UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C.

FORM 8-K/A

CURRENT REPORT
PURSUANT TO SECTION 13 OR 15(D) OF THE
SECURITIES EXCHANGE ACT OF 1934

Date of Report (Date of earliest event reported) MARCH 12, 2005

BIOSCRIP, INC.
(Exact Name of Registrant as Specified in its Charter)

DELAWARE	0-28740	05-0489664
(State or Other Jurisdiction of Incorporation)	(Commission File Number)	(IRS Employer Identification No.)

100 CLEARBROOK ROAD, ELMSFORD, NEW YORK	10523
(Address of Principal Executive Offices)	(Zip Code)

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

(Former Name or Former Address, if Changed Since Last Report)

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

[ ] Written communications pursuant to Rule 425 under the Section Act (17 CFR 230.425)

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

[ ] Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240-14d-2(b)).

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

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ITEM 9.01 FINANCIAL STATEMENTS AND EXHIBITS.

(a) Financial Statements of Business Acquired.

The audited consolidated balance sheets of Chronimed Inc. as of July 2, 2004 and June 27, 2003, and the related audited consolidated statements of income, shareholders' equity and cash flows for each of the three years ended July 2, 2004 appear beginning on page F-1 of this Current Report on Form 8-K and are hereby incorporated by reference.

The unaudited consolidated balance sheet of Chronimed as of December 31, 2004, and the related unaudited consolidated statements of income for each of the three and six months ended December 31, 2004 and December 26, 2003 and unaudited statements of cash flows for each of the six months ended December 31, 2004 and December 26, 2003 appear beginning on page F-22 of this Current Report on Form 8-K and are hereby incorporated by reference.

(b) Pro Forma Financial Information.

Following are the unaudited pro forma condensed consolidated balance sheet of BioScrip, Inc. as of December 31, 2004 and the related unaudited pro forma condensed consolidated statements of income and stockholders' equity for the year ended December 31, 2004, referred to collectively as the pro forma financial information.

The pro forma financial information is presented to illustrate the effects of the merger on the historical financial position and operating results of MIM Corporation and Chronimed. Because Chronimed had a different fiscal year than MIM, and the combined company adopted the fiscal year-end of MIM, pro forma operating results are presented on a December 31 fiscal-year basis.

The following unaudited pro forma condensed consolidated balance sheet at December 31, 2004 gives effect to the merger as if it had occurred as of that date. The unaudited pro forma condensed consolidated statement of income for the year ended December 31, 2004 gives effect to the merger as if it had occurred as of January 1, 2004 using current share information.

The pro forma financial information has been derived from, and should be read in conjunction with, the historical consolidated financial statements, including the notes to such statements, of MIM and Chronimed. For MIM, those financial statements are included in MIM's Annual Report for the year ended December 31, 2004. For Chronimed, those financial statements are included in Chronimed's Quarterly Report on Form 10-Q for the quarter ended December 31, 2004 and Chronimed's Annual Report on Form 10-K for the year ended July 2, 2004.

The pro forma financial information is presented for informational purposes only and is not necessarily indicative of the financial position or results of operations that would have occurred had the merger been consummated as of the dates indicated. In particular, the pro forma financial information includes revenues from Value Behavioral Health of Texas, Inc., referred to as Value Options, and Aetna Inc. MIM received a notice of termination from Value Options, a customer of MIM, and Chronimed received a notice of termination from Aetna, a customer of Chronimed (see Notes 1 and 2 to Unaudited Pro Forma Condensed Consolidated Statement of Income for the Year Ended December 31, 2004 on page 5). For accounting purposes, MIM was deemed to be the surviving corporation in the merger and the cost of the acquisition was allocated to Chronimed's assets and liabilities based on their respective fair values at the date of the acquisition. The pro forma adjustments are based upon currently available information and upon assumptions that management believes are reasonable. The adjustments included in the pro forma financial information represent the preliminary determination of these adjustments based upon available information. BioScrip cannot assure you that the actual adjustments will not differ from the pro forma adjustments reflected in the pro forma financial information.

The merger was structured so that holders of Chronimed common stock received shares of MIM common stock as consideration in the merger. Under the terms of the merger, the number of shares of MIM common stock received for each share of Chronimed common stock was determined by the exchange ratio. The same exchange ratio was also applied with respect to stock options exercisable for shares of Chronimed common stock. The exchange ratio provided for in the merger agreement was determined through arm's length negotiations.

Using these assumptions, the consideration paid by MIM in connection with the merger was approximately $114.7 million, consisting of the following:

- the issuance of shares of MIM common stock with a market value of approximately $94.3 million as consideration for the outstanding shares of Chronimed common stock (the market value of MIM common stock was determined based on the average market price of MIM common stock over the period including the two days before and after the revised exchange ratio was agreed to and announced on January 4, 2005);

- fair value of employee stock options to purchase Chronimed common stock assumed by MIM of $12.2 million;

- estimated direct transaction costs of MIM of $4.3 million; and

- estimated deferred tax liability of $3.9 million.

For pro forma purposes, MIM has assumed that the historical carrying amounts of Chronimed's tangible assets and liabilities approximated their fair values. The remaining purchase price of $52.5 million over the fair value of the assets acquired and liabilities assumed has preliminarily been allocated to intangible assets in the following approximate amounts:

- $1.0 million to non-compete agreements;

- $6.0 million to trademarks and tradenames;

- $3.0 million to customer relationships; and

- the remaining portion of the purchase price in excess of tangible and intangible assets, estimated at $42.5 million, to goodwill.

Other intangible assets are amortized over their expected period of benefit, which is three years for non-compete agreements and six years for trademarks and tradenames and customer relationships.

BIOSCRIP, INC.
UNAUDITED PRO FORMA CONDENSED CONSOLIDATED BALANCE SHEET
DECEMBER 31, 2004
(IN THOUSANDS, EXCEPT SHARE AMOUNTS)

	MIM CORPORATION	CHRONIMED INC.	PRO FORMA ADJUSTMENTS		PRO FORMA
ASSETS					
Current assets:					
Cash and cash equivalents	2,957	20,698	(7,308)	(a),(b)	16,347
Short-term investments	-	-			-
Receivables, less allowance for doubtful accounts	65,439	39,987			105,426
Inventory	11,897	10,553			22,450
Prepaid expenses and other current assets	2,112	3,662			5,774
Income taxes receivable	-	356			356
Short-term deferred taxes	2,798	2,250			5,048
Total current assets	85,203	77,506	(7,308)		155,401
Property and equipment, net	4,300	4,407			8,707
Long term deferred taxes, net	2,383	-			2,383
Other assets and investments	427	143			570
Goodwill, net	74,874	34,480	7,994	(c),(d)	117,348
Deferred acquisition costs	1,702	-			1,702
Intangible assets, net	17,583	-	10,000	(d)	27,583
Total assets	186,472	116,536	10,686		313,694
LIABILITIES AND STOCKHOLDERS' EQUITY					
Current liabilities:					
Current portion of capital lease obligations	35	-			35
Line of credit	7,303	-	(7,303)	(b)	-
Accounts payable	20,012	12,291	4,348	(e)	36,651
Claims payable	28,659	-			28,659
Payables to plan sponsors	2,217	-			2,217
Accrued expenses and other current liabilities	12,563	5,299			17,862
Total current liabilities	70,789	17,590	(2,955)		85,424
Capital lease obligations, net of current portion	-	-			-
Other non current liabilities	-	2,201	3,877	(f)	6,078
Total liabilities	70,789	19,791	922		91,502
Minority interest	-	-	-		-
Stockholders' equity:					
Preferred stock					
Common stock	2	128	(127)	(a),(c)	3
Treasury stock	(8,002)	-			(8,002)
Additional paid-in capital	131,031	58,344	48,164	(a),(c)	237,539
Accumulated deficit	(7,348)	38,273	(38,273)	(c)	(7,348)
Total stockholders' equity	115,683	96,745	9,764		222,192
Total liabilities and stockholders' equity	186,472	116,536	10,686		313,694

Pro Forma Adjustments

(a) To reflect the issuance of MIM common stock for Chronimed common stock ($94,299) and outstanding vested options for Chronimed common stock ($12,210), including cash for fractional shares of approximately ($5).

(b) To reflect the use of Chronimed's cash to repay the outstanding balances under the line of credit on MIM's books.

(c) To eliminate Chronimed historical equity accounts which includes an elimination of $34,480 of Chronimed goodwill and elimination of $96,745 of stockholders equity.

(d) To reflect the estimated fair value of identifiable intangible assets and cost in excess of net assets acquired (goodwill) as a result of the acquisition. Total goodwill resulting from the transaction is estimated to be $42,474.

(e) To reflect the estimated direct purchase accounting transaction costs.

(f) To reflect the estimated deferred tax liability associated with the business purchase.

BIOSCRIP, INC.
UNAUDITED PRO FORMA CONDENSED CONSOLIDATED STATEMENT OF INCOME
YEAR ENDED DECEMBER 31, 2004
(IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

	MIM CORPORATION	CHRONIMED INC.	PRO FORMA ADJUSTMENTS	PRO FORMA
Revenue	$ 630,516	$ 589,034	$ (414)(a)	$1,219,136
Cost of revenue	562,360	525,511	(414)(a)	1,087,457
Gross profit	68,156	63,523	-	131,679
Selling, general and administrative expenses	52,843	54,930		107,773
Amortization of intangibles	3,019	-	1,833 (b)	4,852
Income from operations	12,294	8,593	(1,833)	19,054
Interest (expense) income, net	(808)	280	559(c)	31
Other income	-	326		326
Income before provision for income taxes	11,486	9,199	(1,274)	19,411
Provision for income taxes	4,453	3,530	(494)(d)	7,489
Net income	$ 7,033	$ 5,669	$ (780)	$ 11,922
Basic income per common share	$ 0.32	$ 0.44		$ 0.33
Diluted income per common share	$ 0.31	$ 0.44		$ 0.32
Weighted average common shares used in computing basic income per common share	22,245	12,824	14,364 (e)	36,609
Weighted average common shares used in computing diluted income per common share	22,702	12,961	14,502 (e),(f)	37,204

Pro Forma Adjustments

(a) To eliminate intercompany sales and cost of sales between MIM and Chronimed.

(b) To reflect amortization of purchased intangibles.

(c) To eliminate interest expense paid by MIM on the line of credit and half of Chronimed's interest income reflecting the use of Chronimed's cash to pay off the line of credit.

(d) To reflect the tax provision effect of the pro forma adjustments.

(e) To reflect the issuance of common stock in connection with the merger.

(f) To reflect the dilutive effect of the MIM assumption of Chronimed stock options in connection with the merger.

Notes to Unaudited Pro Forma Condensed Consolidated Statement of Income

(1) MIM's results include $19,748 in revenue from its pharmacy benefit management contract with Value Options. Value Options gave notice in September 2004 that it is exercising its right of termination effective December 2004, subject to claims run-off.

(2) Chronimed's results include $119,498 in revenue and $8,349 in gross profit from its specialty pharmacy contract with Aetna. Aetna gave notice in November 2004 that it is exercising its right of termination of that contract, effective February 28, 2005.

(c) Exhibits.

The following Exhibit is filed with this Report:

23.1 Consent of Ernst & Young LLP

SIGNATURES

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

Date: April 5, 2005

BIOSCRIP, INC.

By /s/ Barry A. Posner

Barry A. Posner,
Executive Vice President,
Secretary and General Counsel

INDEX TO FINANCIAL STATEMENTS
CHRONIMED INC. AND SUBSIDIARIES

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Shareholders of Chronimed Inc.

We have audited the accompanying consolidated balance sheets of Chronimed Inc. as of July 2, 2004 and June 27, 2003, and the related consolidated statements of income, shareholders' equity and cash flows for each of the three years in the period ended July 2, 2004. Our audits also included the financial statement schedule listed in the accompanying index. 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 Chronimed Inc. at July 2, 2004 and June 27, 2003, and the consolidated results of its operations and its cash flows for each of the three years in the period ended July 2, 2004, 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.

/s/ Ernst & Young LLP

Minneapolis, Minnesota
August 5, 2004

CHRONIMED INC.
CONSOLIDATED BALANCE SHEETS
(IN THOUSANDS)

	JULY 2, 2004	JUNE 27, 2003
ASSETS		
Current assets		
Cash and cash equivalents	$ 16,624	$ 22,854
Short-term investments	1,507	-
Accounts receivable (net of allowances of $6,321 and $5,940, respectively)	41,932	40,001
Inventory	10,348	8,614
Prepaid expenses	1,441	1,071
Income taxes receivable	220	-
Deferred taxes	2,913	2,607
Total current assets	74,985	75,147
Property and equipment, net	4,942	4,487
Goodwill	34,480	30,233
Other assets, net	147	133
Total assets	$114,554	$110,000
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Accounts payable	$ 12,486	$ 19,085
Accrued expenses	3,865	2,136
Accrued bonus	1,654	1,420
Income taxes payable	-	821
Total current liabilities	18,005	23,462
Deferred taxes	1,938	1,025
Shareholders' equity		
Preferred stock	-	-
Common stock, issued and outstanding shares--12,823 and 12,541 respectively	128	125
Additional paid-in capital	58,332	56,248
Retained earnings	36,151	29,140
Total shareholders' equity	94,611	85,513
Total liabilities and shareholders' equity	$114,554	$110,000

See notes to consolidated financial statements

CHRONIMED INC.
CONSOLIDATED STATEMENTS OF INCOME
(IN THOUSANDS, EXCEPT PER SHARE DATA)

	YEAR ENDED		
	JULY 2, 2004 (53 WEEKS)	JUNE 27, 2003 (52 WEEKS)	JUNE 28, 2002 (52 WEEKS)
Revenue	$ 559,964	$ 435,713	$ 397,437
Cost of revenue	497,035	382,591	349,705
Gross profit	62,929	53,122	47,732
Operating expenses			
Selling and marketing	5,804	3,790	3,329
General and administrative	43,203	38,401	39,041
Bad debt	3,961	3,204	3,504
Total operating expenses	52,968	45,395	45,874
Income from operations	9,961	7,727	1,858
Interest income	234	311	493
Interest expense	(6)	-	(389)
Other income	150	-	3,906
Income before income taxes	10,339	8,038	5,868
Income tax expense	(3,328)	(3,053)	(2,131)
Net income	$ 7,011	$ 4,985	$ 3,737
Basic net income per share	$ 0.55	$ 0.40	$ 0.30
Diluted net income per share	$ 0.54	$ 0.40	$ 0.30
Basic weighted average shares	12,671	12,356	12,321
Diluted weighted average shares	13,000	12,512	12,342

See notes to consolidated financial statements

CHRONIMED INC.
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
(IN THOUSANDS)

	SHARES	AMOUNT	PAID-IN CAPITAL	RETAINED EARNINGS	TOTAL
Balance June 29, 2001	12,315	$123	$54,961	$ 20,418	$75,502
Shares issued for employee stock purchase and option plans	38	1	161	-	162
Net income and comprehensive income	-	-	-	3,737	3,737
Balance June 28, 2002	12,353	124	55,122	24,155	79,401
Shares issued for employee stock purchase, restricted stock, and option plans	188	1	957	-	958
Tax benefit of restricted stock vesting	-	-	169	-	169
Net income and comprehensive income	-	-	-	4,985	4,985
Balance June 27, 2003	12,541	$125	$56,248	$ 29,140	$85,513
Shares issued for employee stock purchase and option plans	282	3	1,890	-	1,893
Tax benefit of non-qualified option exercises	-	-	194	-	194
Net income and comprehensive income	-	-	-	7,011	7,011
Balance July 2, 2004	12,823	$128	$58,332	$ 36,151	$94,611

See notes to consolidated financial statements

CHRONIMED INC.
CONSOLIDATED STATEMENTS OF CASH FLOW
(IN THOUSANDS)

	YEAR ENDED		
	JULY 2, 2004 (53 WEEKS)	JUNE 27, 2003 (52 WEEKS)	JUNE 28, 2002 (52 WEEKS)
Operating activities			
Net income	$ 7,011	$ 4,985	$ 3,737
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	2,265	2,351	2,871
Amortization of restricted stock	-	592	-
Deferred income taxes	607	1,511	1,855
Gain on sale of Home Service Medical business	-	-	(3,797)
Income tax benefit of stock option exercises and restricted stock vesting	194	169	-
Changes in operating assets and liabilities:			
Accounts receivable	(1,931)	4,460	(4,139)
Income taxes	(1,041)	173	7,018
Inventory	(1,734)	(280)	499
Accounts payable	(6,599)	4,274	(713)
Accrued expenses	1,963	(735)	424
Other assets	(384)	15	(3)
Net cash provided by operating activities	351	17,515	7,752
Investing activities			
Acquisition of Accent Rx	(4,247)	-	-
Proceeds from sale of Home Service Medical business	-	-	3,797
Purchases of property and equipment	(2,702)	(1,333)	(1,305)
Purchases of short-term investments	(1,525)	-	-
Net cash (used in) provided by investing activities	(8,474)	(1,333)	2,492
Financing activities			
Net proceeds from issuance of common stock	1,893	366	162
Net proceeds from (repayments of) borrowings	-	-	(4,100)
Net cash provided by (used in) financing activities	1,893	366	(3,938)
(Decrease) increase in cash and cash equivalents	(6,230)	16,548	6,306
Cash and cash equivalents at beginning of year	22,854	6,306	-
Cash and cash equivalents at end of year	$ 16,624	$ 22,854	$ 6,306
SUPPLEMENTAL DISCLOSURES			
Income taxes paid	$ 3,717	$ 2,290	$ 401
Interest payments	$ 6	$ -	$ 389

See notes to consolidated financial statements

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. SIGNIFICANT ACCOUNTING POLICIES

BUSINESS

Chronimed Inc. ("Chronimed" or the "Company"), a specialty pharmacy, distributes prescription drugs and provides specialized therapy management services for people with certain health conditions, including HIV/AIDS, organ transplants, and diseases treated with biotech injectable medications. We work with patients, physicians and other health care providers, pharmaceutical manufacturers, health plans and insurers, and government agencies to improve clinical and economic outcomes.

FISCAL YEAR

We use a four-week, four-week, five-week (4-4-5) quarterly accounting cycle with the fiscal year ending on the Friday closest to June 30 which was July 2, 2004, for this fiscal year. Because this approach assumes a 364-day year (52 weeks times seven days), every several years Chronimed must add an extra accounting week to its calendar to stay in step with a normal 365- or 366-day year. Fiscal 2004 is a year Chronimed had a 53-week fiscal year. This extra week in the fiscal 2004 fourth quarter and year creates an aberration when comparing to financial performance in other periods. Overall, the impact of the extra week is approximately $11.3 million in revenue, $1.2 million in gross profit, $0.8 million in operating expenses, $0.4 million in operating income, and $0.02 earnings per share.

The fiscal years referenced herein are as follows:

FISCAL YEAR	YEAR ENDED
2004	July 2, 2004 (53 weeks)
2003	June 27, 2003 (52 weeks)
2002	June 28, 2002 (52 weeks)

PRINCIPLES OF CONSOLIDATION

The consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries. All inter-company accounts and transactions between consolidated entities have been eliminated.

USE OF ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Those assumptions and estimates are periodically reassessed, and actual results could differ from those estimates.

REVENUE RECOGNITION

Revenue is recognized at the time prescriptions are shipped to or picked up by the patient. We participate in various third-party provider networks, Medicare and state Medicaid programs. Under a majority of these networks, the amount to be paid for our products is determined (or "adjudicated") through electronic connections with these networks at the time of sale. However, for certain payors for which there is no electronic adjudication process available at the time of sale, we bill a standard list price (versus a known contracted price) and then simultaneously determine an appropriate estimate for expected payor discount based on our reimbursement history for each payor class. This reimbursement history is updated quarterly. Revenue is then reported net of the estimated payor discounts and adjusted in future periods as final settlements are determined.

SHIPPING AND HANDLING COSTS

Product shipping and handling costs are included in cost of revenue. These costs were $5.2 million, $3.2 million, and $3.1 million in fiscal 2004, 2003, and 2002, respectively.

STOCK-BASED COMPENSATION

At July 2, 2004, we have various stock-based employee compensation plans which are described more fully in Note 7. We have adopted the disclosure-only provisions of Statement of Financial Accounting Standards No. 123 (Statement No. 123), "Accounting for Stock-Based Compensation," as amended by Statement of Financial Accounting Standards No. 148 but apply Accounting Principles Board Opinion No. 25 (APB 25) and related interpretations in accounting for our stock plans. Under APB 25, when the exercise price of an employee stock option equals the market price of the underlying stock on the date of grant, no compensation expense is recognized.

In fiscal 2003, the Compensation Committee of the Board of Directors approved restricted stock grants to our officers under our 2001 Stock Incentive Plan. The 125,000 non-canceled restricted shares fully vested in fiscal 2003, and we recognized compensation expense of $367,000, net of related tax effects (see Note 7, "Shareholders' Equity"). The following table illustrates the effect on net income and net income per share if we had applied the fair value recognition provisions of Statement No. 123 to stock-based employee compensation.

(IN THOUSANDS, EXCEPT PER SHARE DATA)	2004 (53 WEEKS)	2003 (52 WEEKS)	2002 (52 WEEKS)
Net income - as reported	$ 7,011	$ 4,985	$ 3,737
Plus reported stock-based employee compensation cost, net of related tax effects	-	367	-
Deduct pro forma stock-based employee compensation cost, net of related tax effects	(1,773)	(2,063)	(1,371)
Net income - pro forma	$ 5,238	$ 3,289	$ 2,366
Net income per share - basic as reported	$ 0.55	$ 0.40	$ 0.30
Net income per share - basic pro forma	$ 0.41	$ 0.27	$ 0.19
Net income per share - diluted as reported	$ 0.54	$ 0.40	$ 0.30
Net income per share - diluted pro forma	$ 0.40	$ 0.26	$ 0.19

The fair value of each option grant is estimated on the date of the grant using the Black-Scholes option-pricing model with the following weighted average assumptions for the fiscal years shown:

	2004	2003	2002
Expected dividend yield	- %	- %	- %
Expected stock price volatility	66.3%	66.4%	65.4%
Risk-free interest rate	3.2%	3.2%	4.4%
Expected life of options (in years)	5.1	5.4	5.0

The Black-Scholes option-pricing model was developed for use in estimating the fair value of traded options, which have no vesting restrictions and are fully transferable. In addition, option pricing models require the input of highly subjective assumptions. Because our employee stock options have characteristics significantly different from those of traded options, and because changes in the subjective input assumptions can materially affect the fair value estimate, the existing models may not necessarily provide a reliable single measure of the fair value of our employee stock options. Using the foregoing assumptions, the weighted-average fair value of each option granted during fiscal 2004, 2003, and 2002, was $6.04, $3.13, and $3.22, respectively.

CASH AND CASH EQUIVALENTS

We consider all investments with an original maturity of 90 days or less when purchased to be cash equivalents. Cash equivalents are carried at cost, which approximates fair market value, and consist principally of money market accounts.

SHORT-TERM INVESTMENTS

We classify our investments with maturities of over 90 days when purchased as available-for-sale. These investments are stated at market value, with any material unrealized gains or losses, net of tax, included as a component of shareholders' equity until realized. Interest income is included as a component of current earnings.

As of July 2, 2004, our short-term investments consisted of $1.5 million in government agency securities with remaining maturities of less than twelve months. These investments are stated at cost which approximates market value. There were no material unrealized gains or losses.

ACCOUNTS RECEIVABLE ALLOWANCES

Allowance for Doubtful Accounts

We determine an allowance for doubtful accounts amount based upon an analysis of the aging of the accounts receivable and historical write-off experience. Bad debt expense is recorded as an operating expense in our Consolidated Statements of Income.

Allowance for Payor Discounts

We determine an allowance for payor discounts based on an analysis of historical payment experience. Payor discount allowances are recorded as offsets to revenue in our Consolidated Statements of Income.

INVENTORIES

Inventories consist of goods held for resale and are carried at the lower of cost or market determined under the average cost method.

PROPERTY AND EQUIPMENT

Property and equipment are stated at cost. Depreciation on property and equipment is computed using the straight-line method over the estimated useful lives of one to seven years. Depreciation expense was $2,247,000, $2,330,000, and $2,847,000 in fiscal 2004, 2003, and 2002, respectively.

Property and equipment consisted of the following at July 2, 2004, and June 27, 2003:

(IN THOUSANDS)	FISCAL YEAR 2004	FISCAL YEAR 2003
Leasehold improvements	$ 5,402	$ 4,885
Furniture and fixtures	4,144	3,437
Computer hardware and software	9,826	8,479
Total property and equipment	19,372	16,801
Less: accumulated depreciation	(14,430)	(12,314)
Net property and equipment	$ 4,942	$ 4,487

GOODWILL

As of June 30, 2001, we adopted Statement of Financial Accounting Standards No. 142 ("Statement 142"), "Goodwill and Other Intangible Assets", which changes the accounting for goodwill and intangibles with indefinite lives from an amortization method to an impairment-only approach. Goodwill with indefinite lives will remain on the consolidated balance sheet and not be amortized. Goodwill is allocated to the Company's retail or mail service reporting units based upon the related distribution method. On an annual basis in the fourth quarter, and when there is reason to suspect that their values have been diminished or impaired, these assets must be tested for impairment, and write-downs may be necessary. The Company has established reporting units based on the Company's method of distributing its products through retail or mail service channels. The first step of the impairment test compares the fair value of a reporting unit with its carrying amount, including goodwill and other indefinite lived intangible assets. If the fair value is less than the carrying amount, the second step determines the amount of the impairment by comparing the implied fair value of the goodwill with the carrying amount of that goodwill. An impairment charge is recognized only when the calculated fair value of a reporting unit, including goodwill and indefinite lived intangible assets, is less than its carrying amount. Based on the results of our impairment tests, we have not been required to recognize an impairment of goodwill.

IMPAIRMENT OF LONG-LIVED ASSETS

We evaluate our long-lived assets for impairment losses when indicators of impairment are present by comparing the undiscounted cash flows to the carrying amount of the assets. An impairment loss is recorded if necessary.

INCOME TAXES

We account for income taxes using the liability method. Deferred income taxes are provided for temporary differences between financial reporting and the tax basis of assets and liabilities.

NEW ACCOUNTING PRONOUNCEMENTS

We have reviewed the recent accounting standards and do not believe any of these standards will have a material impact on the Company's financial position or operating results.

NET INCOME PER SHARE

Net income per share is calculated in accordance with Statement No. 128, "Earnings Per Share." Potential common shares are included in the diluted net income calculation when dilutive. Potential common shares consisting of common stock issuable upon exercise of outstanding common stock options are computed using the treasury stock method. Our basic net income per share is computed by dividing income by the weighted average number of common shares outstanding during the period. Diluted net income per share is computed by dividing income by the weighted average number of common shares outstanding during the period, increased to include dilutive potential common shares issuable upon the exercise of stock options that were outstanding during the period. A reconciliation of the numerator and denominator in the basic and diluted net income per share calculation is as follows:

	FISCAL YEAR		
(IN THOUSANDS, EXCEPT PER SHARE DATA)	2004 (53 WEEKS)	2003 (52 WEEKS)	2002 (52 WEEKS)
Numerator			
Net income	$ 7,011	$ 4,985	$ 3,737
Denominator			
Denominator for basic net income per share - weighted average shares outstanding	12,671	12,356	12,321
Effect of dilutive stock options	329	156	21
Denominator for diluted net income per share - weighted average shares outstanding	13,000	12,512	12,342
Basic net income per share	$ 0.55	$ 0.40	$ 0.30
Diluted net income per share	$ 0.54	$ 0.40	$ 0.30

Employee stock options of 1,032,001, 1,048,795, and 1,241,520, for fiscal 2004, 2003, and 2002, respectively, have been excluded from the basic and diluted net income per share calculation because their effect would be anti-dilutive.

2. ACQUISITION

On December 9, 2003, we purchased certain assets of Accent Rx for $4.2 million in cash. Accent Rx is a specialty mail service pharmacy focusing primarily on the distribution of pharmaceutical products to individuals living with HIV/AIDS and post-organ transplants. Accent Rx has been integrated into our existing mail service operations. We paid cash for customer prescription records and allocated the $4.2 million purchase price as goodwill.

Beginning December 10, 2003, customers of Accent Rx were served through Chronimed's mail service operations, resulting in approximately $6.3 million in revenue during fiscal 2004.

The following unaudited pro forma combined financial information is in accordance with Statement of Financial Accounting Standards No. 141, "Business Combinations," and is based on the respective historical financial results of Chronimed and Accent Rx, Inc. as though the business combination had been completed as of the beginning of the periods presented.

(IN THOUSANDS, EXCEPT FOR SHARE DATA)	YEAR ENDED JULY 2, 2004 (53 WEEKS)	YEAR ENDED JUNE 27, 2003 (52 WEEKS)
Revenue	$568,802	$455,822
Income from operations	9,250	6,339
Net income	$ 6,147	$ 3,601
Basic net income per share	$ 0.49	$ 0.29
Diluted net income per share	$ 0.47	$ 0.29

3. SALE OF HOME SERVICE MEDICAL BUSINESS

We sold our Home Service Medical (HSM) business on September 1, 2000, to Express-Med, Inc. of New Albany, Ohio for $6.5 million. We received $2.7 million in cash and a $3.8 million note maturing in 42 months and bearing an annual interest rate of 11%. We deferred the $3.8 million gain on the sale of HSM in accordance with the SEC Staff Accounting Bulletin No. 81, "Gain Recognition on the Sale of a Business or Operating Assets to a Highly Leveraged Entity." Because we had no guarantee that Express-Med would be able to repay the note and due to the long-term nature of the note, the gain was deferred until principal payments under the promissory note were received or deemed to be fully collectable. In June 2002, we received payment of $3.8 million in full satisfaction of this note and recorded the gain in other income on the Statement of Income.

4. OPERATING LEASES AND RENT EXPENSE

We lease our office space, distribution facilities, retail locations, and various equipment under operating lease agreements. The remaining lease terms range from one to six years as of July 2, 2004.

Future minimum lease payments, including current real estate taxes and operating expenses, under the operating leases with original lease terms in excess of one year at July 2, 2004, are approximately as follows:

(IN THOUSANDS) FISCAL YEAR	AMOUNT
2005	$2,458
2006	1,172
2007	366
2008	163
2009	152
Beyond	62
Total	$4,373

Total rent expense was $2,922,000, $2,774,000, and $3,898,000, during fiscal 2004, 2003, and 2002, respectively.

5. CREDIT ARRANGEMENTS

We have a secured line of credit totaling $30 million that will terminate in April 2006. The credit agreement includes certain restrictive covenants of which we were in compliance as of July 2, 2004. Under the terms of the line of credit agreement, the debt is secured by receivables and inventory and bears interest at the Eurodollar rate plus the applicable margin dependent on our covenant calculation. The borrowing base on the line of credit is a calculated amount based on our inventory and non-government accounts receivable balances. During 2004 and as of July 2, 2004, we had no borrowings outstanding under this line of credit.

6. INCOME TAXES

The components of the provision for income taxes are as follows:

	FISCAL YEAR		
(IN THOUSANDS)	2004	2003	2002
Current			
Federal	$2,435	$1,380	$ 438
State	286	162	37
Deferred			
Federal	543	1,352	1,525
State	64	159	131
Income tax expense	$3,328	$3,053	$2,131

Our income tax expense differs from the applicable federal rate of 34% in fiscal 2004, 2003, and 2002. The reconciliation of differences is as follows:

	FISCAL YEAR		
(IN THOUSANDS)	2004	2003	2002
Federal income tax at statutory rates	$ 3,515	$ 2,733	$ 1,995
State taxes, net of federal benefit	414	241	264
Reduction in income tax reserves	(597)	-	-
Other, net	(4)	79	(128)
Income tax expense	$ 3,328	$ 3,053	$ 2,131

The reduction in income tax reserves was due to a $0.6 million reduction in income tax liabilities associated with prior tax years that are now audited and closed.

Deferred income taxes reflect the net effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Significant components of our deferred tax assets and liabilities are as follows:

(IN THOUSANDS)	FISCAL YEAR 2004	FISCAL YEAR 2003
Deferred tax assets		
Allowance for doubtful accounts	$ 1,794	$ 1,720
Inventory reserve	122	114
Allowance for payor discounts	608	538
Other reserves	662	301
Vacation accrual	231	191
Accrued expenses	96	202
Depreciation	-	79
Deferred tax assets subtotal	3,513	3,145
Deferred tax liabilities		
Sales tax refunds receivable	(52)	(52)
Prepaid assets	(548)	(407)
Goodwill amortization	(1,932)	(1,104)
Depreciation	(6)	-
Deferred tax liabilities subtotal	(2,538)	(1,563)
Net deferred tax assets	$ 975	$ 1,582

7. SHAREHOLDERS' EQUITY

We have 5,000,000 shares of $.01 par value Preferred Stock authorized and issuable in one or more series as the Board of Directors may determine, none of which are outstanding. We have 40,000,000 authorized shares of $.01 par value Common Stock. There are no restrictions on retained earnings.

We have four employee Stock Option Plans (1994, 1997, 1999 and 2001). Options to purchase our Common Stock are granted to employees at 100% of fair market value on the grant date and generally become exercisable at 20% of the total grant at the end of each year. In addition, the August 2002 option grants included an accelerated vesting provision based on defined increases in the price of the Company's common stock. The options are cumulatively exercisable and expire seven years after the grant date. In fiscal 2004 options to purchase common stock granted to employees will become exercisable at 34%, 33%, and 33% of the total grant at the end of each of three consecutive years and will expire ten years after the grant date.

In August 2002, the Compensation Committee of the Board of Directors approved restricted stock grants to our officers totaling 145,000 shares of restricted common stock under our 2001 Stock Incentive Plan. These restricted shares, valued at $683,000 based on our fair market value of $4.71 per common share at the date of grant, were to be recognized as compensation expense over the four year vesting period of the grant, subject to an acceleration provision based on increases in our stock price. In October 2002, 20,000 of these shares were cancelled. The remaining 125,000 restricted shares vested by March 2003 as provided by the grant acceleration provision. We recognized compensation expense of $367,000, net of tax, or $0.03 per share in fiscal 2003.

We also have a director performance Stock Option Plan that reserved 300,000 shares of Common Stock for option grants. The options are granted with exercise prices equal to market value on the date of the grant. The options become exercisable after seven years and expire ten years after the date of grant. Certain acceleration provisions apply if the stock price increases significantly prior to the end of seven years. Grants under this plan are made upon a director's first election to our Board. Thereafter, directors receive annual grants under one of the four option plans available to employees.

Stock option activity is summarized as follows:

		OPTIONS OUTSTANDING		OPTIONS EXERCISABLE	
	SHARES AVAILABLE FOR GRANT	NUMBER OF SHARES	WEIGHTED AVERAGE PRICE PER SHARE	NUMBER OF SHARES	WEIGHTED AVERAGE PRICE PER SHARE
Balance June 29, 2001	1,951,046	2,404,252	$ 9.90	1,271,303	$ 10.97
Granted	(591,900)	591,900	5.51		
Exercised	-	(2,000)	7.09		
Cancelled	1,345,532	(1,345,532)	10.48		
Expired	(55,840)	-			
Balance June 28, 2002	2,648,838	1,648,620	7.85	598,588	9.16
Options granted	(604,867)	604,867	5.25		
Restricted stock granted	(125,000)	-			
Exercised	-	(45,700)	6.33		
Cancelled	235,925	(235,925)	8.50		
Balance June 27, 2003	2,154,896	1,971,862	7.01	1,187,504	7.15
Options granted	(1,004,096)	1,004,096	10.36		
Exercised	-	(220,995)	6.80		
Cancelled	286,560	(286,560)	9.50		
Expired	(5,800)				
Balance July 2, 2004	1,431,560	2,468,403	$ 8.10	1,135,217	$ 6.89

The following table summarizes information about stock options outstanding at July 2, 2004.

	OPTIONS OUTSTANDING			OPTIONS EXERCISABLE	
RANGE OF EXERCISE PRICES	NUMBER OF SHARES	WEIGHTED AVERAGE REMAINING CONTRACTUAL LIFE	WEIGHTED AVERAGE PRICE PER SHARE	NUMBER OF SHARES	WEIGHTED AVERAGE PRICE PER SHARE
$ 4.33 - 5.03	481,607	5.1 yrs	$ 4.87	460,907	$ 4.87
5.24 - 5.28	291,600	4.1 yrs	5.25	112,380	5.25
5.56 - 7.87	452,100	4.1 yrs	7.16	254,400	7.14
8.13 - 10.44	298,931	5.3 yrs	8.49	135,195	8.30
10.75	751,630	9.1 yrs	10.70	-	-
10.76 - 14.63	192,535	1.4 yrs	11.92	172,335	11.89
$ 4.33 - 14.63	2,468,403	5.7 yrs	$ 8.10	1,135,217	$ 6.89

8. EMPLOYEE BENEFIT PLANS

We have a qualified 401(k) Employee Savings Plan covering substantially all employees. Our required contributions to the Plan, representing 401(k) matching contributions only, were $211,000, $216,000, and $209,000 in fiscal 2004, 2003, and 2002, respectively.

We have an Employee Stock Purchase Plan. We issued 60,229 shares, 18,115 shares, and 35,187 shares of common stock under the plan during fiscal 2004, 2003, and 2002, respectively. We had 13,607 shares available for purchase under the Plan at July 2, 2004.

9. RELATED PARTY TRANSACTIONS

On April 9, 1997, we entered into a guaranty of a personal loan with U.S. Bank on behalf of Maurice R. Taylor, at the time our Chairman and Chief Executive Officer. Taylor's U.S. Bank loan allowed him to avoid liquidation of a substantial number of our shares pledged as security. The balance of indebtedness under the guaranty was $675,000 on June 30, 2000. On July 1, 2000, Taylor resigned as Chairman and became Chairman and CEO of our wholly-owned subsidiary, MEDgenesis Inc. MEDgenesis assumed our guaranty of Taylor's loan on that date, and subsequently loaned Taylor funds sufficient to pay off his debt to U.S. Bank. U.S. Bank extinguished our guaranty at that time and Taylor gave MEDgenesis a promissory note, due December 31, 2001, a residential mortgage, and a pledge agreement. Taylor's term as a Director ended on November 27, 2000.

When we sold the MEDgenesis assets to Medisys on January 5, 2001, Medisys did not acquire the Taylor promissory note, pledge agreement, or mortgage. Accordingly, these commitments remained assets belonging to us as parent company. Taylor failed to pay the full balance due on the note when it came due on December 31, 2001 and defaulted under the terms of the note and residential mortgage. As a result we fully reserved for this note. We commenced a lawsuit against Taylor to obtain a judgment for the sum due and an order permitting foreclosure of the residential mortgage. On August 15, 2003 the parties agreed to a settlement and pursuant to the settlement, the Court dismissed the lawsuit. The Settlement Agreement and its terms are confidential. Because we fully reserved for this note, any subsequent collections from Mr. Taylor have been or will be recognized as other income. The Company recognized $150,000 as other income in fiscal 2004. As of August 13, 2004, the note has been paid in full.

10. SIGNIFICANT CONCENTRATIONS

Payor reimbursements from Aetna, Inc. represented 20%, 24%, and 26% of our revenue in fiscal 2004, 2003, and 2002, respectively. No other private payor or single government agency represented more than 10% of our revenues. Our Specialty Pharmacy Mail Service Vendor Agreement with Aetna is effective until December 31, 2004. On August 2, 2004, Aetna announced their intention to form a jointly owned specialty pharmacy business with Priority Healthcare. The new facility is expected to be operational by the third quarter of calendar year 2005. As a result of this announcement, we expect a significant reduction in sales volume with Aetna to occur in our fiscal first quarter of 2006.

We signed a contract with Roche Laboratories Inc. in March 2003, which expired in April 2004, to be the exclusive U.S. distributor of Fuzeon(R), its new HIV medication, during the initial twelve month progressive distribution phase. Fuzeon(R) sales contributed approximately 12% and 1% of our revenue or $67.7 million and $4.5 million in fiscal 2004 and 2003, respectively. Although Fuzeon(R) is now available through retail and specialty pharmacies, Chronimed will continue to be a distributor for Fuzeon(R) and the exclusive distributor for Fuzeon(R) patients receiving their medications through Roche's Patient Assistance Program.

We signed a three-year wholesaler agreement with Cardinal Health, a large national distributor, for the majority of our pharmaceutical purchases effective August 2003. We used McKesson Corporation, another large national distributor, for the majority of our pharmaceutical purchases in fiscal 2003 and 2002 and until August 2003 in our fiscal 2004. Cardinal Health made up approximately 79% of our inventory purchases in fiscal 2004. McKesson Corporation made up approximately 89% and 92% of our inventory purchases for fiscal 2003 and 2002, respectively. In the event that we are unable to purchase pharmaceuticals through Cardinal Health, we believe we would be able to purchase the same inventory through other national pharmaceutical distributors under similar terms and conditions.

Our primary concentration of credit risk is third party payor accounts receivable, which consist of amounts owed by various governmental agencies and insurance companies. We manage our receivables by regularly reviewing accounts and contracts and by providing appropriate allowances for uncollectible amounts. Aetna, Inc. represented 7% and 16% of our accounts receivable balance for the fiscal years ended 2004 and 2003, respectively. No other private payor or single government agency represented more than 10% of our accounts receivable balances. Concentration of credit risk relating to accounts receivable is limited to some extent by the diversity and number of patients and payors and the geographic dispersion of our operations.

11. BUSINESS SEGMENT INFORMATION

For fiscal year 2004, we are operating and reporting in one segment. Previously, we had identified two reportable operating segments, Mail Service and Retail, based on separate management, emphasis on different diseases, and a different distribution method for each segment. Three primary factors have diminished the distinction between Mail Service and Retail. First, we consolidated critical elements. In fiscal 2002, we transferred our Kansas City retail headquarters to Minneapolis and consolidated our accounts receivable and collection, accounting, and information service functions into a single location. In addition, we changed our management structure from a vice president for each of our then-defined operating segments to one vice president for all operations.

Second, over the past year we have begun to serve persons living with HIV/AIDS and persons with organ transplants at both our Retail and Mail Service pharmacies. In the past, our Retail pharmacies had predominantly served persons living with HIV/AIDS, and our Mail Service pharmacies had served persons with organ transplants and others needing biotech injectable medications. In fiscal 2003 we began to serve many more persons with organ transplants through our Retail pharmacies. We also entered into an agreement with Roche Laboratories Inc. in fiscal 2003 to distribute Fuzeon(R) to persons with HIV/AIDS. We distribute this drug through both our Mail Service and Retail pharmacies.

Third, we have added mail service capabilities to our retail pharmacies as an enhancement to the local "walk-in" business model. In summary, although we continue to apply two primary distribution methods, the distribution method no longer drives the decisions made by our chief decision makers regarding resource allocation. The chief decision makers regularly review financial information related to, and make operating decisions based on, a number of factors including disease state, drugs, payors, and dispensing location in order to efficiently distribute prescription drugs and provide specialized therapy management services.

12. CONTINGENCIES

On June 15, 2001, a putative class action lawsuit captioned Judith Barclay v. Chronimed Inc., et. al. (01-CV-1092 DWF) was commenced in the United States District Court for the District of Minnesota against Chronimed and certain of our current and former officers. The Complaint alleges that Chronimed and individual defendants violated Section 10(b) of the Securities Exchange Act of 1934 and Rule 10(b)-5 promulgated thereunder, and that the individual defendants violated Section 20(a) of the Exchange Act. Eight other lawsuits asserting claims identical to the Barclay case were filed and the nine lawsuits were consolidated into a single case. On July 11, 2003, the Company and plaintiffs agreed to settle the case and all claims. The settlement was approved by the court on June 21, 2004.. The $2.2 million settlement amount is being fully funded by Company insurance.

We have been engaged in discussions with the United States Attorney for the District of Columbia regarding certain claims for reimbursement we submitted to DC Medicaid between January and April 2000. The U.S. Attorney has asserted that these claims were a result of an attempt by a DC resident to defraud the Medicaid system and divert pharmaceuticals. We have denied wrongdoing. We have reached a tentative settlement of the government's claims, which would result in a repayment of $475,000, for which we are fully reserved. Negotiations regarding a formal settlement agreement are ongoing.

Healthcare payors, whether private insurers or government funded programs, routinely audit providers' billing processes, records, and legal or contractual compliance. Audits frequently can and do result in requests for repayment of previously recorded revenues. We have established a reserve to reflect the possibility that revenues could be subject to repayment as a result of payor audits.

13. QUARTERLY RESULTS - UNAUDITED

The following tables present our results of operations and earnings per share on a quarterly basis for fiscal 2004 and 2003.

QUARTERLY RESULTS

(IN THOUSANDS, EXCEPT PER SHARE DATA)	FISCAL 2004 QUARTER 1 SEP 26, 2003 (13 WEEKS)	QUARTER 2 DEC 26, 2003 (13 WEEKS)	QUARTER 3 MAR 28, 2004 (13 WEEKS)	QUARTER 4 JUL 2, 2004 (14 WEEKS)	YEAR ENDED JUL 2, 2004 (53 WEEKS)
Revenue	$128,602	$131,361	$142,342	$157,659	$559,964
Gross profit	15,175	15,597	15,366	16,791	62,929
Net income	2,003	1,461	1,516	2,031	7,011
Basic net income per share	$ 0.16	$ 0.12	$ 0.12	$ 0.16	$ 0.55
Diluted net income per share	$ 0.15	$ 0.11	$ 0.12	$ 0.16	$ 0.54
Basic weighted average shares	12,583	12,663	12,706	12,729	12,671
Diluted weighted average shares	13,096	12,990	13,032	12,938	13,000

Our net income for the first quarter ended September 26, 2003, included a $0.6 million income tax benefit resulting from a reduction in income tax liabilities associated with prior tax years audited and closed in the fiscal year.

Our revenue, gross profit, and net income for the fourth quarter ended July 2, 2004, include approximately $11.3 million, $1.2 million, and $0.4 million respectively, relating to the extra week provided in fiscal 2004.

(IN THOUSANDS, EXCEPT PER SHARE DATA)	FISCAL 2003 QUARTER 1 SEP 27, 2003 (13 WEEKS)	QUARTER 2 DEC 27, 2002 (13 WEEKS)	QUARTER 3 MAR 28, 2002 (13 WEEKS)	QUARTER 4 JUN 27, 2003 (13 WEEKS)	YEAR ENDED JUN 27, 2003 (52 WEEKS)
Revenue	$ 99,893	$108,636	$111,804	$115,380	$435,713
Gross profit	11,976	13,660	13,602	13,884	53,122
Net income	975	1,387	1,229	1,394	4,985
Basic and diluted net income per share	$ 0.08	$ 0.11	$ 0.10	$ 0.11	$ 0.40
Basic weighted average shares	12,353	12,353	12,400	12,368	12,356
Diluted weighted average shares	12,363	12,444	12,644	12,754	12,512

Our net income for the third quarter ended March 28, 2003 included a $0.3 million compensation charge, net of tax, relating to the accelerated vesting of restricted stock grants.

14. SUBSEQUENT EVENTS

On August 9, 2004, we announced that the boards of directors of Chronimed Inc. and MIM Corporation (Nasdaq: MIMS - News) had unanimously approved a strategic merger and that the companies had signed a definitive merger agreement. The combined company, which will be named BioScrip Inc. will have broad disease coverage, focused therapy management, expansive national retail and mail distribution capabilities and a solid PBM platform. Based on financial results reported by each company for the twelve month periods ended June 30, and July 2, 2004, respectively, the two companies generated combined revenues of approximately $1.1 billion and pretax income of $20.9 million. Upon consummation of the merger, each Chronimed shareholder will receive 1.025 MIM shares for each Chronimed share held. MIM expects to issue approximately 13.5 million shares to Chronimed shareholders in the merger. Following the merger, Chronimed shareholders would own approximately 37% of the new company and MIM shareholders will own approximately 63%. The transaction is structured as a tax-free reorganization for both companies and their respective shareholders. The closing of the merger is subject to approval of both companies' shareholders and is expected to occur in December 2004.

Subsequent to July 2, 2004, a legal action was commenced on August 16, 2004 in Hennepin County District Court in Minneapolis, Minnesota against Chronimed and its Board of Directors relating to the merger. The plaintiff alleges, among other things, that Chronimed's Board of Directors breached fiduciary duties owed to Chronimed's shareholders in structuring the terms of the pending merger with MIM Corporation in a manner that is favorable to defendants and unfair and harmful to Chronimed's shareholders. The plaintiff in that action seeks to have the court certify his individual action as a class action on behalf of a class of Chronimed shareholders.

While there is no assurance that Chronimed will prevail, Chronimed believes that the action is without merit and intends to vigorously defend against it. An unfavorable outcome in the legal action could delay or prevent completion of the merger.

CHRONIMED INC.
SCHEDULE II -- VALUATION AND QUALIFYING ACCOUNTS AND RESERVES
(IN THOUSANDS)

COLUMN A	COLUMN B	COLUMN C		COLUMN D	COLUMN E
DESCRIPTION	BALANCE AT BEGINNING OF PERIOD	CHARGED TO COSTS AND EXPENSES	CHARGED TO OTHER ACCOUNTS - DESCRIBE	DEDUCTIONS - DESCRIBE	BALANCE AT END OF PERIOD
Year ended July 2, 2004					
Reserves and allowances deducted from asset accounts:					
Allowance for doubtful accounts	$ 4,525	$ 3,961	$ -	$ 3,766 (3)	$ 4,720
Allowance for payor discounts	1,415		9,367 (1)	9,181 (2)	1,601
	$ 5,940	$ 3,961	$ 9,367	$ 12,947	$ 6,321
Year ended June 27, 2003					
Reserves and allowances deducted from asset accounts:					
Allowance for doubtful accounts	$ 5,428	$ 3,204	$ -	$ 4,107 (3)	$ 4,525
Allowance for payor discounts	3,495	-	10,119 (1)	12,199 (2)	1,415
	$ 8,923	$ 3,204	$ 10,119	$ 16,306	$ 5,940
Year ended June 28, 2002					
Reserves and allowances deducted from asset accounts:					
Allowance for doubtful accounts	$ 4,490	$ 3,504	$ -	$ 2,566 (3)	$ 5,428
Allowance for payor discounts	5,174	-	23,051 (1)	24,730 (2)	3,495
	$ 9,664	$ 3,504	$ 23,051	$ 27,296	$ 8,923

(1) Estimated payor discounts charged to revenue

(2) Actual payor discounts taken

(3) Uncollectible accounts written off, net of recoveries

CHRONIMED INC.
CONSOLIDATED BALANCE SHEETS
(IN THOUSANDS)

	DECEMBER 31, 2004 (UNAUDITED)	JULY 2, 2004
ASSETS		
Current assets		
Cash and cash equivalents	$ 20,698	$ 16,624
Short-term investments	-	1,507
Accounts receivable (net of allowances of $7,075 and $6,321, respectively)	39,987	41,932
Inventory	10,553	10,348
Prepaid expenses	3,662	1,441
Income taxes receivable	356	220
Deferred taxes	2,250	2,913
Total current assets	77,506	74,985
Property and equipment, net	4,407	4,942
Goodwill	34,480	34,480
Other assets, net	143	147
Total assets	$ 116,536	$114,554
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Accounts payable	$ 12,291	$ 12,486
Accrued expenses	4,414	3,865
Accrued bonus	885	1,654
Total current liabilities	17,590	18,005
Deferred taxes	2,201	1,938
Shareholders' equity		
Preferred stock	-	-
Common stock, issued and outstanding shares--12,824 and 12,823, respectively	128	128
Additional paid-in capital	58,344	58,332
Retained earnings	38,273	36,151
Total shareholders' equity	96,745	94,611
Total liabilities and shareholders' equity	$ 116,536	$114,554

See notes to consolidated financial statements

CHRONIMED INC.
CONSOLIDATED STATEMENTS OF INCOME
(IN THOUSANDS, EXCEPT PER SHARE DATA)
(UNAUDITED)

	THREE MONTHS ENDED		SIX MONTHS ENDED	
	DECEMBER 31, 2004	DECEMBER 26, 2003	DECEMBER 31, 2004	DECEMBER 26, 2003
Revenue	$ 146,408	$ 131,361	$ 289,033	$ 259,963
Cost of revenue	130,649	115,764	257,667	229,191
Gross profit	15,759	15,597	31,366	30,772
Operating expenses				
Selling and marketing	1,381	1,430	2,871	2,752
General and administrative	10,683	11,016	21,269	21,719
Merger related costs	1,195	-	2,091	-
Bad debt	1,015	920	2,056	1,854
Total operating expenses	14,274	13,366	28,287	26,325
Income from operations	1,485	2,231	3,079	4,447
Interest income, net	104	45	148	96
Other income	-	75	251	75
Income before income taxes	1,589	2,351	3,478	4,618
Income tax expense	(619)	(890)	(1,356)	(1,154)
Net income	$ 970	$ 1,461	$ 2,122	$ 3,464
Basic net income per share	$ 0.08	$ 0.12	$ 0.17	$ 0.27
Diluted net income per share	$ 0.07	$ 0.11	$ 0.16	$ 0.27
Basic weighted-average shares	12,824	12,663	12,824	12,623
Diluted weighted-average shares	12,941	12,990	12,961	13,042

See notes to consolidated financial statements

CHRONIMED INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(IN THOUSANDS)
(UNAUDITED)

	SIX MONTHS ENDED	
	DECEMBER 31, 2004	DECEMBER 26, 2003
Operating activities		
Net income	$ 2,122	$ 3,464
Adjustments to reconcile income to net cash (used in) provided by operating activities:		
Depreciation and amortization	1,177	1,135
Deferred income taxes	926	-
Changes in operating assets and liabilities:		
Accounts receivable	1,945	(2,174)
Income taxes	(136)	(772)
Inventory	(205)	(3,515)
Accounts payable	(195)	(1,628)
Accrued expenses	(220)	133
Other assets	(2,217)	(1,298)
Net cash provided by (used in) operating activities	3,197	(4,655)
Investing activities		
Purchases of property and equipment	(642)	(1,067)
Sale (Purchase) of short-term investments	1,507	(1,525)
Acquisition of Accent Rx	-	(4,201)
Net cash provided by (used in) investing activities	865	(6,793)
Financing activities		
Net proceeds from issuance of common stock	12	840
Net cash provided by financing activities	12	840
Increase (decrease) in cash and cash equivalents	4,074	(10,608)
Cash and cash equivalents at beginning of year	16,624	22,854
Cash and cash equivalents at end of period	$ 20,698	$ 12,246

See notes to consolidated financial statements

CHRONIMED INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

1. SIGNIFICANT ACCOUNTING POLICIES

BUSINESS

Chronimed Inc. ("Chronimed"), a specialty pharmacy service provider, distributes prescription drugs, coordinates customer benefits, and provides specialized therapy management services for people with certain health conditions, including HIV/AIDS, organ transplants, and other conditions treated with biotech injectable medications. We work with patients, physicians and other health care providers, pharmaceutical manufacturers, health plans and insurers, and government agencies to improve clinical and economic outcomes. We distribute prescription drugs nationally through our Chronimed mail service and StatScript Pharmacy community-based pharmacies. Our patients typically have conditions that are generally not being served by traditional pharmacies, require high-cost, complex medications, and have complex reimbursement characteristics.

BASIS OF PRESENTATION

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments, consisting of normal recurring accruals, considered necessary for a fair presentation have been included. Operating results for the six months ended December 31, 2004, are not necessarily indicative of the results that may be expected for the fiscal year ending July 1, 2005. The balance sheet at July 2, 2004, has been derived from the audited financial statements at that date, but does not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. For further information, refer to the consolidated financial statements and footnotes thereto included in our Annual Report on Form 10-K for the fiscal year ended July 2, 2004.

FISCAL YEAR

We use a four-week, four-week, five-week (4-4-5) quarterly accounting cycle with the fiscal year ending on the Friday closest to June 30 and the fiscal quarters ending on the Friday closest to the last day of the respective month. Fiscal 2005 will include 52 weeks with the year ending July 1, 2005. Fiscal 2004 included 53 weeks (14 weeks in the fourth quarter) with the year ending July 2, 2004.

REVENUE RECOGNITION

Revenue is recognized at the time prescriptions are shipped to or picked up by the patient. We participate in various third-party provider networks, Medicare, and state Medicaid programs. Under a majority of these networks, the amount to be paid for our products is determined (or "adjudicated") through electronic connections with these networks at the time of sale. However, for certain payors for which there is no electronic adjudication process available at the time of sale, we bill a standard list price (versus a known contracted price) and then simultaneously determine an appropriate estimate for expected payor discount based on our reimbursement history for each payor class. This reimbursement history is updated quarterly. Revenue is then reported net of the estimated payor discounts and adjusted in future periods as final settlements are determined.

STOCK-BASED COMPENSATION

We have adopted the disclosure-only provisions of Statement of Financial Accounting Standards No. 123 (Statement No. 123), "Accounting for Stock-Based Compensation," as amended by Statement of Financial Accounting Standards No. 148 but apply Accounting Principles Board Opinion No. 25 (APB 25) and related interpretations in accounting for our stock plans. Under APB 25, when the exercise price of an employee stock option equals the market price of the underlying stock on the date of grant, no compensation expense is recognized. The following table illustrates the effect on net income and earnings per share if we had applied the fair value recognition provisions of Statement No. 123 to stock-based employee compensation.

(IN THOUSANDS, EXCEPT PER SHARE DATA)	THREE MONTHS ENDED DECEMBER 31, 2004	THREE MONTHS ENDED DECEMBER 26, 2003	SIX MONTHS ENDED DECEMBER 31, 2004	SIX MONTHS ENDED DECEMBER 26, 2003
Net income - as reported	$ 970	$ 1,461	$ 2,122	$ 3,464
Deduct pro forma stock-based employee compensation cost, net of related tax effects	(433)	(428)	(878)	(795)
Net income - pro forma	$ 537	$ 1,033	$ 1,244	$ 2,669
Earnings per share - basic as reported	$ 0.08	$ 0.12	$ 0.17	$ 0.27
Earnings per share - basic pro forma	$ 0.04	$ 0.08	$ 0.10	$ 0.21
Earnings per share - diluted as reported	$ 0.07	$ 0.11	$ 0.16	$ 0.27
Earnings per share - diluted pro forma	$ 0.04	$ 0.08	$ 0.10	$ 0.21

ACCOUNTS RECEIVABLE ALLOWANCES

Allowance for Doubtful Accounts

We determine an allowance for doubtful accounts amount based upon an analysis of the aging of the accounts receivable and historical write-off experience. Bad debt expense is recorded as an operating expense in our Consolidated Statements of Income.

Allowance for Payor Discounts

We determine an allowance for payor discounts based on an analysis of historical payment experience. Payor discount allowances are recorded as offsets to revenue in our Consolidated Statements of Income.

INVENTORIES

Inventories consist of goods held for resale and are carried at the lower of cost or market determined under the average cost method.

CASH AND CASH EQUIVALENTS

We consider all investments with an original maturity of 90 days or less when purchased to be cash equivalents. Cash equivalents are carried at cost, which approximates fair market value, and consist principally of money market accounts and securities of AAA-rated government agencies.

SHORT-TERM INVESTMENTS

We classify our investments with maturities of over 90 days when purchased as available-for-sale. These investments are stated at market value, with any material unrealized gains or losses, net of tax, included as a component of shareholders' equity until realized. Interest income is included as a component of current earnings. As of December 31, 2004 we held no short-term investments.

PER SHARE DATA

Net income per share is calculated in accordance with Financial Accounting Standards Board Statement No. 128, "Earnings per Share." Potential common shares are included in the diluted net income per share calculation when dilutive. Potential common shares consisting of common stock issuable upon exercise of outstanding common stock options are computed using the treasury stock method. Our basic net income per share is computed by dividing net income by the weighted average number of common shares outstanding during the period. Diluted net income per share is computed by dividing net income by the weighted average number of common shares outstanding during the period, increased to include dilutive potential common shares issuable upon the exercise of stock options that were outstanding during the period. The table below is a reconciliation of the numerator and denominator in the basic and diluted net income per share calculation.

(IN THOUSANDS, EXCEPT PER SHARE DATA)	THREE MONTHS ENDED DECEMBER 31, 2004	DECEMBER 26, 2003	SIX MONTHS ENDED DECEMBER 31, 2004	DECEMBER 26, 2003
Numerator				
Net income	$ 970	$ 1,461	$ 2,122	$ 3,464
Denominator				
Denominator for basic net income per share - weighted average shares outstanding	12,824	12,663	12,824	12,623
Effect of dilutive stock options	117	327	137	419
Denominator for diluted net income per share - weighted average shares outstanding	12,941	12,990	12,961	13,042
Basic net income per share	$ 0.08	$ 0.12	$ 0.17	$ 0.27
Diluted net income per share	$ 0.07	$ 0.11	$ 0.16	$ 0.27

Employee stock options of 1,556,274 and 1,545,024 for the second quarter and six months ended December 31, 2004, respectively, have been excluded from the diluted net income per share calculation because their effect would be antidilutive. For the second quarter and six months ended December 26, 2003, employee options of 1,112,021 and 1,009,185, respectively, have been excluded from the diluted net income per share calculation because their effect would be antidilutive.

NEW ACCOUNTING PRONOUNCEMENTS

In December 2004, the FASB issued Statement 123R, "Share-Based Payment," to be effective for interim or annual periods beginning after June 15, 2005; thereby becoming effective for Chronimed in the first quarter of fiscal 2006. Statement 123R requires all share-based payments to employees, including grants of employee stock options, to be recognized as an operating expense in the income statement. The cost is recognized over the requisite service period based on fair values measured on grant dates. The new standard may be adopted using either the modified prospective transition method or the modified retrospective method. We are currently evaluating our share-based employee compensation programs, the potential impact of this statement on our consolidated financial position and results of operations, and the alternative adoption methods.

2. SIGNIFICANT CONCENTRATIONS

Payor reimbursements from Aetna, Inc., a single large contracted payor, represented approximately 21% of our revenue in the second quarter of fiscal 2005 and 19% in the second quarter of fiscal 2004. In fiscal 2004, Aetna announced that its contracted specialty pharmacy business, which is currently served by three providers, of which one is Chronimed, would be consolidated into a new joint venture, named Aetna Specialty Pharmacy, with another provider.

Aetna indicated that this new business will begin in 2005 and that it expected to transition the business fully into Aetna Specialty Pharmacy by the calendar third quarter of 2005. In November 2004, Aetna notified Chronimed that its specialty pharmacy distribution contract would terminate on February 28, 2005. No other private payor or single government agency represented more than 10% of our revenues.

Our one-year contract with Roche Laboratories Inc. to be the exclusive U.S. distributor of Fuzeon(R) during the initial twelve month progressive distribution phase expired in April 2004. Fuzeon sales represented 7.3% and 7.8% of our revenue in the second quarter of fiscal 2005 and for the six months ended December 31, 2004, or $10.8 million and $22.8, million respectively. Although Fuzeon is now available through retail and specialty pharmacies, Chronimed continues to be a distributor for Fuzeon and is the exclusive distributor for Fuzeon patients receiving their medications through Roche's Patient Assistance Program.

We signed a three-year wholesaler agreement with Cardinal Health, a large national distributor, for the majority of our pharmaceutical purchases effective August 2003 in our fiscal 2004. We used McKesson Corporation, another large national distributor, for the majority of our pharmaceutical purchases until August 2003. Cardinal Health made up 90% of our inventory purchases in the second quarter of fiscal 2005, and Cardinal Health and McKesson together made up 77% of our inventory purchases for the second quarter of fiscal 2004. Following the expiration of our one-year contract with Roche Laboratories Inc., we began purchasing Fuzeon from Cardinal Health rather than from Roche, which increased our purchasing concentration with Cardinal Health. In the event that we are unable to purchase pharmaceuticals through Cardinal Health, we believe we would be able to purchase the same inventory through other national pharmaceutical distributors, although the terms and conditions could be less favorable to Chronimed.

Our primary concentration of credit risk is third party payor accounts receivable, which consist of amounts owed by various governmental agencies and insurance companies. We manage our receivables by regularly reviewing accounts and contracts and by providing appropriate allowances for uncollectible amounts. No private payor or single government agency represented more than 10% of our accounts receivable balances. Concentration of credit risk relating to accounts receivable is limited to some extent by the diversity and number of patients and payors and the geographic dispersion of our operations.

3 COMPREHENSIVE INCOME

Net income equaled comprehensive income for the respective periods.

4 INCOME TAXES

Our income tax rate was 39.0% for the three and six months ended December 31, 2004. Our income tax rate was 37.9% and 25.0% for the three and six months ended December 26, 2003, respectively. The income tax rate for the six months ended December 26, 2003 was impacted by the reversal of $0.6 million of previously provided income tax expense because the tax contingencies were resolved. Without this reduction, our income tax rate would have been 37.9% for the three and six months ended December 26, 2003. We expect our combined fiscal 2005 Federal and State tax rate to approximate 39% due to expanded business in higher-taxed states.

5. ACQUISITION OF ACCENT RX

On December 9, 2003, we purchased certain assets of Accent Rx for $4.2 million in cash. Accent Rx was a specialty mail service pharmacy focusing primarily on the distribution of pharmaceutical products to individuals living with HIV/AIDS and post-organ transplants. Accent Rx has been integrated into our existing mail service operations. We paid cash for customer prescription records and allocated the $4.2 million purchase price as goodwill.

Beginning December 10, 2003, customers of Accent Rx were served through Chronimed's mail service operations, resulting in approximately $3.0 million in revenue during the quarter ended December 31, 2004.

The following unaudited pro forma combined financial information is in accordance with Statement of Financial Accounting Standards No. 141, "Business Combinations," and is based on the respective historical financial results of Chronimed and Accent Rx, Inc. as though the business combination had been completed as of the beginning of the periods presented.

(IN THOUSANDS, EXCEPT PER SHARE DATA)	THREE MONTHS ENDED DECEMBER 26, 2003	SIX MONTHS ENDED DECEMBER 26, 2003
Revenue	$134,829	$268,801
Income from operations	1,689	3,505
Net income	1,157	2,572
Earnings per share - basic	$ 0.09	$ 0.20
Earnings per share - diluted	$ 0.09	$ 0.20

6. PROPOSED MERGER

On August 9, 2004, we announced that the boards of directors of Chronimed Inc. and MIM Corporation (Nasdaq: MIMS) had unanimously approved a strategic merger and that the companies had signed a definitive merger agreement. On January 4, 2005, the companies agreed to an amendment to the original agreement. It is expected that the combined company, which will be named BioScrip Inc., will have broad disease coverage, focused therapy management, expansive national retail and mail distribution capabilities and a solid PBM platform. Based on financial results reported by each company for the twelve month periods ended June 30, and July 2, 2004, respectively, the two companies generated combined revenues of approximately $1.1 billion and pretax income of $20.9 million. Upon consummation of the merger, each Chronimed shareholder will receive 1.12 MIM shares for each Chronimed share held. MIM expects to issue approximately 14.4 million shares to Chronimed shareholders in the merger. Following the merger, Chronimed shareholders will own approximately 40% of the new company and MIM shareholders will own approximately 60%. The transaction is structured as a tax-free reorganization for both companies and Chronimed's shareholders. The closing of the merger is subject to approval of both companies' shareholders and is expected to occur in March 2005.

EXHIBIT 23.1

Consent of Independent Registered Public Accounting Firm

We consent to the incorporation by reference in the Registration Statements (Form S-8 Nos. 333-79395, 333-33905 and 333-107306) pertaining to the 1996 Non-Employee Directors Stock Incentive Plan of BioScrip, Inc., the Registration Statement (Form S-8 No. 333-107307) pertaining to the 2001 Incentive Stock Plan of BioScrip, Inc., the Registration Statement (Form S-8 No. 333-123701) pertaining to the 2001 Incentive Stock Plan of BioScrip, Inc. and the Registration Statement (Form S-8 No. 333-123704) pertaining to the Chronimed Inc. 1994 Stock Option Plan, the Chronimed Inc. 1997 Stock Option Plan, the Chronimed Inc. 1999 Stock Option Plan, the Chronimed Inc. 2001 Stock Incentive Plan and the Chronimed Inc. 1994 Stock Option Plan for Directors of our report dated August 5, 2004 with respect to the consolidated financial statements and schedule of Chronimed Inc. appearing in the Current Report on Form 8-K/A of BioScrip, Inc. filed on April 5, 2005

/s/Ernst & Young LLP

Minneapolis, Minnesota
April 5, 2005