" means that certain Pledge Agreement, dated as of December 29, 2006 made by Parent and each Borrower in favor of the Lender, as such agreement may be amended, modified or supplemented from time to time in accordance with its terms.

"***Program Manager***" means (i) Healthcare Finance Group, Inc. or (ii) any other Person then identified by the Lender to the Borrower Representative as being authorized to

provide administrative services with respect to the Lender and the Lender's finance, funding and collection of healthcare-related receivables.

"***Property***" means property of all kinds, movable, immovable, corporeal, incorporeal, real, personal or mixed, tangible or intangible (including, without limitation, all rights relating thereto), whether owned or acquired on or after the date of this Agreement.

"***Rating Agency Amendment***" has the meaning set forth in Section 6.01(b).

"***Rebate Receivable***" means a Receivable, the Obligor of which is a manufacturer or distributor of pharmaceutical products.

"***Receivable Information***" means the information listed on Exhibit ViI hereto (as such Exhibit may be modified by the Lender from time to time).

"***Receivables***" means all accounts receivable or general intangibles (including health care insurance receivables), owing (or in the case of Unbilled Receivables, to be owing) to the Borrower, including those arising out of the rendition of pharmacy benefit and formulary management or rebate administration services provided to any Person (including the provision of market information) or the sale of medical and/or pharmaceutical products by a Borrower and any medical services rendered in connection therewith, including, without limitation, all amounts due from manufacturers or distributors of pharmaceutical products based on contractual payments and all rights to reimbursement under any agreements with and payments from Obligors, together with, to the maximum extent permitted by law, all accounts receivable and general intangibles related thereto, all rights, remedies, guaranties, security interests and Liens in respect of the foregoing, all books, records and other Property evidencing or related to the foregoing, and all proceeds of any of the foregoing.

"***Related Person***" means any incorporator, stockholder, Affiliate (other than the Program Manager), agent, attorney, officer, director, member, manager, employee or partner of the Lender or its members or its stockholders.

"***Removal***" has the meaning set forth in Section 6.16(b).

"***Renewal Term***" has the meaning set forth in Section 6.07(a).

"***Revolving Advance***" has the meaning set forth in Section 1.01(a).

"***Revolving Commitment***" has the meaning set forth in Section 1.02.

"***Revolving Loan***" has the meaning set forth in Section 1.01(a).

"***Scheduled Maturity Date***" means November 1, 2010, as such date may be extended pursuant to Section 6.07(a) hereof.

"***Servicing Responsibilities***" has the meaning set forth in Section 3.04(b) hereto.

"***Subscription Agreement***" has the meaning set forth in Section 6.16(a).

"***Subsidiary***" means, with respect to any Borrower, any corporation or entity of which at least a majority of the outstanding shares of stock or other ownership interests having by the terms thereof ordinary voting power to elect a majority of the board of directors (or Persons performing similar functions) of such corporation or entity (irrespective of whether or not at the time, in the case of a corporation, stock of any other class or classes of such corporation shall have or might have voting power by reason of the happening of any contingency) is at the time directly or indirectly owned or controlled by such Borrower.

"***Tangible Net Worth***" with respect to the Borrower, means, at any time, the excess of (i) the Expected Net Value of all Receivables owned by the Borrowers and not financed by the Lender, plus cash, plus investments, plus amounts which are owing from the Lender to the Borrowers *minus* (ii) the sum of all accrued unpaid monetary obligations and accrued unpaid fees and expenses payable hereunder or otherwise owed by the Borrower.

"***Total Liabilities***" means, at any date of determination, the total liabilities of the Parent and its Subsidiaries on a consolidated basis which would be classified as liabilities at such date (including, without limitation, Current Liabilities and long-term liabilities), computed and calculated in accordance with GAAP, *excluding, however*, borrowings under the Agreement

"***Transmission***" means, upon establishment of computer interface between the Borrowers and the Program Manager in accordance with the specifications established by the Program Manager, the transmission of Receivable Information through computer interface to the Program Manager in a manner satisfactory to the Program Manager**.**

"***TRICARE/CHAMPUS***" means the Civilian Health and Medical Program of the Uniformed Service, a program of medical benefits covering former and active members of the uniformed services and certain of their dependents, financed and administered by the United States Departments of Defense, Health and Human Services and Transportation and established pursuant to 10 USC §§ 1071-1106, and all regulations promulgated thereunder including without limitation (a) all federal statutes (whether set forth in 10 USC §§ 1071-1106 or elsewhere) affecting TRICARE/CHAMPUS; and (b) all rules, regulations (including 32 CFR 199), manuals, orders and administrative, reimbursement and other guidelines of all Governmental Entities (including, without limitation, the Department of Health and Human Services, the Department of Defense, the Department of Transportation, the Assistant Secretary of Defense (Health Affairs), and the Office of TRICARE/CHAMPUS, or any Person or entity succeeding to the functions of any of the foregoing) promulgated pursuant to or in connection with any of the foregoing (whether or not having the force of law) in each case as may be amended, supplemented or otherwise modified from time to time.

"***UCC***" means the Uniform Commercial Code as from time to time in effect in the specified jurisdiction.

"***Unbilled Receivable***" means a Receivable in respect of which the goods have been shipped, or the services rendered, and rights to payment thereon have accrued, but the invoice has not been rendered to the applicable Obligor.

"***Written Notice***" and "***in writing***" means any form of written communication or a communication by means of telex, telecopier device, telegraph or cable as provided in Section 6.02.

Other Terms. All accounting terms not specifically defined herein shall be construed in accordance with GAAP. All terms used in Article 9 of the UCC in the State of New York, and not specifically defined herein, are used herein as defined in such Article 9.

EXHIBIT II

CONDITIONS OF REVOLVING ADVANCES

1. Conditions Precedent to the Effectiveness. The effectiveness of this Agreement as an amendment and restatement of the Original Agreement is subject to the conditions precedent that the Lender shall have received on or before such date the following, each (unless otherwise indicated) dated such date, in form and substance reasonably satisfactory to the Lender:

(a) For each Borrower and Parent, certified copies of all documents evidencing necessary company action and governmental approvals, if any, with respect to the Agreement.

(b) Acknowledgment or time stamped receipt copies of proper amendments to financing statements duly filed on or before the date hereof under the UCC of all jurisdictions that the Lender may deem necessary or reasonably desirable in order to perfect the security interests contemplated by the Agreement.

(c) Duly executed amendments to the Depositary Agreements with each of Bank of America, N.A. and UMB Bank.

(d) Proof of payment of all reasonable attorneys' fees and disbursements incurred by the Lender and the Lender Group.

(e) Copies of all Notices to Obligors required pursuant to Article II of the Agreement, if any, together with evidence satisfactory to the Lender that such Notices to Obligors have been or will be delivered to the addressees thereof.

(f) Duly executed Guaranty by the Parent in substantially the form attached hereto as Exhibit XIV.

(g) A duly executed amendment to the Pledge Agreement.

(h) A duly executed termination agreement relating to the Receivables Purchase and Transfer Agreement, dated as of November 1, 2000 (as amended and modified as of the date hereof), and related documents, together with UCC financing statement terminations relating thereto.

(i) Originally executed copies of all other Documents and related documentation required to be delivered with respect to this Agreement and the other Documents, all in form and substance satisfactory to the Administrative Agent, which agreements shall be in full force and effect and enforceable in accordance with their respective terms.

2. Conditions Precedent All Funding Dates. Each Revolving Advance on a Funding Date (including the Initial Funding Date) shall be subject to the further conditions precedent that the Borrowers and the Lender shall have agreed upon the terms of such Revolving Advance and also that:

(a) the Borrower Representative shall have delivered to the Lender, by 10:00 a.m. New York City time, at least one Business Day prior to such Funding Date, in form and substance satisfactory to the Lender a completed Borrower's Certificate and a Borrowing Base Certificate, together with such additional information as may reasonably be requested by the Lender or the Program Manager;

(b) to the extent not previously provided, executed Notice to Obligors to each Obligor responsible for the payment of any of the Receivables, directing such Obligors to make payment to the addresses and accounts designated in such Notice to Obligors, as set forth in Article II hereof, together with evidence that such Notice to Obligors has been delivered to such Obligors.

(c) on such Funding Date the following statements shall be true (and acceptance of the proceeds of such Revolving Advance shall be deemed a representation and warranty by the Borrowers that such statements are then true):

(i) the representations and warranties contained in Exhibits III and VII are true and correct in all material respects on and as of the date of such Revolving Advance as though made on and as of such date (except any representation or warranty that expressly indicates that it is being made as of a specific date, in which case such representation or warranty shall be correct on and as of such date), and

(ii) no event has occurred and is continuing, or would result from such Revolving Advance or any actions connected therewith, that constitutes a Default or an Event of Default;

(d) the Lender shall have received such other approvals, opinions or documents as it may reasonably request.

EXHIBIT III

REPRESENTATIONS AND WARRANTIES

Each Borrower represents and warrants as follows:

(a) It is a corporation or limited liability company, as applicable, duly organized, validly existing and in good standing under the laws of its state of its incorporation, and is duly qualified to do business, and is in good standing, in every jurisdiction where the nature of its business requires it to be so qualified, except in any jurisdiction other than that of its chief executive offices where the failure to be so qualified would not have a Material Adverse Effect.

(b) The execution, delivery and performance by it of the Agreement and the other documents to be delivered by it thereunder, (i) are within its corporate or limited liability company powers, (ii) have been duly authorized by all necessary organizational action, (iii) do not contravene (1) its charter or by-laws or certificate of formation or operating agreement, as applicable, (2) any material law, rule or regulation applicable to it, (3) any material contractual restriction binding on or affecting it or its Property, or (4) any order, writ, judgment, award, injunction or decree binding on or affecting it or its Property, and (iv) do not result in or require the creation of any Lien upon or with respect to any of its Properties, other than the security interests created by the Agreement. The Agreement has been duly executed and delivered by it. It has furnished to the Lender a correct and complete copy of its charter or by-laws or certificate of formation or operating agreement, as applicable, including all amendments thereto.

(c) Except for financing statements, financing statement amendments or termination statements that have been delivered to the Lender for filing in accordance with subsections 1(c) and (j) of Exhibit II, no authorization or approval or other action by, and no notice to or filing with, any Governmental Entity is required for the due execution, delivery and performance by it of the Agreement or any other document to be delivered hereunder.

(d) The Agreement constitutes the legal, valid and binding obligation of it, enforceable against it in accordance with its terms, except as limited by bankruptcy, insolvency, moratorium, fraudulent conveyance or other laws relating to the enforcement of creditors' rights generally and general principles of equity (regardless of whether enforcement is sought at equity or law).

(e) Except as disclosed on Schedule III hereto, it has all power and authority, and has all permits, licenses, accreditations, certifications, authorizations, approvals, consents and agreements of all Obligors, Governmental Entities, accreditation agencies and any other Person (including without limitation, accreditation by the appropriate Governmental Entities and industry accreditation agencies and accreditation and certifications necessary to receive payment and compensation and to participate under Medicare, Medicaid, TRICARE/CHAMPUS, Blue Cross/Blue Shield and other equivalent programs relevant to any Borrower), necessary or required for it (i) to own the assets (including Receivables) that it now owns, (ii) to carry on its business as now conducted, except where failure to have such permits, licenses, authorizations, approvals, consents, agreements with third-party payors, accreditation and certifications (including, without limitation, accreditation by the appropriate Governmental Entities and industry accreditation agencies and accreditation and certifications necessary to receive payment

and compensation and to participate under Medicare, Medicaid, TRICARE/CHAMPUS, Blue Cross/Blue Shield and other equivalent programs) would not have a Material Adverse Effect, (iii) to execute, deliver and perform the Agreement and any other document to be delivered hereunder. and (iv) to receive payments from the Obligors in the manner contemplated in the Agreement.

(f) Except as disclosed on Schedule III hereto, it has not been notified by any Obligor, Governmental Entity or instrumentality, accreditation agency or any other Person, during the immediately preceding 24 month period, that such party has rescinded or not renewed, or is reasonably likely to rescind or not renew, any such material permit, license, accreditation, certification, authorization, approval, consent or agreement granted to it or to which it is a party.

(g) As of the Initial Funding Date, all conditions precedent set forth in Exhibit II have been fulfilled or waived in writing by the Lender, and as of each Funding Date, the conditions precedent set forth in paragraph 2 of such Exhibit II shall have been fulfilled or waived in writing by the Lender.

(h) The balance sheets of the Parent and its Subsidiaries as at December 31, 2006 and the related statements of income and expense, cash flows and retained earnings of the Parent and its Subsidiaries for the fiscal periods then ended, copies of which have been furnished to the Lender, fairly present the financial condition of the Parent and its Subsidiaries as at such date and the results of the operations of the Parent and its Subsidiaries for the period ended on such date, all in accordance with GAAP, and since December 31, 2006 there has been no change resulting in a Material Adverse Effect.

(i) Except as disclosed on Schedule III hereto, there is no pending or, to its knowledge, threatened action or proceeding or injunction, writ or restraining order affecting any Borrower or any Subsidiary before any court, Governmental Entity or arbitrator which could reasonably be expected to result in a Material Adverse Effect or which purports to affect the legality, validity or enforceability of the Agreement or any other Document, and no Borrower nor any Subsidiary is currently the subject of, or has any present intention of commencing, an insolvency proceeding or petition in bankruptcy. Furthermore, to its knowledge, there are no pending civil or criminal investigations by any Governmental Entity involving it or its officers or directors and neither it nor any of its officers or directors has been involved in, or is the subject of, any civil or criminal investigation by any Governmental Entity.

(j) It is the legal and beneficial owner of its Collateral (including its Receivables) free and clear of any Lien (other than Permitted Liens); the Lender has acquired, or, upon the effectiveness of this Agreement shall acquire, a valid security interest in the Collateral, including the Receivables and in the Collections with respect thereto, subject to no third-party claims of interest thereon. No effective financing statement or other instrument similar in effect covering any Collateral, Receivables or the Collections with respect thereto or any proceeds thereof, is on file in any recording office, except those filed in accordance with the terms of the Original Agreement and no competing notice or notice inconsistent with the transactions contemplated in the Agreement remains in effect with respect to any Obligor.

(k) All Receivable Information, information provided in the application for the program effectuated by the Agreement, and each other document, report and Transmission provided by any Borrower to the Lender Group is or shall be accurate in all material respects as of its date and as of the date so furnished, and no such document contains or will contain any untrue statement of a material fact or omits or will omit to state a material fact necessary in order to make the statements contained therein, in the light of the circumstances under which they were made and when taken as a whole, not misleading.

(l) The principal place of business and chief executive office of each Borrower and the office where such Borrower keeps its records concerning the Receivables are located at the respective address referred to on Schedule I hereof and, except as disclosed on Schedule III hereto, there have been no other such locations for the four immediately prior months.

(m) Each Receivable identified in the Borrowing Base Certificate is, as of the date of such Borrowing Base Certificate, an Eligible Receivable.

(n) The provisions of the Agreement create, on the Initial Funding Date, legal and valid Liens in all of the Collateral (including the Receivables) owned or held by each Borrower in the Lender's favor, and when all proper filings and other actions necessary to perfect such Liens have been completed, will constitute a perfected and continuing Lien on all of such Collateral, having priority over all other Liens on such Collateral, enforceable against each Borrower and all third parties.

(o) All required Notices have been prepared and delivered to each Obligor, and all invoices now bear only the appropriate remittance instructions for payment direction to the applicable Lockbox or Lockbox Account, as the case may be.

(p) Except as disclosed on Schedule III hereto, no Borrower has changed its principal place of business or chief executive office in the last five years.

(q) The exact name of each Borrower is as set forth on the signature pages of the Agreement and, except as set forth on Schedule III, such Borrower has not changed its name in the last five years and, except as set forth opposite such Borrower's name on Schedule III, during such period such Borrower has not used, nor does such Borrower now use, any other fictitious, assumed or trade name.

(r) With respect to itself or any of its Subsidiaries taken as a whole, there exists no event which could reasonably be expected to result in a Material Adverse Effect.

(s) It is not in violation under any applicable statute, rule, order, decree or regulation of any court, arbitrator or governmental body or agency having jurisdiction over it which has or is reasonably likely to have a Material Adverse Effect.

(t) It has filed on a timely basis all tax returns (federal, state and local) required to be filed and has paid, or made adequate provision for payment of, all taxes, assessments and other governmental charges due from it, unless contested in good faith by appropriate proceedings. No tax Lien has been filed and is now effective against it or any of its Properties, except any Lien in respect of taxes and other charges not yet due or contested in good faith by

appropriate proceedings. To its knowledge, there are no pending investigations of it by any taxing authority or any pending but unassessed tax liability of it. It does not have any obligation under any tax sharing agreement.

(u) It is solvent and will not become insolvent after giving effect to the transactions contemplated by the Agreement; it has not incurred debts or liabilities beyond its ability to pay; it will, after giving effect to the transaction contemplated by the Agreement, have an adequate amount of capital to conduct its business in the foreseeable future; the grant of a security interest in the Receivables is made in good faith and without intent to hinder, delay or defraud its present or future creditors.

(v) The Lockboxes are the only post office boxes and the Lockbox Accounts are the only lockbox accounts maintained for Receivables; and no direction of any Borrower is in effect directing Obligors to remit payments on Receivables other than to the Lockboxes or Lockbox Accounts.

(w) Each pension plan or profit sharing plan to which it is a party has been fully funded in accordance with its obligations as set forth in such plan.

(x) The primary business of each Borrower is the provision of independent pharmacy benefit and formulary management services, the sale of medical and/or pharmaceutical products and the rendition of medical services in connection therewith (other than MIM Funding, the primary business of which is as provided in its organizational documents).

(y) There are no pending civil or criminal investigations by any Governmental Entity involving it or any of its respective officers or directors and none of the Borrowers or any of their respective officers or directors has been involved in, or the subject of, any civil or criminal investigation by any Governmental Entity.

(z) Its assets are free and clear of any Liens in favor of the Internal Revenue Service, any Employee Benefit Plan, any Multiemployer Plan or the PBGC other than inchoate tax Liens resulting from an assessment of a Borrower.

(aa) With respect to each Employee Benefit Plan of it, including to its knowledge as to any Multiemployer Plan, such Employee Benefit Plan has complied and been administered in accordance with its terms and in substantial compliance with all applicable provisions of ERISA and the Internal Revenue Code of 1986, as amended; neither it nor any ERISA Affiliate has been notified by the sponsor of a Multiemployer Plan that such Multiemployer Plan is in reorganization or has been terminated, within the meaning of Title IV of ERISA; and it has no material unpaid liability for any Employee Benefit Plan.

(bb) None of the Receivables constitutes or has constituted an obligation of any Person which is an Affiliate of the Borrower.

(cc) The Obligor of each Eligible Receivable has not been the Obligor of any Defaulted Receivables in the past 12 months (other than, for the purpose of this clause, as a result of good faith disputes).

(dd) No transaction contemplated under this Agreement requires compliance with any bulk sales act or similar law.

(ee) It is not engaged principally, or as one of its important activities, in the business of extending credit for the purpose of purchasing or carrying margin stock (within the meaning of Regulation T, U, or X of the Board of Governors of the Federal Reserve System), and no part of the proceeds of any extension of credit under this Agreement will be used to purchase or carry any such margin stock or to extend credit to others for the purpose of purchasing or carrying margin stock.

(ff) It has no Debt except hereunder.

(gg) Each Receivable that is an Unbilled Receivable will be, or has been, billed to the Obligor of such Receivable within 30 days of the Last Service Date, or in the case of a Rebate Receivable, will be, or has been, billed to the Obligor of the Rebate Receivable within 60 days after the end of the fiscal quarter in which such Rebate Receivable became due and payable.

(hh) It is not in violation of any applicable material patient confidentiality law.

EXHIBIT IV

COVENANTS

Until the payment in full of all Lender Debt and the termination of the Revolving Commitment hereunder, each Borrower agrees as follows:

(a) Compliance with Laws, etc. It will comply in all material respects with all applicable laws, rules, regulations and orders and preserve and maintain its corporate existence, rights, franchises, qualifications, and privileges except to the extent that the failure so to comply with such laws, rules and regulations or the failure so to preserve and maintain such existence, rights, franchises, qualifications, and privileges would not result in a Material Adverse Effect.

(b) Offices, Records and Books of Account. It will keep its principal place of business and chief executive office and the office where it keeps its records concerning the Receivables and the Collateral at the address set forth under its name on the signature page to the Agreement or, upon 30 days' prior Written Notice to the Lender, at any other locations in jurisdictions where all actions reasonably requested by the Lender or otherwise necessary to protect, perfect and maintain the Lender's interest in the Collateral (including the Receivables) and all proceeds thereof have been taken and completed. The Borrower shall keep its books and accounts in accordance with GAAP and shall not make any notation on its books and records, including any computer files, that is inconsistent with the assignment of the Receivables to the Lender. The Borrower shall maintain and implement administrative and operating procedures (including, without limitation, an ability to recreate records evidencing Receivables and related contracts in the event of the destruction of the originals thereof), and keep and maintain all documents, books, records and other information reasonably necessary or advisable for collecting all Receivables (including, without limitation, records adequate to permit the daily identification of each Receivable and all Collections of and adjustments to each existing Receivable) and for providing the Receivable Information.

(c) Performance and Compliance With Contracts and Credit and Collection Policy. It will, at its expense, timely and fully perform and comply with all material provisions, covenants and other promises required to be observed by it under the contracts and other documents related to the Receivables and other Collateral, and timely and fully comply in all material respects with the Credit and Collection Policy in regard to each Receivable and the related contract, and it shall maintain, at its expense, in full operation each of the Lockbox Accounts and Lockboxes. It shall do nothing, nor suffer or permit any other Person, to impede or interfere with the collection by the Lender, or the Program Manager on behalf of the Lender, of the Receivables.

(d) Notice of Breach of Representations and Warranties. It shall promptly (and in no event later than five Business Days following actual knowledge thereof) inform the Lender and the Program Manager of any breach of covenants or representations and warranties hereunder and under any other Document, including, without limitation, upon discovery of a breach of the Eligibility Criteria set forth in Exhibit VI hereof and thereof.

(e) Debt, Sales, Liens, etc. It will not incur or assume any Debt or issue any securities except for (i) the Debt created hereunder; (ii) Debt existing on the date hereof and set forth in Schedule III, and (iii) Debt of any Borrower or any Subsidiary incurred to finance the acquisition, construction or improvement of any fixed or capital assets, including obligations with respect to Capital Leases and any Debt assumed in connection with the acquisition of any such assets or secured by a Lien on any such assets prior to the acquisition thereof, and extensions, renewals and replacements of any such Debt that do not increase the outstanding principal amount thereof; provided, that (1) such Debt is incurred prior to or within 90 days after such acquisition or the completion of such construction or improvement, (2) the aggregate principal amount of Debt permitted by this clause (iii) shall not exceed $1,000,000 at any time and (3) no such Debt shall be assumed or otherwise incurred if a Default has occurred and is then continuing or would result therefrom. It will not sell, assign (by operation of law or otherwise) or otherwise dispose of, or create or suffer to exist any Liens upon or with respect to, its Receivables or any other Collateral, or upon or with respect to any account to which any Collections are sent, or assign any right to receive income in respect thereof except (i) Permitted Liens and (ii) those Liens in favor of the Lender or any assignee of the Lender relating to the Agreement,

(f) [Intentionally Omitted.]

(g) Extension or Amendment of Receivables. It shall not amend, waive or otherwise permit or agree to any material deviation from the terms or conditions of any Receivable except in accordance with the Credit and Collection Policy.

(h) Change in Business or Credit and Collection Policy. It will not make any change in the Credit and Collection Policy or make any change in the character of its business that, in either event, could reasonably be expected to result in a Material Adverse Effect, and it will not make any other material changes in the Credit and Collection Policy without the prior written consent of the Lender; *provided*, *however*, that if an Event of Default has occurred and is continuing, it will not make any material change in the Credit and Collection Policy.

(i) Audits and Visits. It will, at any time and from time to time during regular business hours as requested by the Lender, permit the Lender, or its agents or representatives (including the Program Manager), upon reasonable notice and without interfering with the Borrowers' businesses or operations and subject to compliance with applicable law in the case of review of plan participant/patient/customer information, or its agents or representatives (including the Master Sevicer), (i) on a confidential basis, to examine and make copies of and abstracts from all books, records and documents (including, without limitation, computer tapes and disks) in its possession or under its control relating to Receivables including, without limitation, the related contracts, and (ii) to visit its offices and properties for the purpose of examining and auditing such materials described in clause (i) above, and to discuss matters relating to Receivables or its performance hereunder or under the contracts with any of its officers or employees having knowledge of such matters. It shall permit the Program Manager to have at least one agent or representative physically present in its administrative office during normal business hours to assist it in performing its obligations under the Agreement, including its obligations with respect to the collection of Receivables pursuant to Article I of the Agreement. Notwithstanding the foregoing, and provided that no Event of Default or event

which, with the giving of notice or lapse of time, or both, would constitute an Event of Default shall have occurred and be continuing, all visits and examinations shall be scheduled at mutually convenient times.

(j) Change in Payment Instructions. It will not terminate any Lockbox or any Lockbox Account, or make any change or replacement in the instructions contained in any invoice, Notice or otherwise, or regarding payments with respect to Receivables to be made to the Lockboxes or the Lockbox Accounts except upon the prior and express written consent of the Program Manager or the Lender.

(k) It will provide or make available to the Lender (in multiple copies, if requested by the Lender) the following:

(i) [Intentionally Omitted.]

(ii) as soon as available and in any event within 45 days after the end of each of the first three quarters of each fiscal year of the Parent, (x) consolidated and consolidating balance sheets of the Parent and its Subsidiaries as of the end of such quarter and consolidated and consolidating statements of income, cash flows and retained earnings of the Parent and its Subsidiaries for the period commencing at the beginning of the current fiscal year and ending with the end of such quarter or (y) a copy of the Parent's quarterly reports on Form 10-Q for such quarters as filed with the Securities and Exchange Commission, in either case, certified by the Chief Financial Officer of the Parent and accompanied by a certificate of an Authorized Representative of each Borrower stating that, as of such date, (i) no Event of Default or event which, with the giving of notice or lapse of time, or both, would constitute an Event of Default has occurred and is continuing, (ii) all representations and warranties set forth in the Agreement are true and correct in all material respects (except any representation or warranty that expressly indicates that it is being made as of a specific date, in which case such representation or warranty shall be true and correct on and as of such date) and (iii) the conditions precedent set forth in paragraph 2 of Exhibit II have been fulfilled or waived in writing by the Lender, and detailing such Borrower's compliance for such fiscal period with all financial covenants contained in the Agreement, and to the extent any Event of Default or other event or non-compliance exists, a description of the steps being taken by such Borrower to address such Event of Default, other event or non-compliance;

(iii) as soon as available and in any event within 90 days after the end of each fiscal year of the Parent, (x) a copy of the audited consolidated financial statements (together with explanatory notes thereon) and the auditor's report letter for such year for the Parent and its Subsidiaries, containing financial statements for such year audited by independent public accountants of recognized national standing acceptable to the Lender or (y) a copy of the Parent's annual report on Form 10-K as filed with the Securities and Exchange Commission, in either case, accompanied by a certificate of an Authorized Representative of each Borrower stating that, as of such date, no Event of Default or event which, with the giving of notice or lapse of time, or both, would constitute an Event of Default has occurred and is continuing, (ii) all representations and

warranties set forth in the Agreement are true and correct in all material respects (except any representation or warranty that expressly indicates that it is being made as of a specific date, in which case such representation or warranty shall be true and correct on and as of such date) and (iii) the conditions precedent set forth in paragraph 2 of Exhibit II have been fulfilled or waived in writing by the Lender, and detailing such Borrower's compliance for such fiscal period with all the financial covenants contained in the Agreement, and to the extent any Default or Event of Default exists, a description of the steps being taken by such Borrower to address such Default or Event of Default;

(iv) on or before the 25th day of each month, monthly and year-to-date statistical and financial reports, in substantially the form attached hereto as Schedule VI;

(v) promptly and in any event within five Business Days following actual knowledge thereof by a Borrower of an Event of Default or an event which, with the giving of notice or lapse of time, or both, would constitute an Event of Default, a statement of the Chief Financial Officer of the Borrowers setting forth details of such Event of Default or event, and the action that it has taken and proposes to take with respect thereto;

(vi) promptly after the sending or filing thereof, if any, copies of all reports and registration statements that the Parent, any Borrower or any Subsidiary files with the Securities and Exchange Commission or any national securities exchange and official statements that any Borrower or any Subsidiary files with respect to the issuance of tax-exempt indebtedness and after an Event of Default, copies of all reports (if any) that any Borrower or any Subsidiary sends to any of its security holders;

(vii) promptly after the filing or receiving thereof, copies of all reports and notices that any Borrower or any of its Affiliates files under ERISA with the Internal Revenue Service or the PBGC or the U.S. Department of Labor or that any Borrower or any of its Affiliates receives from any of the foregoing or from any Multiemployer Plan to which any Borrower or any of its Affiliates is or was, within the preceding five years, a contributing employer, in each case in respect of the assessment of withdrawal liability or an event or condition which could, in the aggregate, result in the imposition of liability on any Borrower or any such Affiliate in excess of $100,000;

(viii) at least ten Business Days prior to any change in any Borrower's name or any implementation of a new trade/assumed name, a Written Notice setting forth the new name or trade name and the proposed effective date thereof and copies of all documents required to be filed in connection therewith;

(ix) promptly (and in no event later than five Business Days following actual knowledge or receipt thereof), Written Notice in reasonable detail, of (x) any Lien asserted or claim made against a Receivable, (y) the occurrence of any other event which could have a Material Adverse Effect on the value of a Receivable or on the interest of the Lender in a Receivable or (z) the results of any material cost report, investigation or similar audit being conducted by any federal, state or county Governmental Entity or its agents or designees;

(x) promptly upon approval by the Board of Directors, and in no event later than March 31st in each year, a consolidated and consolidating operating plan (together with a complete statement of the assumptions on which such plan is based) of the Parent and its Subsidiaries approved by its Board of Directors, which shall include monthly budgets for the prospective year in reasonable detail acceptable to the Lender and will integrate operating profit and cash flow projections and personnel, capital expenditures, and facilities plans;

(xi) promptly upon receipt thereof (and solely to the extent actually prepared and delivered), a copy of any management letter or written report submitted to the Parent by independent certified public accountants with respect to the Subsidiaries, business, condition (financial or otherwise), operations, prospects, or Properties of the Borrowers;

(xii) no later than five Business Days after the commencement thereof, Written Notice of all actions, suits, and proceedings before any Governmental Entity or arbitrator affecting any Borrower which, if determined adversely to any Borrower, could have a Material Adverse Effect;

(xiii) promptly after the furnishing thereof, copies of any statement or report furnished by a Borrower to any other party pursuant to the terms of any indenture, loan, or credit or similar agreement in excess of $1,000,000 and not otherwise required to be furnished to the Lender pursuant to this Agreement;

(xiv) except as otherwise required to be furnished to the Lender pursuant to this Agreement, as soon as available, (A) one copy of each financial statement, report, notice or proxy statement sent by the Parent or any Borrower to its stockholders generally, (B) and one copy of each regular, periodic or special report, registration statement, or prospectus filed by any Borrower or any of its Subsidiaries with any securities exchange or the Securities and Exchange Commission or any successor agency or the Bankruptcy Court, and (C) all press releases and other statements made available by any Borrower to the public concerning developments in the business of any Borrower;

(xv) within the sixty (60) day period prior to the end of each fiscal year of each Borrower, a report satisfactory in form to the Lender, listing all material insurance coverage maintained as of the date of such report by such Borrower and all material insurance planned to be maintained by such Borrower in the subsequent fiscal year; and

(xvi) such other information respecting the Receivables or the other Collateral or the condition or operations, financial or otherwise, of any Borrower or any Subsidiary or Affiliate as the Lender may from time to time reasonably request.

(l) Notice of Proceedings; Overpayments. The Borrower Representative shall promptly notify the Program Manager (and modify the next Borrowing Base Certificate to be delivered hereunder) in the event of any action, suit, proceeding, dispute, set-off, deduction, defense or counterclaim involving in excess of $100,000 that is or has been threatened to be

asserted by an Obligor with respect to any Receivable. Each applicable Borrower shall make any and all payments to the Obligors necessary to prevent the Obligors from offsetting any earlier overpayment to any Borrower against any amounts the Obligors owe on any Receivables.

(m) Officer's Certificate. On the dates the financial statements referred to in clause (k) above are to be delivered after the Initial Funding Date, the Chief Financial Officer of each Borrower shall deliver a certificate to the Lender, stating that, as of such date, (i) all representations and warranties are true and correct in all material respects (except any representation or warranty that expressly indicates that it is being made as of a specific date, in which case such representation or warranty shall be true and correct as of such specific date), (ii) the conditions precedent set forth in paragraph 2 of Exhibit II have been fulfilled or waived in writing by the Lender, and (iii) no Event of Default exists and is continuing.

(n) Further Instruments, Continuation Statements. Each Borrower shall, at its expense, promptly execute and deliver all further instruments and documents, and take all further action that the Program Manager or the Lender may reasonably request, from time to time, in order to perfect, protect or more fully evidence the assignment as security of the Receivables and the other Collateral, or to enable the Lender or the Program Manager to exercise or enforce the rights of the Lender hereunder or under the Receivables or the other Collateral. Without limiting the generality of the foregoing, each Borrower will upon the request of the Program Manager execute and file such UCC financing or continuation statements, or amendments thereto or assignments thereof, and such other instruments or notices, as may be, in the opinion of the Program Manager, necessary or appropriate. Each Borrower hereby authorizes the Program Manager or its designees, upon two Business Days' notice, to file one or more financing or continuation statements and amendments thereto and assignments thereof, relative to all or any of the Receivables and other Collateral now existing or hereafter arising without the signature of such Borrower where permitted by law. If a Borrower fails to perform any of its agreements or obligations under the Agreement, the Program Manager may (but shall not be required to) itself perform, or cause performance of, such agreement or obligation, and the expenses of the Program Manager incurred in connection therewith shall be payable by the Borrowers.

(o) Taxes. The Borrowers shall pay any and all taxes (excluding the Lender's income, gross receipts, franchise, doing business or similar taxes) relating to the transactions contemplated under the Agreement, including but not limited to the assignment of each Receivable except for any such taxes being contested in good faith by appropriate proceedings and the applicable Borrower shall have set aside on its books adequate reserves in accordance with GAAP with respect thereto, and such contest operates to suspend collection of the contested tax and enforcement of a Lien.

(p) Lender's Lien in the Collateral. It shall not prepare or permit to be prepared any financial statements which shall account for the transactions contemplated hereby in a manner which is, or in any other respect account for the transactions contemplated hereby in a manner which is, inconsistent with the Lender's first priority Lien on the Collateral.

(q) No "Instruments". It shall not take any action which would allow, result in or cause any Receivable to be evidenced by an "instrument" within the meaning of the UCC of the applicable jurisdiction.

(r) Implementation of New Invoices. It shall take all reasonable steps to ensure that all invoices rendered or dispatched on or after the Initial Funding Date contain only the remittance instructions required under Article II of this Agreement.

(s) Notice of Termination or Suspension of Contracts. It shall promptly (and in no event later than one Business Day following actual knowledge thereof) inform the Lender and the Program Manager of any termination or suspension of any of its contracts which could reasonably be expected to reduce revenue by 3% or more.

(t) Maintain Properties. It shall maintain, keep, and preserve all of its Properties necessary or useful in the proper conduct of its business in good repair, working order, and condition (ordinary wear and tear excepted) and make all necessary repairs, renewals, replacements, betterments, and improvements thereof.

(u) Payment of Taxes, etc. It shall pay or discharge at or before maturity or before becoming delinquent (i) all taxes, levies, assessments, and governmental charges imposed on it or its income or profits or any of its Property, except any taxes, levies, assessments, and governmental charges contested in good faith by appropriate proceedings and (ii) all lawful claims for labor, material, and supplies, which, if unpaid, might become a Lien upon any of its Property.

(v) Merger, Consolidation. It shall not merge with or into, consolidate with or into, or enter into any agreement to merge or consolidate with or into, another Person, or convey, transfer, lease or otherwise dispose of all or substantially all of its assets (whether now owned or hereafter acquired), except that, if at the time thereof and immediately after giving effect thereto no Default shall have occurred and be continuing (i) any Borrower may merge into any other Borrower in a transaction in which a Borrower is the surviving corporation (including the merger of MIM Funding with and into Pharmacy Services as required under clause (z) below), (ii) any wholly-owned domestic Subsidiary of any Borrower may merge into a Borrower in a transaction in which a Borrower is the surviving corporation, (iii) any wholly-owned domestic Subsidiary of any Borrower may merge into any wholly-owned domestic Subsidiary of any Borrower in a transaction in which the surviving entity is a wholly-owned domestic Subsidiary of any Borrower, and (iv) any wholly-owned domestic Subsidiary of any Borrower may sell, transfer, lease or otherwise dispose of its assets to a Borrower or to another wholly-owned domestic Subsidiary of any Borrower.

(w) Preservation of Corporate Existence. It shall preserve and maintain its corporate existence, rights, franchises and privileges in the jurisdiction of its organization, and qualify and remain qualified in good standing as a foreign corporation in each jurisdiction where the failure to preserve and maintain such existence, rights, franchises, privileges and qualification would materially adversely affect the interests of the Lender or the Program Manager or their ability to perform their respective obligations hereunder.

(x) Acquisitions. It shall provide in a timely manner such information to the Lender with respect to any proposed Acquisition as the Lender may reasonably request. Further, it shall, in connection with any such proposed Acquisition, provide a representation to the Lender as to whether any such Acquisition constitutes a Permitted Acquisition.

(y) Liquidity. The Consolidated Liquidity of the Borrowers at all times shall be greater than $10,000,000; provided, that for purposes of this clause (v), the remedy period for the failure to comply with this clause (v) referred to in clause (c) of Exhibit V hereto shall be "one Business Day."

(z) Within forty-five (45) days of the Initial Funding Date, MIM Funding shall merge with and into Pharmacy Services with Pharmacy Services as the surviving entity of such merger.

EXHIBIT V

EVENTS OF DEFAULT

Each of the following shall be an "***Event of Default***":

(a) The Borrower shall default in the due and punctual payment of the principal of the Revolving Loan, when and as the same shall become due and payable (except that the Borrowers shall have up five (5) Business Days to cure such a default with respect to a Borrowing Base Deficiency) whether pursuant to Article III of this Agreement, at maturity, by acceleration or otherwise.

(b) The Borrower shall default in the due and punctual payment of any installment of interest on the Revolving Loan or any other Lender Debt, including, without limitation, any fee or expense owing to the Lender pursuant to any of the Documents, when and as such amount of interest, fee or expense shall become due and payable and such default shall continue unremedied for three (3) Business Days.

(c) The Borrower shall default in the performance or observance of any covenant, agreement or provision (other than as described in clause (a) or (b) above) contained in this Agreement or any other Document or in any instrument or document evidencing or creating any obligation, guaranty or Lien in favor of the Lender in connection with or pursuant to this Agreement or any Lender Debt, including the Servicing Responsibilities, and, except in the case of the agreements and covenants contained in any Document as to each of which no notice or grace period shall apply, such default continues for a period of 10 Business Days (or, in the case where agreements and covenants contained in any Document provide for a grace period that is less than 10 Business Days days, continuance of a default for such shorter period) after the earlier of (i) there has been given Written Notice of such default to either of the Borrowers or the Borrower Representative on behalf of the Borrowers by the Lender or (ii) discovery thereof by the Borrower; or if this Agreement or any other Document or any such other instrument or document shall terminate, be terminated or become void or unenforceable for any reason whatsoever without the written consent of the Lender.

(d) Any representation or warranty made or deemed made by the Borrowers (other than with respect to the eligibility of Receivables as Eligible Receivables hereunder) under or in connection with the Agreement or any information or report delivered by any Borrower pursuant to the Agreement shall prove to have been incorrect or untrue in any material respect when made or deemed made or delivered.

(e) This Agreement shall for any reason (other than pursuant to the terms hereof) fail or cease to create, or the security interest created by this Agreement fails or ceases to be, a valid and perfected security interest in the Receivables and the Collections with respect thereto or the other Collateral free and clear of all Liens (other than Permitted Liens).

(f) Any Borrower or Parent shall generally not pay its debts as such debts become due, or shall admit in writing its inability to pay its debts generally, or shall make a general assignment for the benefit of creditors; or any proceeding shall be instituted by or against any

Borrower seeking to adjudicate it a bankrupt or insolvent, or seeking liquidation, winding up, reorganization, arrangement, adjustment, protection, relief, or composition of it or its debts under any law relating to bankruptcy, insolvency or reorganization or relief of debtors, or seeking the entry of an order for relief or the appointment of a receiver, trustee, custodian or other similar official for it or for any substantial part of its Property and, in the case of any such proceeding instituted against it (but not instituted by it), either such proceeding shall remain undismissed or unstayed for a period of 45 days, or any of the actions sought in such proceeding (including, without limitation, the entry of an order for relief against, or the appointment of a receiver, trustee, custodian or other similar official for, it or for any substantial part of its Property) shall occur; or any Borrower shall take any action to authorize any of the actions set forth above in this paragraph (i).

(g) There shall have occurred any Material Adverse Effect since December 31, 2006.

(h) The Borrower shall fail to discharge within a period of 30 days after the commencement thereof any attachment, sequestration, forfeiture, or similar proceeding or proceedings involving an aggregate amount in excess of $500,000 against any of its Properties.

(i) The Borrower sells, leases, assigns, transfers, or otherwise disposes of any of its Receivables or other Collateral, except as permitted or contemplated under the Agreement.

(j) Any Borrower shall fail to perform or observe in any material respect any term, covenant or agreement included in the Servicing Responsibilities and such failure shall remain unremedied for 15 days or any Borrower shall fail to make when due any payment or deposit to be made by it under the Agreement.

(k) Any Borrower (i) fails to transfer in a timely manner any servicing rights and obligations with respect to the Receivables to any successor designated pursuant to Section 3.04(b) of the Agreement, (ii) fails to make any payment required under the Agreement (unless such payment obligation has been fulfilled in full pursuant to the Lender's set-off rights under Section 4.02 of the Agreement) or (iii) sends a "Revocation Order" (as defined in the Depositary Agreement) or makes any change or replacement in the "Standing Revocable Instruction" (as defined in the Depositary Agreement).

(l) Any Borrower shall fail to pay any principal of or premium or interest on any of its Debt which individually or in the aggregate exceeds $500,000 when the same becomes due and payable (whether by scheduled maturity, required prepayment, acceleration, demand or otherwise), and such failure shall continue after the applicable grace period, if any, specified in the agreement or instrument relating to such Debt; or any other event shall occur or condition shall exist under any agreement or instrument relating to any such Debt and shall continue after the applicable grace period, if any, specified in such agreement or instrument, if the effect of such event or condition is to accelerate, or to permit the acceleration of, the maturity of such Debt; or any such Debt shall be declared to be due and payable, or required to be prepaid (other than by a regularly scheduled required prepayment), redeemed, purchased or defeased, or an offer to repay, redeem, purchase or defease such Debt shall be required to be made, in each case prior to the stated maturity thereof.

(m) A Change of Control shall occur without Lender consent.

(n) Judgments or orders for payment of money (other than judgments or orders in respect of which adequate insurance is maintained for the payment thereof) against the Borrowers in excess of $500,000 in the aggregate remain unpaid, unstayed on appeal, undischarged, unbonded or undismissed for a period of 45 days or more.

(o) Any governmental authority (including, without limitation, the Internal Revenue Service or the PBGC) files a notice of a Lien against the assets of a Borrower other than a Lien (i) that is limited by its terms to assets other than Receivables and all proceeds thereof, and (ii) that does not result in a Material Adverse Effect.

(p) Any Borrower does not keep insured by financially sound and reputable insurers all Property of a character usually insured by corporations engaged in the same or similar business similarly situated against loss or damage of the kinds and in the amounts customarily insured against by such corporations and carry such other insurance as is usually carried by such corporations. Each policy referred to in this clause (x) shall provide that the interests of the Lender shall not be invalidated by any act or negligence of the Borrower. Any Borrower does not advise the Lender promptly of any policy cancellation, reduction, or amendment. Any insurance policy for property, casualty, liability and business interruption coverage for a Borrower does not name the Lender as assignee of the Borrowers and as loss payee (as the Lender's interests may appear) or an additional insured, as appropriate.

(q) Any Borrower does not maintain proper books of record and account in which full, true and correct entries in conformity with GAAP are made of all dealings and transactions in relation to its business and activities and such failure remains unremedied for 10 days.

(r) Any Borrower does not comply with all minimum funding requirements and all other material requirements of ERISA, if applicable, so as not to give rise to any liability thereunder.

(s) Any Borrower engages in any line or lines of business activity that is materially different from the businesses in which it is engaged on the date hereof.

(t) Consolidated Net Worth. The Consolidated Net Worth, calculated as at the end of each fiscal quarter of the Parent, is less (i) $177,500,000, plus (ii) 50% of the positive Net Income (if any and excluding from such positive Net Income the positive effects to Net Income as a result of the items described in (iii) and (iv) of this clause (cc)) for such quarter, plus (iii) any increase to Consolidated Net Worth resulting from any reversals in such fiscal quarter of (x) bad debt reserves or other reserves or asset write offs (other than those contained in clause (y) below) previously taken prior to the quarter ended September 30, 2006 by Parent (on a consolidated basis) and (y) deferred tax asset write-offs taken at any time by Parent (on a consolidated basis), plus (iv) any increase to Consolidated Net Worth resulting from any extraordinary item for such quarter, minus (v) any decrease in Consolidated Net Worth resulting from any and all write offs of goodwill, deferred tax assets and intangible assets as reflected in the Parent's financial statements for such quarter

(u) Current Ratio. The ratio of (i) Current Assets plus Availability to (ii) Current Liabilities for each Fiscal Quarter during which the principal amount of the Revolving Loan exceeded 50% of the Borrowing Limit at any time, is less 1.625:1.00 (without consideration, in making such calculation, of balance sheet accruals for restructuring charges).

(v) Debt/EBITDA Ratio. The Debt/EBITDA Ratio exceeds 3.00:1.00 as at the end of any fiscal quarter of the Parent.

(w) Negative Pledge. The Parent or any Borrower pledges or grants a Lien in the stock or other equity interests in any Borrower or any other subsidiary for the benefit of any Person, except in connection with the Documents and with the consent of the Program Manager and Lender.

(x) Accounts Receivable Turnover. The Accounts Receivable Turnover, calculated as of the end of each fiscal quarter of the Parent for the four fiscal quarters of the Borrowers then most recently ended, is more than 75 days.

(y) Fixed Charge Coverage Ratio. Commencing with the first fiscal quarter after the fiscal quarter ended September 30, 2007 in which the average Revolving Loan for any single Month in such fiscal quarter exceeds 65% of the Expected Net Value of Eligible Receivables, the Consolidated Fixed Charge Coverage Ratio in any fiscal quarter of the Parent is less than 1.00:1.00.

(z) Any Borrower is unable to maintain the Transmission interface described in Exhibit XII to the satisfaction of the Program Manager, or the electronic information servicing capabilities of any Borrower are not functioning for a period of more than three consecutive Business Days for any reason other than force majeure.

(aa) Any Borrower has sent multiple Transmissions to the Program Manager in a manner that is not in compliance with the specifications set forth in Exhibit XII hereof

EXHIBIT VI

ELIGIBILITY CRITERIA

The following shall constitute the eligibility criteria for acceptance of Receivables for financing and inclusion in the Borrowing Base under the Agreement (the "***Eligibility Criteria***"):

(a) The information provided by the Borrowers with respect to each such Receivable is complete and correct and all documents, attestations and agreements relating thereto that have been delivered to the Lender are true and correct, and, other than with respect to Unbilled Receivables, the applicable Borrower has billed the applicable Obligor and has delivered to such Obligor all requested supporting claim documents with respect to such Receivable and no amounts with respect to such Receivable have been paid as of the date and time of the inclusion of such Receivable in the Borrowing Base. All information set forth in the bill and supporting claim documents with respect to such Receivable is true, complete and correct; if additional information is requested by the Obligor, the Borrowers (or the applicable Borrower) has or will promptly provide the same, and if any error has been made with respect to such information, the Borrowers will promptly correct the same and, if necessary, rebill such Receivable.

(b) Each such Receivable (i) is payable, in an amount not less than its Expected Net Value, by the Obligor identified by the applicable Borrower as being obligated to do so, (ii) is based on an actual and *bona fide* rendition of services to the Obligor or sale of goods to an Obligor or a plan participant of the Obligor in the ordinary course of business, (iii) is denominated and payable only in U.S. dollars in the United States, and (iv) is an account receivable or general intangible within the meaning of the UCC of the state in which the applicable Borrower has its principal place of business, or is a right to payment under a policy of insurance or proceeds thereof, and is not evidenced by any instrument or chattel paper. There is no payor other than the Obligor identified by the Borrowers as the payor primarily liable on such Receivable.

(c) Each such Receivable (i) is not the subject of any action, suit, proceeding or dispute (pending or threatened), setoff, counterclaim, defense, abatement, suspension, deferment, deductible, reduction or termination by the Obligor (except for statutory rights of Governmental Entities that are not pending or threatened), (ii) is not past, or within 60 days of, the statutory limit for collection applicable to the Obligor or is not aged more than 180 days from its Invoice Date, (iii) in the case of a Receivable that is not a Rebate Receivable, was not billed to the Obligor on a date more than 30 days after the Last Service Date, and (iv) in the case of a Rebate Receivable, was not billed to the Obligor on a date more than 60 days after the end of the fiscal quarter in which such Rebate Receivable became due and payable.

(d) Each such Receivable is not due from any Governmental Entity other than Medicare, Medicaid, TRICARE/CHAMPUS, Ryan White programs, 340B drug pricing programs, the State Children's Health Insurance Program (Title XXI of the Social Security Act) or any similar state or federally funded program.

(e) No Borrower has any guaranty of, letter of credit providing credit support for, or collateral security for, such Receivable, other than any such guaranty, letter of credit or collateral security as has been assigned to the Lender, and any such guaranty, letter of credit or collateral security is not subject to any Lien in favor of any other Person.

(f) The Obligor with respect to each such Receivable is (i) not currently the subject of any bankruptcy, insolvency or receivership proceeding, nor is it unable to make payments on its obligations when due, (ii) located in the United States of America, (iii) one of the following: (x) a Person which in the ordinary course of its business or activities agrees to pay for healthcare services received by individuals, including, without limitation, commercial insurance companies and non-profit insurance companies (such as Blue Cross and Blue Shield) issuing health, personal injury, worker's compensation or other types of insurance, employers or unions which self-insure for employee or member health insurance, prepaid healthcare organizations, preferred provider organizations, health maintenance organizations, commercial hospitals, physician's groups or any other similar person or (y) an individual, (iv) not a Subsidiary, parent or other Person that is an Affiliate of any Borrower and (v) not the Obligor of any Receivable that was a Defaulted Receivable in the past 12 months.

(g) The financing of such Receivables hereunder is made in good faith and without actual intent to hinder, delay or defraud present or future creditors of the Borrower.

(h) The insurance policy, contract or other instrument obligating an Obligor to make payment with respect to such Receivable (i) does not contain any provision prohibiting the grant of a security interest in such payment obligation from the applicable Borrower to the Lender, (ii) has been duly authorized and, together with such Receivable, constitutes the legal, valid and binding obligation of the Obligor in accordance with its terms, (iii) together with such Receivable, does not contravene in any material respect any requirement of law applicable thereto, and (iv) was in full force and effect and applicable to the Obligor at the time the goods or services constituting the basis for such Receivable were sold or performed.

(i) No consents by any third party to the assignment of such Receivable are required other than consents previously obtained in writing by the Borrower, a copy of each such consent having been provided to the Lender.

(j) The inclusion of each such Receivable in the Borrowing Base would not increase the fraction expressed as a percentage where (i) the numerator is the sum of the then outstanding principal amount of Eligible Receivables for any obligor (or group of obligors) listed below included in the Borrowing Base, and (ii) the denominator is the Borrowing Base for all Eligible Receivables, above the corresponding maximum percentage listed below:

| Obligor | Maximum Percentage |
|---|---|
| Health Maintenance Organizations | 100% |
| Managed Care Organizations | 100% |
| Long-Term Care Facilities | 20% |
| Employer Plans | 50% |
| any single AAA rated Obligor | 10% |
| any single AA rated Obligor | 6% |
| any single A rated Obligor | 4% |
| any single BBB rated Obligor | 3% |
| any single unrated Obligor | 3% |

With respect to any Receivables that fail to satisfy the Eligibility Criteria set forth in this clause (j), such Receivables shall be deemed Eligible Receivables (provided they otherwise satisfy the Eligibility Criteria set forth in this Exhibit VI) until shall time that the Lender, in its sole discretion, determines that such Receivables (or any portion thereof) shall not be Eligible Receivables as a result of their failure to satisfy the Eligibility Criteria set forth in this clause (j).

(l) Unless specifically verified and accepted by the Program Manager or Program Manager, no single Eligible Receivable that is not a Rebate Receivable has an Expected Net Value greater than $800,000.

(m) No prior sale or assignment of security interest which is still in effect on the applicable Funding Date has been made with respect to or granted in any such Receivable.

EXHIBIT VII-A

FORM OF BORROWING BASE CERTIFICATE

**HFG Healthco-4 LLC**

Borrowing Base Report

EXHIBIT VIII

RECEIVABLE INFORMATION

The following information shall, as appropriate, be provided by each Borrower to the Program Manager with respect to each Receivable, together with such other information and in such form as may reasonably be requested from time to time by the Program Manager and as, in accordance with applicable law, may be disclosed or released to the Program Manager (the "***Receivable Information***"):

(i) Cash Receipts Report — Cash receipt transaction data containing:

- Transaction date
- Transaction number
- Customer number
- Cash receipt amount

(ii) Invoices Report — Invoice transaction data containing:

- Transaction date
- Transaction number
- Customer number
- Invoice amount

(iii) Adjustments Report — Adjustment transaction data containing:

- Transaction date
- Transaction number
- Customer number
- Amount of adjustment

EXHIBIT IX-A

FORM OF NOTICE TO GOVERNMENTAL ENTITIES

[Letterhead of the applicable Borrower]

[Date]

[Name and Address
of Governmental Entity]

*Re*: Change of Account and Address [for Medicare Supplier No.]

To Whom it May Concern:

Please be advised that we have opened a new bank account at [Bank of America, N.A.] [UMB Bank] and a post-office box with respect to such bank account. Accordingly, effective immediately and until further notice, we hereby request that:

(1) All wire transfers be made directly into our account at:

[_____]

(2) All remittance advices and other forms of payment, including checks, be made to our post office box located at:

[_____]

As provided in the Medicare Carriers Manual § 3060.11, the undersigned hereby certifies that this payment arrangement will continue in effect only so long as the following requirements are met:

a) [Bank of America, N.A.] [UMB Bank] does not provide financing to the undersigned nor acts on behalf of another party in connection with the provision of such financing; and

b) The undersigned has sole control of the account, and [Bank of America, N.A.] [UMB Bank] is subject only to the instructions of the undersigned (or its agents) regarding the account.

Thank you for your cooperation in this matter. Title:

EXHIBIT IX-B
FORM OF NOTICE TO NON-GOVERNMENTAL ENTITIES

[Letterhead of the Applicable Borrower]

[Date]

[Name and Address
of Obligor]

*Re*: Change of Account and Address

To Whom it May Concern:

We are pleased to announce that we have entered into a new long-term financing arrangement with the Healthcare Finance Group, Inc. This financing arrangement will allow us to continue to provide you with new and innovative services and products. As part of this arrangement, we will be assigning all of our existing and future receivables payable by you to us as collateral to our lender — HFG Healthco-4 LLC ("Healthco-4"). Accordingly, you are hereby directed to make:

(1) All wire transfers directly to the following account:

[_____]

(2) All remittance advices and other forms of payment, including checks, to the following address:

[_____]

Please note that this is the same remittance name, address and account to which you currently send payment.

The foregoing directions shall apply to all existing receivables payable to us and (until further written notice) to all receivables arising in the future and may not be revoked except by a writing executed by us and Healthco-4.

Please acknowledge your receipt of this notice by signing the enclosed copy of this letter and returning it in the enclosed envelope.

Thank you for your cooperation in this matter.

EXHIBIT X

SERVICING RESPONSIBILITIES

Each Borrower shall be responsible for the following administration and servicing obligations (the "***Servicing Responsibilities***") which shall be performed by each Borrower until such time as a successor servicer shall be designated and shall accept appointment pursuant to Section 3.04(b) of the Agreement:

(a) Servicing Standards and Activities. Each Borrower agrees to administer and service its Receivables (i) within the parameters of services set forth in paragraph (b) of this Exhibit X, as such parameters may be modified by mutual written agreement of the Lender and the Borrowers, (ii) in compliance at all times with applicable law and with the agreements, covenants, objectives, policies and procedures set forth in the Agreement, and (iii) in accordance with industry standards for servicing healthcare receivables unless such standards conflict with the procedures set forth in paragraph (b) of this Exhibit X in which case the provisions of paragraph (b) shall control. The Borrowers shall establish and maintain electronic data processing services for monitoring, administering and collecting the Receivables in accordance with the foregoing standards and shall, within three Business Days of the deposit of any checks, other forms of cash deposits, or other written matter into a Lockbox, post such information to its electronic data processing services.

(b) Parameters of Primary Servicing. The Servicing Responsibilities shall be performed within the following parameters:

(i) Subject to the review and authority of the Lender and the Program Manager and except as otherwise provided herein, each Borrower shall have full power and authority to take all actions that it may deem necessary or desirable, consistent in all material respects with its existing policies and procedures with respect to the administration and servicing of accounts receivable, in connection with the administration and servicing of its Receivables. Without limiting the generality of the foregoing, each Borrower shall, in the performance of its servicing obligations hereunder, act in accordance with all legal requirements and subject to the terms and conditions of the Agreement.

(ii) During the continuance of an Event of Default, at the Lender's or Program Manager's request, all enforcement and collection proceedings with respect to the Receivables shall, unless prohibited by applicable law, be instituted and prosecuted in the name of the Lender.

(iii) No Borrower shall change in any material respect its existing policies and procedures with respect to the administration and servicing of accounts receivable (including, without limitation, the amount and timing of write-offs) without the prior written consent of the Lender.

(iv) The Borrowers will be responsible for monitoring and collecting the Receivables, including, without limitation, contacting Obligors that have not made

payment on their respective Receivables within the customary time period for such Obligor, and resubmitting any claim rejected by an Obligor due to incomplete information.

(v) If any Borrower determines that a payment with respect to a Receivable has been received directly by a pharmacy or any other Person, the Borrowers shall promptly advise the Lender, and the Lender shall be entitled to presume that the reason such payment was made to such pharmacy or other Person was because of a breach of representation or warranty in the Agreement with respect to such Receivable (such as, by way of example, the forms related to such Receivable not being properly completed so as to provide for direct payment by the Obligor to the applicable Borrower), unless such Borrower shall demonstrate that such is not the case. In the case of any such Receivable which is determined not to be a Denied Receivable, the Borrowers shall promptly demand that such pharmacy or other Person remit and return such funds. If such funds are not promptly received by the applicable Borrower, the Borrowers shall take all reasonable steps to obtain such funds.

(vi) Notwithstanding anything to the contrary contained herein, no Borrower may amend, waive or otherwise permit or agree to any deviation from the terms or conditions of any Receivable in any material respect without the prior consent of the Lender.

(c) Termination of Servicing Responsibilities; Cooperation. Upon the occurrence of an Event of Default the Lender may, by written notice, terminate the performance of the Servicing Responsibilities by any Borrower, in which event such Borrower shall immediately transfer to a successor servicer designated by the Lender all records, computer access and other information as shall be necessary or desirable, in the reasonable judgment of such successor servicer, to perform such responsibilities. The Borrowers shall otherwise cooperate fully with such successor servicer.

EXHIBIT XII

INTERFACE WITH PROGRAM MANAGER

1. The Program Manager will convey appropriate data requirements and instructions to the Borrower Representative to establish a computer interface between the Borrowers' systems and the Program Manager's receivables monitoring system. The interface will permit the Program Manager to receive electronically each Borrower's accounts receivable data, including the Receivable Information, billing data and collection and other transaction data relating to the Receivables.

2. Each Borrower shall give the Program Manager and the Lender at least ten Business Days' notice of any coding changes or electronic data processing system modifications made by such Borrower which could affect the Program Manager's processing or interpretation of data received through the interface.

3. The Program Manager shall have no responsibility to return to any Borrower any information which the Program Manager receives pursuant to the computer interface.

4. Each Borrower will prepare weekly accounts receivable data files of all transaction types for such Borrower's sites that are included in the program. The weekly cutoff will occur at a predetermined time each week, and the weekly cutoff date for all of the sites must occur at exactly the same time. The cutoff date that will be selected will be at the end of business for a specific day of the week, or in other words, at the end of such Borrower's transaction posting process for that day. Each Borrower will temporarily maintain a copy of the accounts data files in the event that the data is degraded or corrupted during transmission, and needs to be re-transmitted.

5. The Program Manager will be responsible for the management of the hardware, communications and software used in the program.

6. The Program Manager's data center will receive the Receivable files, and immediately confirm that the files have been passed without degradation or corruption of data by balancing the detailed items to the control totals that accompany the files. Any problems in this process will be immediately reported to the Borrower Representative so that the Receivable file can be re-transmitted, if necessary.

7. Once the receipt of the Receivable data has been confirmed, the Program Manager will perform certain tests and edits to ensure that each Receivable meets the specified eligibility criteria. Compliance with concentration limits will be verified and the Program Manager will notify the Program Manager that the Eligible Receivables have been determined.

8. Each Borrower's sites will continue to post daily transactions to their respective Receivable files. Each Borrower's Receivable files for each of the eligible sites will include all transactions posted through that day. Each Borrower will create a transaction report and a Receivable file for each of the eligible sites. The transaction report will contain all

transactions posted to the respective site Receivable file for the specified period (and will indicate the respective site and the number of items and total dollars on each transaction report for control purposes). The Receivable file will contain balances that reflect the transactions posted on the Borrowers' systems through the end of business of the specified period.

9. Each Borrower will transmit the billing, transaction, and the most current Receivable data files to the Program Manager's data center according to the established schedule. The Borrowers should, again, maintain the backup of each of these files in the event that a re-transmission is necessary.

10. The Program Manager's data center will confirm that the files have been received intact, and will immediately communicate any problems to the Borrower Representative in order to initiate a re-transmission. The Program Manager will then post the transaction files to the accounts receivable for accounts that the Program Manager is maintaining, and consequently update the affected balances. Upon completion of the posting process, the Program Manager will generate summary reports of the posting process that the Program Manager will use to complete various funding activities. The Program Manager summary reports will reference the Borrowers' transaction codes and activity to codes that are common to the funding program.

11. The Program Manager will then compare the updated accounts balances on the Program Manager's system to the corresponding account balances reflected on the Receivable file. The Program Manager expects that the balances for the funded Receivables will be congruent, and any discrepancies will be immediately examined and resolved through the cooperative effort of the Program Manager and the Borrowers. The Program Manager shall produce discrepancy reports (e.g., "Funding Only" or "Out of Balance" reports) and the Borrowers shall respond promptly to such reports.

12. Once the reconciliation process has been completed and any discrepancies between the Program Manager and the Borrowers' Receivable files resolved through the discrepancy report process described in paragraph 9 above, the Program Manager will then process the Receivable file and advise the Lender. The Program Manager will then proceed through exactly the same process described in paragraph 6 above.

EXHIBIT XV

FORM OF SUBSCRIPTION AGREEMENT

SCHEDULE I

ADDRESSES FOR NOTICE

| | |
|---|---|
| If to the Revolving Agent: | HFG Healthco-4 LLC<br>48 Wall Street<br>New York, New York 10005 |
| If to the Revolving Lender: | HFG Healthco-4 LLC<br>48 Wall Street<br>New York, New York 10005 |
| If to the Program Manager or Program Manager | Healthcare Finance Group Inc.<br>199 Water Street, 20th Floor<br>New York, New York 10038<br>Attention: Chief Credit Officer<br>Tel: (212) 785-9212<br>Fax: (212) 785 8501<br>e-mail: |
| If to the Borrowers: | 10050 Crosstown Circle Suite 300<br>Eden Prairie, MN 55344<br>Attention: Barry A. Posner<br>Tel: (952) 979-3750<br>Fax: (952) 674-5783<br>e-mail: bposner@bioscrip.com<br><br>and<br><br>100 Clearbrook Road<br>Elmsford, NY 10523<br>Attention: Barry A. Posner<br>Tel: 914-460-1638<br>Fax: [_____]<br>e-mail: bposner@bioscrip.com |

SCHEDULE IV

LOCKBOX INFORMATION

SCHEDULE V

NET VALUE FACTORS

Rebate Receivables: Initially 99%

Receivables that are not Rebate Receivables:

| PBM Services | Mail Order | New Jersey | Roslyn | Comm Pharm | Bronx | SF Mail | Burbank | BioScrip Consolidated |
|---|---|---|---|---|---|---|---|---|
| 95% | 95% | 95% | 90% | 92% | 92% | 95% | 95% | 94% |

SCHEDULE VI

MONTHLY FINANCIAL REPORTING

Sch. V-2

**AMENDED AND RESTATED PLEDGE AGREEMENT**

AMENDED AND RESTATED PLEDGE AGREEMENT effective as of November 1, 2007 (this "***Pledge Agreement***") among BioScrip, Inc., a Delaware corporation (f/k/a MIM Corporation) (together with its corporate successors and assigns, "***BioScrip***"), Chronimed Inc., a Minnesota corporation (together with its corporate successors and assigns, "***Chronimed***"), each of the Borrowers under the LSA (as defined below) (the "***Borrowers***" and together with BioScrip and Chronimed, each a "***Grantor***" and collectively, the "***Grantors***"), and HFG HEALTHCO-4 LLC, a Delaware limited liability company (the "***Lender***").

The Borrowers and the Lender have entered into that certain Amended and Restated Loan and Security Agreement, dated as of September 26, 2007 (as amended, restated, modified or supplemented from time to time, the "***LSA***"; capitalized terms used herein and not defined herein shall have the meanings attributed thereto in the LSA).

Each of BioScrip and Chronimed is benefiting from the transactions described in the LSA and is a beneficiary thereof and has entered into an Amended and Restated Guaranty (the "***Guaranty***"), pursuant to which it is jointly and severally guarantying the obligations of the Borrowers under the LSA.

Each Grantor and the Lender would like to amend and restate the Pledge Agreement, dated as of December 29, 2006, among the Grantors (other than Chronimed) and the Lender (the "***Original Pledge Agreement***") to, among other things, add Chronimed as a Grantor and restate the obligations being secured.

It is a condition precedent to the effectiveness of the LSA and the making of any financial accommodations under the LSA that the Grantors execute and deliver a pledge agreement in the form hereof to secure the following (collectively, the ***"Obligations"***): (a) the payment in full of the Lender Debt under the LSA and (b) all obligations of each Grantor at any time and from time to time under this Pledge Agreement, including without limitation any and all reasonable costs and expenses (including reasonable counsel fees and expenses) paid or incurred in enforcing any rights under this Pledge Agreement.

NOW, THEREFORE, the Grantors and the Lender hereby agree to amend and restate the Original Pledge Agreement as follows:

1. Pledge. As security for the payment and performance in full of the Obligations, each Grantor hereby transfers, grants, bargains, sells, conveys, hypothecates, pledges, sets over, endorses over, and delivers unto the Lender, and grants to the Lender, for its own benefit, a security interest in (a) the shares of capital stock, limited liability company interests and membership interests listed in Schedule I annexed hereto next to such Grantor's name (the "***Initial Pledged Equity***"), any additional shares of common stock, limited liability

company interests and membership interests of the issuers listed in Schedule I annexed hereto obtained in the future by such Grantor and any capital stock, limited liability company interests and membership interests in any entity acquired in the future by such Grantor (collectively, the Initial Pledged Equity together with all such additional shares pledged in the future, the "***Pledged Equity***") and (b) subject to Section 5 below, all proceeds of the Pledged Equity, including, without limitation, all cash, securities or other property at any time and from time to time receivable or otherwise distributed in respect of or in exchange for any of or all such Pledged Equity (the items referred to in clauses (a) and (b) being collectively called the "***Collateral***"). Upon delivery to the Lender, any securities now or hereafter included in the Collateral including, without limitation, the Pledged Equity (the "***Pledged Securities***") shall be accompanied by undated stock powers duly executed in blank or other instruments of transfer reasonably satisfactory to the Lender. Each delivery of Pledged Securities shall be accompanied by a schedule showing a description of the securities theretofore and then being pledged hereunder, which schedule shall be annexed to Schedule I hereto and made a part hereof. Each schedule so delivered shall supersede any prior schedules so delivered.

2. Delivery of Collateral.

(a) Each Grantor agrees to deliver or cause to be delivered to the Lender all original certificates, instruments and other documents evidencing or representing the Initial Pledged Equity concurrently with the execution and delivery of this Pledge Agreement and the original certificates, instruments or other documents evidencing or representing all other Pledged Equity within ten days after such Grantor's receipt thereof, in each case accompanied by duly executed undated instruments of transfer or assignment in blank, all in form and substance reasonably satisfactory to the Lender.

(b) If any Pledged Security (whether now owned or hereafter acquired) are "uncertificated securities" within the meaning of the Uniform Commercial Code or are otherwise not evidenced by any certificate or instrument, the applicable Grantor shall promptly take and cause to be taken all actions required under Articles 8 and 9 of the Uniform Commercial Code and any other applicable law, to enable the Lender to acquire "control" (within the meaning of such term under Section 8-106 (or its successor provision) of the Uniform Commercial Code) of such uncertificated securities and as may be otherwise necessary or deemed appropriate by the Lender to perfect the security interest of the Lender therein, including, without limitation, the filing of UCC-1 financing statements in the appropriate jurisdictions.

3. Representations, Warranties and Covenants. Each Grantor hereby represents, warrants and covenants to and with the Lender that:

(a) except for the security interest granted to the Lender, such Grantor (i) is and, subject to the provisions of the LSA, will at all times (except to the extent the obligations of such Grantor under this Pledge Agreement are terminated solely as provided in Section 14(b) hereto) continue to be the direct owner, beneficially and of record, of the Pledged Securities that it is

pledging hereunder, (ii) holds the Collateral that it is pledging hereunder free and clear of all Liens, charges, encumbrances and security interests of every kind and nature, and the Pledged Equity is subject to no options to purchase or any similar or other rights of any person and such Grantor has not granted "control" (within the meaning of such term under Section 8-106 (or its successor provision) of the Uniform Commercial Code) over any portion of the Collateral to any other person, (iii) will make no assignment, pledge, hypothecation or, subject to the provisions of the LSA, transfer of, or create any security interest in, the Collateral that it is pledging hereunder including, without limitation, by virtue of becoming bound by any agreement which restricts in any manner the rights of any present or future holder of any Pledged Equity with respect thereto, and (iv) subject to Section 5 below, will cause any and all Pledged Securities and other certificates, instruments or documents evidencing or representing any of the Collateral, whether for value paid by such Grantor or otherwise, to be forthwith deposited with the Lender and pledged or assigned hereunder;

(b) such Grantor (i) has the right and legal authority to pledge the Collateral it is pledging hereunder in the manner hereby done or contemplated, (ii) will not amend, modify or supplement any Pledged Security without the prior written consent of the Lender, not to be unreasonably withheld, and (iii) will defend its title or interest thereto or therein against any and all attachments, Liens, claims, encumbrances, security interests or other impediments of any nature, however arising, of all persons whomsoever;

(c) no consent or approval of any governmental body or regulatory authority or any securities exchange is necessary for the pledge effected hereby to be valid;

(d) by virtue of the execution and delivery by such Grantor of this Pledge Agreement, when the certificates, instruments or other documents representing or evidencing the Collateral are delivered to the Lender in accordance with this Pledge Agreement and Uniform Commercial Code financing statements in the form attached hereto as Exhibit A are filed in the appropriate jurisdictions, the Lender will obtain a valid and perfected first Lien upon and security interest in such Collateral as security for the repayment of the Obligations, prior to all other Liens and encumbrances thereon and security interests therein;

(e) the pledge effected hereby is effective to vest in the Lender the rights in the Collateral as set forth herein;

(f) all of the Pledged Equity has been duly authorized and validly issued and as at the date hereof, the Initial Pledged Equity constitutes all of the issued and outstanding shares of capital stock, limited liability company interests or membership interests, as applicable, of the issuers listed on Schedule I annexed hereto; and

(g) except for the Pledged Equity consisting of capital stock in a corporation, the Pledged Equity is not and will not in the future be certificated.

All representations, warranties and covenants of each Grantor contained in this Pledge Agreement shall survive the execution, delivery and performance of this Pledge Agreement until the termination of this Pledge Agreement pursuant to Section 14 hereof.

4. Registration in Nominee Name; Denominations. Upon the occurrence and during the continuance of an Event of Default, the Lender shall have the right (in its sole and absolute discretion with subsequent notice to the Grantors) to transfer to or to register the Pledged Securities in its own name or the name of its nominee. In addition, the Lender shall at all times have the right to exchange the certificates representing Pledged Securities for certificates of smaller or larger denominations for any purpose consistent with this Pledge Agreement.

5. Voting Rights; Dividends; etc. (a) Unless and until an Event of Default under the LSA shall have occurred and be continuing:

(i) The Grantors shall be entitled to exercise any and all voting and/or consensual rights and powers accruing to an owner of Pledged Securities or any part thereof for any purpose not inconsistent with the terms of this Pledge Agreement and the LSA provided that such action would not adversely affect the rights inuring to the Lender under this Pledge Agreement or the LSA or adversely affect the rights and remedies of the Lender under this Pledge Agreement or the LSA or the ability of the Lender to exercise the same.

(ii) The Lender shall execute and deliver to the Grantors, or cause to be executed and delivered to the Grantors, all such proxies, powers of attorney, and other instruments as the Grantors may reasonably request for the purpose of enabling the Grantors to exercise the voting and/or consensual rights and powers which they are entitled to exercise pursuant to subparagraph (i) above.

(iii) The Grantors shall be entitled to receive and retain any and all cash dividends and distributions paid on the Pledged Securities only to the extent that such cash dividends and distributions are permitted by, and otherwise paid in accordance with the terms and conditions of, the LSA and applicable laws. Any and all

a. noncash dividends and distributions,

b. stock or dividends and other distributions paid or payable in cash or otherwise in connection with a partial or total liquidation or dissolution, and

c. instruments, securities, other distributions in property, return of capital, capital surplus or paid-in surplus or other distributions made on or in respect of Pledged Securities (other than dividends permitted by this Section 5(a)(iii)), whether paid or payable in cash or otherwise, whether resulting from a subdivision, combination or reclassification of the outstanding capital stock, limited liability company interests or membership interests of the

issuer of any Pledged Securities or received in exchange for Pledged Securities or any part thereof, or in redemption thereof, as a result of any merger, consolidation, acquisition or other exchange of assets to which such issuer may be a party or otherwise, shall be and become part of the Collateral, and, if received by the Grantors, shall not be commingled by the Grantors with any of its other funds or property but shall be held separate and apart therefrom, shall be held in trust for the benefit of the Lender and shall be forthwith delivered to the Lender in the same form as so received (with any necessary endorsement).

(b) Upon the occurrence and during the continuance of an Event of Default, all rights of the Grantors to receive any dividends, stock, instruments, securities and other distributions which the Grantors are authorized to receive pursuant to paragraph (a)(iii) of this Section 5 shall cease, and all such rights shall thereupon become vested in the Lender, which shall have the sole and exclusive right and authority to receive and retain such dividends. All dividends and distributions which are received by the Grantors contrary to the provisions of this Section 5(b) shall be received in trust for the benefit of the Lender, shall be segregated from other property or funds of the Grantors and shall be forthwith delivered to the Lender as Collateral in the same form as so received (with any necessary endorsement). Any and all money and other property paid over to or received by the Lender pursuant to the provisions of this Section 5 (b) shall be retained by the Lender in an account to be established by the Lender upon receipt of such money or other property and shall be applied in accordance with the provisions of Section 8 hereof.

(c) Upon the occurrence and during the continuance of an Event of Default, all rights of the Grantors to exercise the voting and consensual rights and pursuant to the irrevocable proxy granted herein, powers which it is entitled to exercise pursuant to Section 5(a)(i) shall cease, and all such rights shall thereupon become vested in the Lender, which shall have the sole and exclusive right and authority to exercise such voting and consensual rights and powers.

(d) In order to permit the Lender to exercise the voting and other consensual rights which it may be entitled to exercise pursuant to Section 5(c) and to receive all dividends and other distributions which it may be entitled to receive under Section 5(a)(iii) or Section 5(b), each Grantor shall promptly execute and deliver (or cause to be executed and delivered) to the Lender all such proxies, dividend payment orders and other instruments as the Lender may from time to time reasonably request.

Without limiting the effect of the foregoing, each Grantor does hereby constitute and appoint the Lender as its proxy, and the Lender shall have the right, upon the occurrence and during the continuance of an Event of Default, to exercise all rights, benefits, privileges and powers accruing to such Grantor, as owner of the Pledged Securities, including, without limitation, giving or withholding consent, calling and attending shareholders' meetings to be held from time to time with full power to vote and act for and in the name, place, and stead of such Grantor and in the same manner, to the same extent, and with the same effect that such Grantor would if personally present at such meetings, giving to the Lender full power of substitution and

revocation, which proxy shall be effective, automatically and without the necessity of any action (including any transfer of any Pledged Equity on the record books of the issuer thereof) by any person (including the issuer of the Pledged Equity or any officer or agent thereof).

THIS PROXY IS IRREVOCABLE

Any proxy or proxies heretofore given by any Grantor to any person or persons with respect to the Pledged Equity owned by such Grantor are hereby revoked. This proxy shall continue in full force and effect until such time as all Obligations are paid and satisfied in full in accordance with the terms of the LSA.

6. Issuance of Additional Stock. Each Grantor agrees that it will cause each of its subsidiaries not to issue any stock, limited liability company interests, membership interests or other securities, whether in addition to, by stock dividend or other distribution upon, or in substitution for, the Pledged Securities or otherwise.

7. Remedies upon Event of Default If an Event of Default shall have occurred and be continuing, the Lender may sell or otherwise dispose of all or any part of the Collateral, at public or private sale or at any broker's board or on any securities exchange, for cash, upon credit or for future delivery as the Lender shall deem appropriate. Each such purchaser at any such sale shall hold the property sold absolutely, free from any claim or right on the part of any Grantor, and such Grantor hereby waives (to the extent permitted by law) all rights of redemption, stay and appraisal which such Grantor now has or may at any time in the future have under any rule of law or statute now existing or hereafter enacted.

The Lender shall give the Grantors 10 days' written notice (which the Grantors agree is reasonable notice within the meaning of Section 9-611 of the Uniform Commercial Code as in effect in New York) of the Lender's intention to make any sale of Collateral. Such notice, in the case of a public sale, shall state the time and place for such sale and, in the case of a sale at a broker's board or on a securities exchange, shall state the board or exchange at which such sale is to be made and the day on which the Collateral, or portion thereof, will first be offered for sale at such board or exchange. Any such public sale shall be held at such time or times within ordinary business hours and at such place or places as the Lender may fix and state in the notice (if any) of such sale. At any such sale, the Collateral, or portion thereof, to be sold may be sold in one lot as an entirety or in separate parcels, as the Lender may (in its sole and absolute discretion) determine. The Lender shall not be obligated to make any sale of any Collateral if it shall determine not to do so, regardless of the fact that notice of sale of such Collateral shall have been given. The Lender may, without notice or publication, adjourn any public or private sale or cause the same to be adjourned from time to time by announcement at the time and place fixed for sale, and such sale may, without further notice, be made at the time and place to which the same was so adjourned. In case any sale of all or any part of the Collateral is made on credit or for future delivery, the Collateral so sold may be retained by the Lender until the sale price is paid by the purchaser or purchasers thereof, but the Lender shall not incur any liability in case

any such purchaser or purchasers shall fail to take up and pay for the Collateral so sold and, in case of any such failure, such Collateral may be sold again upon like notice. At any public sale made pursuant to this Section 7, the Lender may bid for or purchase, free (to the extent permitted by law) from any right of redemption, stay or appraisal on the part of any Grantor (all said rights being also hereby waived and released to the extent permitted by law), with respect to the Collateral or any part thereof offered for sale and the Lender may make payment on account thereof by using any claim then due and payable to the Lender from any Grantor as a credit against the purchase price, and the Lender may, upon compliance with the terms of sale, hold, retain and dispose of such property without further accountability to such Grantor therefor. For purposes hereof, a written agreement to purchase the Collateral or any portion thereof shall be treated as a sale thereof; the Lender shall be free to carry out such sale and purchase pursuant to such agreement, and such Grantor shall not be entitled to the return of the Collateral or any portion thereof subject thereto, notwithstanding the fact that after the Lender shall have entered into such an agreement all defaults under the LSA shall have been remedied and the Obligations paid in full. The Grantors shall remain liable for any deficiency. As an alternative to exercising the power of sale herein conferred upon it, the Lender may proceed by a suit or suits at law or in equity to foreclose this Pledge Agreement and to sell the Collateral or any portion thereof pursuant to a judgment or decree of a court or courts having competent jurisdiction or pursuant to a proceeding by a court-appointed receiver.

8. Application of Proceeds of Sale. The proceeds of any sale of Collateral, as well as any Collateral consisting of cash, shall be applied by the Lender promptly as follows:

FIRST, to the payment of all reasonable costs and expenses reasonably incurred by the Lender in connection with such sale or otherwise in connection with this Pledge Agreement or any of the Obligations, including, but not limited to, all court costs and the reasonable fees and expenses of the Lender and its legal counsel, the repayment of all advances made by the Lender on behalf of the Grantors and as specified to the Grantors and any other reasonable costs or expenses incurred in connection with the exercise of any right or remedy hereunder;

SECOND, to the Lender to the payment in full of all Obligations (other than those referred to above) owed to the Lender to be applied to the Lender's outstanding obligations under the LSA in the manner set forth therein; and

LAST, to the Grantors, their successors or assigns, or as a court of competent jurisdiction may otherwise direct.

9. The Lender Appointed Attorney-in-Fact. Each Grantor hereby appoints the Lender its attorney-in-fact for the purpose of carrying out the provisions of this Pledge Agreement and taking any action and executing any instrument which the Lender may deem necessary or advisable to accomplish the purposes hereof, which appointment is irrevocable and coupled with an interest. Without limiting the generality of the foregoing, the Lender shall have

the right, upon the occurrence and during the continuance of an Event of Default, with full power of substitution either in the Lender's name or in the name of any Grantor, to ask for, demand, sue for, collect, receive receipt and give acquittance for any and all moneys due or to become due and under and by virtue of any Collateral, to endorse checks, drafts, orders and other instruments for the payment of money payable to such Grantor representing any interest or dividend, or other distribution payable in respect of the Collateral or any part thereof or on account thereof and to give full discharge for the same, to settle, compromise, prosecute or defend any action, claim or proceeding with respect thereto, and to sell, assign, endorse, pledge, transfer and make any agreement respecting, or otherwise deal with, the same; provided, however, that nothing herein contained shall be construed as requiring or obligating the Lender to make any commitment or to make any inquiry as to the nature or sufficiency of any payment received by the Lender, or to present or file any claim or notice, or to take any action with respect to the Collateral or any part thereof or the moneys due or to become due in respect thereof or any property covered thereby, and no action taken by the Lender, or omitted to be taken with respect to the Collateral or any part thereof shall give rise to any defense, counterclaim or offset in favor of such Grantor or to any claim or action against the Lender in the absence of the gross negligence or willful misconduct of the Lender.

10. No Waiver. No failure on the part of the Lender to exercise, and no delay in exercising, any right, power or remedy hereunder shall operate as a waiver thereof, nor shall any single or partial exercise of any such right, power or remedy by the Lender preclude any other or further exercise thereof or the exercise of any other right, power or remedy. All remedies hereunder are cumulative and are not exclusive of any other remedies provided by law. The Lender shall not be deemed to have waived any rights hereunder or under any other agreement or instrument unless such waiver shall be in writing and signed by the Lender.

11. Registration, etc. Each Grantor agrees that, upon the occurrence and during the continuance of an Event of Default, if for any reason the Lender desires to sell any of the Pledged Securities at a public sale, it will, at any time and from time to time, upon the written request of the Lender, take or to cause the issuer of such Pledged Securities to take such action and to prepare, distribute and/or file such documents, as are required or advisable in the opinion of counsel for the Lender to permit the public sale of such Pledged Securities. The Grantors further agrees to indemnify, defend and hold harmless the Lender, any member of the Lender Group and any underwriter and their respective officers, directors, affiliates and controlling persons (within the meaning of Section 20 of the Securities Exchange Act of 1934) from and against all loss, liability, expenses, costs, fees and disbursements of counsel (including, without limitation, a reasonable estimate of the cost to the Lender of legal counsel), and claims (including the costs of investigation) which they may incur insofar as such loss, liability, expense or claim arises out of or is based upon any untrue statement of a material fact contained in any prospectus (or any amendment or supplement thereto) or in any notification or offering circular, or arises out of or is based upon any omission to state a material fact required to be stated therein or necessary to make the statements in any thereof not misleading, except insofar as the same arises out of any untrue statement or omission based upon information furnished in writing to the

Grantors or the issuer of such Pledged Securities by the Lender, any member of the Lender Group or the underwriter expressly for use therein. The Lender (with respect to such information furnished by it) shall indemnify, defend and hold harmless each Grantor or the issuer of such Pledged Securities and their respective officers, directors, affiliates and controlling persons (within the meaning of Section 20 of the Securities Exchange Act of 1934) upon the same terms as are applicable to such Grantor pursuant hereto. The Grantors further agrees to use its best efforts to qualify, file or register, or cause the issuer of such Pledged Securities to qualify, file or register, any of the Pledged Securities under the Blue Sky or other securities laws of such states as may be requested by the Lender and keep effective, or cause to be kept effective, all such qualifications, filings or registrations. The Grantors will bear all costs and expenses of carrying out its obligations under this Section 11. Each Grantor acknowledges that there is no adequate remedy at law for failure by it to comply with the provisions of this Section 11 and that such failure would not be adequately compensable in damages, and therefore agrees that its agreements contained in this Section 11 may be specifically enforced. The Lender agrees to utilize only the services of underwriters and brokers unaffiliated with any member of the Lender Group, and no remuneration shall be paid to any member of the Lender Group, in effecting the public sale of the Pledged Securities.

12. Security Interest Absolute. All rights of the Lender hereunder, the grant of a security interest in the Collateral and all obligations of each Grantor hereunder, shall be absolute and unconditional irrespective of (i) any lack of validity or enforceability of the LSA, the Guaranty, any agreement with respect to any of the Obligations or any other agreement or instrument relating to any of the foregoing, (ii) any change in time, manner or place of payment of, or in any other term of, all or any of the Obligations, or any other amendment or waiver of or any consent to any departure from the LSA, the Guaranty, or any other agreement or instrument, (iii) any exchange, release or nonperfection of any other collateral, or any release or amendment or waiver of or consent to or departure from any guarantee, for all or any of the Obligations or (iv) any other circumstance which might otherwise constitute a defense available to, or a discharge of, such Grantor in respect of the Obligations or in respect of this Pledge Agreement.

13. Lender's Fees and Expenses. The Grantors shall be obligated to, upon demand, pay to the Lender the amount of any and all reasonable expenses, including the reasonable fees and expenses of its respective counsel and of any experts or agents which the Lender may incur in connection with (i) the administration of this Pledge Agreement, (ii) the custody or preservation of, or the sale of, collection from, or other realization upon, any of the Collateral, (iii) the exercise or enforcement of any of the rights of the Lender hereunder or (iv) the failure by either Grantor to perform or observe any of the provisions hereof. In addition, the Grantors agree to indemnify and hold the Lender harmless from and against any and all liability incurred by the Lender hereunder or in connection herewith, unless such liability shall be due to the gross negligence or willful misconduct of the Lender, as the case may be. Any such amounts payable as provided hereunder or thereunder shall be additional Obligations secured hereby.

14. Termination. (a) This Pledge Agreement shall terminate when (i) all of the Obligations have been fully paid in immediately available funds and (ii) the Lender has no further commitment to make any advances under the LSA, at which time the Lender shall reassign and deliver to the Grantors, or to such person or persons as the Grantors shall designate, against receipt, such of the Collateral (if any) as shall not have been sold or otherwise still be held by it hereunder, together with appropriate instruments of reassignment and release, including delivery of Uniform Commercial Code termination statements and similar documents reasonably requested by the Grantors; provided, however, that all indemnities of the Grantors contained in this Pledge Agreement shall survive, and remain operative and in full force and effect regardless of, the termination of this Pledge Agreement. Any such reassignment shall be without recourse to or warranty by the Lender and at the expense of the Grantors.

(b) In the event that (i) (1) a Removal of a Grantor occurs in accordance with the terms of the LSA or (2) the Guaranty of a Grantor is terminated (in accordance with the terms of such Guaranty and the other Documents) and (ii) such Grantor shall no longer have any liability with respect to the Obligations (either directly or as a guarantor thereof), then this Pledge Agreement shall terminate with respect to such Grantor in accordance with the terms of Section 14(a) hereto.

15. Notices. All communications and notices hereunder shall be in writing and given as provided in the LSA.

16. Further Assurances. Each Grantor agrees to do such further acts and things, and to execute and deliver such additional conveyances, assignments, agreements and instruments, as the Lender may at any time reasonably request in connection with the administration and enforcement of this Pledge Agreement or with respect to the Collateral or any part thereof or in order better to assure and confirm unto the Lender their rights and remedies hereunder.

17. Binding Agreement; Assignments. This Pledge Agreement, and the terms, covenants and conditions hereof, shall be binding upon and inure to the benefit of the parties hereto and their respective successors and assigns, except that the Grantors shall not be permitted to assign this Pledge Agreement or any interest herein or in the Collateral, or any part thereof, or otherwise pledge, encumber or grant any option with respect to the Collateral, or any part thereof, or any cash or property held by the Lender as Collateral under this Pledge Agreement.

18. **GOVERNING LAW. THIS PLEDGE AGREEMENT SHALL, IN ACCORDANCE WITH SECTION 5-1401 OF THE GENERAL OBLIGATION LAW OF THE STATE OF NEW YORK, BE GOVERNED BY THE LAWS OF THE STATE OF NEW YORK, WITHOUT REGARD TO ANY CONFLICTS OF LAWS PRINCIPLES THEREOF.**

19. Severability. In case any one or more of the provisions contained in this Pledge Agreement should be invalid, illegal or unenforceable in any respect, the validity, legality and enforceability of the remaining provisions contained herein shall not in any way be affected or impaired.

20. Counterparts. This Pledge Agreement may be executed in two or more counterparts, each of which shall constitute an original, but all of which, when taken together, shall constitute but one instrument. This Pledge Agreement shall be effective when a counterpart which bears the signature of the Grantors shall have been delivered to the Lender.

21. Section Headings. Section headings used herein are for convenience only and are not to affect the construction of, or be taken into consideration in interpreting, this Pledge Agreement.

[Remainder of Page Intentionally Left Blank]

IN WITNESS WHEREOF, the parties hereto have duly executed this Pledge Agreement as of the day and year first above written.

GRANTORS:

BIOSCRIP PBM SERVICES, LLC

By: _____
Name:
Title:

BIOSCRIP, INC.

By: _____
Name:
Title:

BIOSCRIP PHARMACY SERVICES, INC.

By: _____
Name:
Title:

BIOSCRIP INFUSION SERVICES, INC.

By: _____
Name:
Title:

BIOSCRIP PHARMACY (NY), INC.

By: _____
Name:
Title:

BIOSCRIP PHARMACY, INC.

By: _____
Name:
Title:

NATURAL LIVING, INC.

By: _____
Name:
Title:

BIOSCRIP INFUSION SERVICES, LLC

By: _____
Name:
Title:

CHRONIMED INC.

By: _____
Name:
Title:

LENDER:

HFG HEALTHCO-4, LLC

By: HFG Healthco-4, Inc., a member

By: _____
Name:
Title:

**SCHEDULE I**
**to Pledge Agreement**

| Grantor | Equity Issuer | Class of Equity | Certificate No(s). | Par Value | Number of Shares/Interests | Percentage of Outstanding Shares/Interests |
|---|---|---|---|---|---|---|
| BioScrip, Inc. | BioScrip Infusion Services, Inc. (f/k/a Intravenous Therapy Services, Inc.) | Common Shares | 2 | $ 0.00 | 1,000 | 100% |
| BioScrip, Inc. | BioScrip Pharmacy Services, Inc. | Common Shares | 2 | $ 0.00 | 204 | 100% |
| BioScrip, Inc. | MIM IPA, Inc. | Common Shares | 2 | $ 0.01 | 1,000 | 100% |
| BioScrip, Inc. | MIM Investment Corporation | Common Shares | 2 | $ 0.01 | 1,000 | 100% |
| BioScrip, Inc. | BioScrip PBM Services, LLC | limited liability company interests | uncertificated interest | | | 100% |
| BioScrip, Inc. | BioScrip Pharmacy (NY), Inc. (f/k/a Vitality Home Infusion Services, Inc.) | Common Shares | 8 | $ 0.00 | 100 | 100% |
| BioScrip, Inc. | Chronimed Inc. | Common Shares | 1 | $ 0.01 | 100 | 100% |
| BioScrip, Inc. (f/k/a MIM Corporation) | MIM Health Plans of Puerto Rico, Inc. | Common Shares | 1 | $100.00 | 100 | 50% |
| BioScrip PBM Services, LLC (f/k/a Scrip Solutions, LLC) | Natural Living, Inc. | Common Shares | 2 | $ 0.00 | 100 | 100% |
| BioScrip PBM Services, LLC | BioScrip Infusion Services, LLC | limited liability company interests | uncertificated interest | | | 100% |
| BioScrip Infusion Services, LLC | New York ADIMA, LLC | limited liability company interests | uncertificated interest | | | 100% |

| Grantor | Equity Issuer | Class of Equity | Certificate No(s). | Par Value | Number of Shares/Interests | Percentage of Outstanding Shares/Interests |
|---|---|---|---|---|---|---|
| BioScrip Infusion Services, LLC | BioScrip Infusion Management, LLC | limited liability company interests | uncertificated interest | | | 100% |
| Chronimed Inc. | Los Feliz Inc. | | | | | 100% |
| Chronimed Inc. | BioScrip Pharmacy, Inc. (f/k/a Chronimed Holdings Inc.) | Common Shares | 01 | $.01 | 1,000 | 100% |

EXHIBIT A

UCC Financing Statements

Exhibit 10.17

AMENDED AND RESTATED GUARANTY effective as of October 1, 2007 (this "***Guaranty***"), by BIOSCRIP, INC., a Delaware corporation (f/k/a MIM Corporation) (together with its corporate successors and assigns, "***BioScrip***"), CHRONIMED INC., a Minnesota corporation (together with its corporate successors and assigns, "***Chronimed***" and together with BioScrip, each a "***Guarantor***" and collectively, the "***Guarantors***"), in favor of HFG HEALTHCO-4 LLC, a Delaware limited liability company (the "***Lender***").

The Lender has entered into that certain Amended and Restated Loan and Security Agreement, dated as of September 26, 2007 (as amended, restated, modified or supplemented from time to time, the "***LSA***"; capitalized terms used herein and not defined herein shall have the meanings attributed thereto in the LSA) with certain Subsidiaries of the Guarantors party thereto as Borrowers (each, together with each one's corporate successors and assigns, a "***Borrower***" and, collectively, the "***Borrowers***").

Each Guarantor will derive substantial benefit from the transactions contemplated by the LSA.

Each Guarantor would like to amend and restate the Guaranty, dated as of January ___, 2002, as amended by the First Amendment, dated as of July 5, 2006 by BioScrip (the "***Original Guaranty***") to, among other things, add Chronimed as a Guarantor and restate the obligations being guaranteed.

Accordingly, in consideration of the premises, and in order to induce the Lender under the LSA to make loans to the Borrowers and other financial accommodations thereunder, the Guarantors hereby agree to amend and restate the Original Guaranty as follows:

Section 1. Guaranty. (a) Each Guarantor, jointly and severally, hereby irrevocably and unconditionally guarantees the punctual payment and performance when due of (i) the Lender Debt under the LSA, and (ii) all other obligations of the Borrowers under any other Document (collectively, the "***Guaranteed Obligations***"), and hereby further agrees to pay any and all costs and expenses (including reasonable counsel fees and expenses) paid or incurred by the Lender, in enforcing any rights under this Guaranty.

(b) Any and all payments by or on behalf of any Guarantor hereunder shall be made free and clear of and without deduction or withholding for any and all present or future taxes or otherwise unless required by law.

Section 2. Guaranty Absolute. Each Guarantor, jointly and severally, guarantees that the Guaranteed Obligations will be paid or performed in accordance with the terms of the LSA regardless of any law, regulation or order now or hereafter in effect in any jurisdiction affecting any of such terms or the rights of the Borrowers or the Lender with respect thereto. The obligations of each Guarantor hereunder are independent of the obligations of the Borrowers under the LSA and a separate action or actions may be brought or prosecuted against such Guarantor to enforce this Guaranty, irrespective of whether action is brought against the

Borrowers or whether the Borrowers are joined in any such action or actions. The liability of each Guarantor under this Guaranty shall be absolute and unconditional, and shall not be affected or released in any way, irrespective of:

(a) any lack of validity or enforceability of the LSA or any Document;

(b) any change in the time, manner or place of payment of, or in any other term of, all or any of the Guaranteed Obligations, or any other amendment or waiver of or any consent to departure from any Document including, without limitation, any increase in the Guaranteed Obligations;

(c) any taking and holding of collateral or additional guarantees for all or any of the Guaranteed Obligations, or any amendment, alteration, exchange, substitution, transfer, enforcement, waiver, subordination, termination or release of any collateral or such guarantees, or non-perfection or delay in perfection of any collateral, or any consent to departure from any such guaranty, for all or any of the Guaranteed Obligations;

(d) any manner of application of collateral, or proceeds thereof, to all or any of the Guaranteed Obligations, or any commercially reasonable manner of sale or other disposition of any collateral for all or any of the Guaranteed Obligations or any other assets of any Borrower or any other Person;

(e) any consent by the Lender, any Borrower or any other Person to the change, restructure or termination of the corporate structure or existence of the Lender, any Borrower or any of their affiliates and any corresponding restructure of the Guaranteed Obligations, or any other restructure or refinancing of the Guaranteed Obligations or any portion thereof; or

(f) any other circumstance which might otherwise constitute a defense available to, or a discharge of a Borrower.

(a) Without limiting the generality of the foregoing, each Guarantor hereby consents to, and hereby agrees, that the rights of the Lender hereunder, and the liability of each Guarantor hereunder, shall not be affected by any and all releases of any collateral, whether for purposes of commercially reasonable sales or other dispositions of assets or for any other purpose.

Section 3. Waiver. Each Guarantor hereby absolutely, unconditionally and irrevocably waives, to the fullest extent permitted by law, (i) promptness, diligence, notice of acceptance and any other notice with respect to this Guaranty, (ii) presentment, demand of payment, protest, notice of dishonor or nonpayment and any other notice with respect to the Guaranteed Obligations, (iii) any requirement that the Lender or any other Person protect, secure, perfect or insure any security interest or Lien or any property subject thereto or exhaust any right or take any action against the Borrowers or any other Person or any collateral, and (iv) any duty on the part of the Lender or any other Person to disclose to any Guarantor any matter, fact or

thing relating to the business, operation or condition of the Borrowers and their assets now known or hereafter known by such Person.

Section 4. Waiver of Subrogation and Contribution. Until the later to occur of the Maturity Date and payment in full of all Guaranteed Obligations, each Guarantor hereby irrevocably waives any claim or other rights which it may now or hereafter acquire against any Borrower that arises from the existence, payment, performance or enforcement of such Guarantor's obligations under this Guaranty, including, without limitation, any right of subrogation, reimbursement, exoneration, contribution or indemnification and any right to participate in any claim or remedy against a Borrower or any collateral which the Lender now has or hereafter acquires, whether or not such claim, remedy or right arises in equity, or under contract, statute or common law, including, without limitation, the right to take or receive from a Borrower or, directly or indirectly, in cash or other property or by set-off or in any other manner, payment or security on account of such claim, remedy or other right. If any amount shall be paid to any Guarantor in violation of the preceding sentence at any time prior to the later to occur of the Maturity Date and payment in full of all Guaranteed Obligations, such amount shall be deemed to have been paid to such Guarantor for the benefit of, and held in trust for the benefit of, the Lender, and shall forthwith be paid to the Lender to be credited and applied to the Guaranteed Obligations and all other amounts payable under this Guaranty, whether matured or unmatured, in accordance with the terms of the Documents, or to be held as collateral for any Guaranteed Obligations or other amounts payable under this Guaranty thereafter arising. Each Guarantor acknowledges that it will receive direct and indirect benefits from the financing arrangements contemplated by the Documents and that the waiver set forth in this subsection is knowingly made in contemplation of such benefits.

Section 5. Representations and Warranties. Each Guarantor hereby represents and warrants as follows:

(a) Such Guarantor has the corporate power to execute and deliver this Guaranty and to incur and perform its obligations hereunder;

(b) Such Guarantor has duly taken all necessary corporate action to authorize the execution, delivery and performance of this Guaranty and to incur and perform its obligations hereunder;

(c) No consent, approval, authorization or other action by, and no notice to or of, or declaration or filing with, any governmental or other public body, or any other Person, is required for the due authorization, execution, delivery and performance by such Guarantor of this Guaranty or the consummation of the transactions contemplated hereby;

(d) The execution, delivery and performance by such Guarantor of this Guaranty does not and will not violate or otherwise conflict with any term or provision of any material agreement, instrument, judgment, decree, order or any statute, rule or governmental regulation

applicable to such Guarantor or result in the creation of any Lien upon any of its properties or assets pursuant thereto; and

(e) This Guaranty has been duly authorized, executed and delivered by such Guarantor and constitutes the legal, valid and binding obligation of such Guarantor, and is enforceable against such Guarantor in accordance with its terms, except as enforcement thereof may be subject to the effect of any applicable bankruptcy, insolvency, reorganization, moratorium or similar law affecting creditors' rights generally, and general principles of equity (regardless of whether such enforcement is sought in a proceeding in equity or at law).

(f) Without the prior written consent of the Lender, no Guarantor shall own any assets or engage in any business or activity other than (i) (1) with respect to BioScrip, the ownership of all of the outstanding Equity Interests of its Subsidiaries and (2) with respect with Chronimed, the ownership of all of the outstanding Equity Interests of its Subsidiaries, (ii) the maintenance of its organizational existence, (iii) the execution and delivery of the agreements to which it is a party in connection with the Documents and the performance of its obligations thereunder and (iv) activities incidental to the businesses or activities described in clauses (i) through (iii) of this clause (f).

Section 6. Amendments, Etc. No amendment or waiver of any provision of this Guaranty nor consent to any departure by the Guarantors therefrom shall in any event be effective unless the same shall be in writing and signed by the Lender (and in an amendment, by the Guarantors), and then such waiver or consent shall be effective only in the specific instance and for the specific purpose for which given.

Section 7. Assignability. No Guarantor may assign this Guaranty without the prior written consent of the Lender.

Section 8. No Waiver; Remedies. No failure on the part of the Lender hereunder, to exercise, and no delay in exercising, any right hereunder shall operate as a waiver thereof; nor shall any single or partial exercise of any right hereunder preclude any other or further exercise thereof or the exercise of any other right. The remedies herein provided are cumulative and not exclusive of any remedies provided by law or any other Document.

Section 9. Continuing Guaranty. This Guaranty is a continuing one and shall (i) remain in full force and effect until the later to occur of the Maturity Date and payment in full of all Guaranteed Obligations, (ii) be binding upon the Guarantors, their successors and assigns, and (iii) inure to the benefit of, and be enforceable by, the Lender and its successors, transferees and assigns. All obligations to which this Guaranty applies or may apply under the terms hereof shall be conclusively presumed to have been created in reliance hereon.

Section 10. Financial Condition of the Borrowers. Each Guarantor represents to the Lender that it is now and will be completely familiar with the prospects, business, operations and condition (financial and otherwise) of the Borrowers, and each Guarantor hereby waives and

relinquishes any duty on the part of the Lender or any other Person to disclose any matter, fact or thing relating to the prospects, business, assets, liabilities, operations or condition (financial or otherwise) of the Borrowers now known or hereafter known by the Lender or any other Person.

Section 11. Admissibility of Guaranty. The Guarantors agree that any copy of this Guaranty signed by the Guarantors and transmitted by telecopier for delivery to the Lender shall be admissible in evidence as the original itself in any judicial or administrative proceeding, whether or not the original is in existence.

Section 12. Notices. All notices and other communications hereunder shall, unless otherwise stated herein, be in writing (which may include facsimile communication) and shall be faxed or delivered to the Guarantors at each Guarantor's address set forth under its name on the signature page hereof and any other Person at its address set forth in the LSA or at such other address as shall be designated by such party in a Written Notice to the other party. Notices and communications by facsimile shall be effective when sent (and shall be followed by hard copy sent by regular mail) and notices and communications sent by other means shall be effective when received.

Section 13. Counterparts. This Guaranty may be executed in any number of counterparts and by the different parties hereto on separate counterparts, each of which when so executed and delivered shall be an original and all of which shall together constitute one and the same agreement.

Section 14. **GOVERNING LAW. THIS AGREEMENT SHALL, IN ACCORDANCE WITH SECTION 5-1401 OF THE GENERAL OBLIGATION LAW OF THE STATE OF NEW YORK, BE GOVERNED BY THE LAWS OF THE STATE OF NEW YORK, WITHOUT REGARD TO ANY CONFLICTS OF LAWS PRINCIPLES THEREOF.**

Section 15. **WAIVER OF JURY TRIAL, JURISDICTION AND VENUE. EACH OF THE PARTIES HERETO HEREBY WAIVES ALL RIGHTS TO A TRIAL BY JURY IN THE EVENT OF ANY LITIGATION WITH RESPECT TO ANY MATTER RELATED TO THIS AGREEMENT, AND HEREBY IRREVOCABLY CONSENTS TO THE JURISDICTION OF THE STATE AND FEDERAL COURTS LOCATED IN NEW YORK COUNTY, NEW YORK CITY, NEW YORK IN CONNECTION WITH ANY ACTION OR PROCEEDING ARISING OUT OF OR RELATING TO THIS AGREEMENT. IN ANY SUCH LITIGATION, EACH OF THE PARTIES HERETO WAIVES PERSONAL SERVICE OF ANY SUMMONS, COMPLAINT OR OTHER PROCESS AND AGREES THAT SERVICE THEREOF MAY BE MADE BY CERTIFIED OR REGISTERED MAIL DIRECTED TO THE PARTIES HERETO AT THEIR ADDRESSES SPECIFIED IN SECTION 12.**

Section 16. Captions; Separability. (a) The captions of the Sections and subsections of this Guaranty have been inserted for convenience only and shall not in any way affect the meaning or construction of any provision of this Guaranty.

(b) If any term of this Guaranty shall be held to be invalid, illegal or unenforceable, the validity of all other terms hereof shall in no way be affected thereby.

Section 17. Joint and Several Liability. Each Guarantor agrees that each reference to "Guarantor" in this Guaranty shall be deemed to refer to each such Guarantor, jointly and severally with the other Guarantor. Each Guarantor (i) shall be jointly and severally liable for the obligations, duties and covenants of each other such Guarantor under this Guaranty and the acts and omissions of each other such Guarantor, and (ii) jointly and severally makes each representation and warranty for itself and each other such Guarantor under this Guaranty. Notwithstanding the foregoing, if, in any action to enforce the Guaranteed Obligations against any Guarantor or any proceeding to allow or adjudicate a claim hereunder, a court of competent jurisdiction determined that enforcement of the joint and several obligations of all of the Guarantors against such Guarantor for the full amount of the Guaranteed Obligations is not lawful under, or would be subject to avoidance under Section 548 of the United States Bankruptcy Code or any applicable provision of state law, the liability of such Guarantor hereunder shall be limited to the maximum amount lawful and not subject to avoidance under such law.

[ Remainder of Page Intentionally Left Blank]

IN WITNESS WHEREOF, the Guarantors have caused this Guaranty to be duly executed as of the date first above set forth.

BIOSCRIP, INC.

By: _____
Name:
Title:

Address: 100 Clearbrook Road
Elmsford, NY 10523
Facsimile Number: (914) 460-1670

CHRONIMED INC.

By: _____
Name:
Title:

Address: 100 Clearbrook Road
Elmsford, NY 10523
Facsimile Number: (914) 460-1670

Exhibit 10.18

REFINANCING ARRANGEMENTS AGREEMENT

BIOSCRIP PHARMACY SERVICES, INC., a corporation organized under the laws of the State of Ohio ("***Pharmacy Services***"), BIOSCRIP INFUSION SERVICES, INC., a corporation organized under the laws of the State of California ("***Infusion Services Inc***"), BIOSCRIP PHARMACY (NY), INC., a corporation organized under the laws of the State of New York ("***Pharmacy (NY)***"), BIOSCRIP PBM SERVICES, LLC, a limited liability company organized under the laws of the State of Delaware ("***PBM Services***"), BIOSCRIP PHARMACY, INC., a corporation organized under the laws of the State of Minnesota ("***Pharmacy***"), NATURAL LIVING, INC., a corporation organized under the laws of the State of New York ("***Natural Living***") and BIOSCRIP INFUSION SERVICES, LLC, a limited liability company organized under the laws of the State of Delaware ("***Infusion Services LLC***" and together with Pharmacy Services, Infusion Services Inc, Pharmacy (NY), PBM Services, Pharmacy and Natural Living, each a "***Provider***" and collectively, jointly and severally, the "***Providers***" and PBM Services in its capacity as primary servicer hereunder, the "***Primary Servicer***") and MIM FUNDING LLC, a limited liability company organized under the laws of the State of Delaware (together with its corporate successors and assigns, the "***Purchaser***") agree as follows:

The Providers and the Purchaser entered into a Receivables Purchase and Transfer Agreement, dated as of November 1, 2000, as amended, restated, modified or supplemented from time to time in accordance with its terms (the "***RPTA***"). Pursuant to the RPTA, the Providers agreed to sell or contribute, and the Purchaser agreed to purchase or accept the contribution, on a continuing basis all of the Providers receivables. Certain terms that are capitalized and used throughout this Agreement are defined in the RPTA.

The Purchaser and HFG HEALTHCO-4 LLC ("***Assignee***") entered into an Assignment of Receivables Purchase and Transfer Agreement as Collateral Security, dated as of November 1, 2000 pursuant to which the Purchaser granted a security interest in and assigned and transferred to the Assignee all of its rights, title and interest under the RPTA.

In connection with the execution of an Amended and Restated Loan and Security Agreement among the Providers[, the other borrowers party thereto] and Purchaser as borrowers and the Assignee as the lender (the "***Amended and Restated Loan Agreement***") on the date hereof the parties agree as follows:

1. Termination. Simultaneously with the execution of the Amended and Restated Loan Agreement the RPTA shall be deemed to have terminated. The final Transfer Date shall be deemed to have occurred on September 26, 2007 ( the "***Purchase Termination Date***"). On the Purchase Termination Date (i) the obligations of the Providers to sell to the Purchaser, or contribute to the capital of Purchaser, all Receivables as provided in Section 1.03 of the RPTA shall terminate and (ii) the obligations of the Purchaser under the RPTA with respect to purchases and contributions of Receivables shall terminate including any obligation (x) to pay an amount equal to the Purchase Price to the Primary Servicer for the benefit of the Providers, as set

forth in Section 1.03 of the RPTA and (y) to record on its books and records the capital contribution of the Providers with respect to Receivables.

2. Governing Law. This Agreement shall, in accordance with Section 5-1401 of the General Obligations Law of the State of New York, be governed by the laws of the State of New York, without regard to any conflicts of laws principles thereof that would call for the application of the laws of any other jurisdiction.

**IN WITNESS WHEREOF**, the parties have caused this Agreement to be executed by their respective officers thereunto duly authorized, as of _____ ___, 2007.

PROVIDERS:

BIOSCRIP PBM SERVICES, LLC (as successor to
MIM Health Plans, Inc.)

By: _____
Name:
Title:

BIOSCRIP PHARMACY SERVICES, INC.

By: _____
Name:
Title:

BIOSCRIP INFUSION SERVICES, INC.

By: _____
Name:
Title:

BIOSCRIP PHARMACY (NY), INC.

By: _____
Name:
Title:

BIOSCRIP PHARMACY, INC.

By: _____
Name:
Title:

NATURAL LIVING, INC.

By: _____
Name:
Title:

BIOSCRIP INFUSION SERVICES, LLC

By: _____
Name:
Title:

PURCHASER:

MIM FUNDING LLC

By: _____
Name:
Title:

PRIMARY SERVICER:

BIOSCRIP PBM SERVICES, LLC (as successor to
MIM Health Plans, Inc.)

By: _____
Name:
Title:

CONSENTED TO:

BIOSCRIP, INC. (f/ka/ MIM CORPORATION)

By: _____
Name:
Title:

HFG HEALTHCO-4 LLC

By: HFG Healthco-4, Inc., a member

By: _____
Name:
Title:

**Exhibit 21.1**

**Subsidiaries of bioscrip, Inc.**

**Chronimed, LLC, a Minnesota limited liability company**

**BioScrip Pharmacy, Inc., a Minnesota corporation, doing business as BioScrip Pharmacy**

**Los Feliz Drugs Inc., a California corporation (inactive)**

**BioScrip PBM Services, LLC, a Delaware limited liability company**

**BioScrip Pharmacy Services, Inc., an Ohio Corporation**

**BioScrip Pharmacy (NY), Inc., a New York corporation**

**Natural Living, Inc., a New York corporation**

**BioScrip Infusion Services, LLC, a Delaware limited liability company**

**BioScrip Infusion Services, Inc., a California corporation**

**BioScrip Infusion Management, LLC, a Delaware limited liability company**

**BioScrip Nursing Services, LLC, a New York limited liability company**

**The Live Positive Foundation, Inc., a Delaware corporation**

**Bradhurst Specialty Pharmacy, Inc., a New York corporation**

**Exhibit 23.1**

**Consent of Independent Registered Public Accounting Firm**

We consent to the incorporation by reference in the Registration Statements on Form S-8 (Nos. 333-107307, 333-107306, 333-123701, and 333-123704) of our reports dated March 6, 2008, with respect to the consolidated financial statements and schedule of BioScrip, Inc., and the effectiveness of internal control over financial reporting of BioScrip, Inc., included in this Annual Report (Form 10-K) for the year ended December 31, 2007.

/s/ Ernst & Young LLP

Minneapolis, Minnesota
March 6, 2008

**EXHIBIT 31.1**

**CERTIFICATION**

I, Richard H. Friedman, certify that:

1. I have reviewed this Annual Report on Form 10-K of BioScrip, Inc.;

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

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

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f))for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ Richard H. Friedman
Richard H. Friedman,
Chief Executive Officer

Date: March 7, 2008

**EXHIBIT 31.2**

**CERTIFICATION**

I, Stanley G. Rosenbaum, certify that:

1. I have reviewed this Annual Report on Form 10-K of BioScrip, Inc.;

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

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

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f))for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ Stanley G. Rosenbaum
Stanley G. Rosenbaum,
Chief Financial Officer

Date: March 7, 2008

**EXHIBIT 32.1**

**CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350**
**AS ADOPTED PURSUANT TO**
**SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Annual Report of BioScrip, Inc. (the "Company") on Form 10-K for the year ended December 31, 2007, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Richard H. Friedman, Chairman and Chief Executive Officer of the Company, do hereby certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

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

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

/s/ Richard H. Friedman
Richard H. Friedman

Date: March 7, 2008

**EXHIBIT 32.2**

**CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350**
**AS ADOPTED PURSUANT TO**
**SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Annual Report of BioScrip, Inc. (the "Company") on Form 10-K for the year ended December 31, 2007, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Stanley G. Rosenbaum, Chief Financial Officer of the Company, do hereby certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

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

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

/s/ Stanley G. Rosenbaum
Stanley G. Rosenbaum

Date: March 7, 2008