

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

Form 10-Q

(Mark One)

- QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934  
For the quarterly period ended March 31, 2016
- OR
- TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934  
For the transition period from to

Commission file number: 0-28740



**BioScrip, Inc.**

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

**Delaware**

*(State of incorporation)*

**1600 Broadway, Suite 950, Denver, Colorado**

*(Address of principal executive offices)*

**05-0489664**

*(I.R.S. Employer Identification No.)*

**80202**

*(Zip Code)*

**Registrant's telephone number, including area code:**

**720-697-5200**

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

Indicate by check mark whether the registrant has submitted electronically and posted to its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

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

Large accelerated filer  Accelerated filer  Non-accelerated filer  Smaller reporting company

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

On May 2, 2016, there were 68,780,241 shares of the registrant's Common Stock outstanding.

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**PART I  
FINANCIAL INFORMATION**

**Item 1. Financial Statements**

**BIOSCRIP, INC. AND SUBSIDIARIES  
CONSOLIDATED BALANCE SHEETS  
(in thousands, except share amounts)**

	<b>March 31, 2016</b>	<b>December 31, 2015</b>
	(unaudited)	
<b>ASSETS</b>		
<b>Current assets</b>		
Cash and cash equivalents	\$ 8,051	\$ 15,577
Receivables, less allowance for doubtful accounts of \$56,805 and \$59,689 as of March 31, 2016 and December 31, 2015, respectively	101,770	97,353
Inventory	29,116	42,983
Prepaid expenses and other current assets	19,908	27,772
<b>Total current assets</b>	<b>158,845</b>	<b>183,685</b>
Property and equipment, net	30,484	31,939
Goodwill	308,729	308,729
Intangible assets, net	4,306	5,128
Other non-current assets	1,130	1,161
<b>Total assets</b>	<b>\$ 503,494</b>	<b>\$ 530,642</b>
<b>LIABILITIES AND STOCKHOLDERS' DEFICIT</b>		
<b>Current liabilities</b>		
Current portion of long-term debt	\$ 32,201	\$ 24,380
Accounts payable	53,082	65,077
Amounts due to plan sponsors	3,812	3,491
Accrued interest	2,268	6,898
Accrued expenses and other current liabilities	44,329	52,918
<b>Total current liabilities</b>	<b>135,692</b>	<b>152,764</b>
Long-term debt, net of current portion	391,729	393,741
Deferred taxes	410	236
Other non-current liabilities	2,099	1,861
<b>Total liabilities</b>	<b>529,930</b>	<b>548,602</b>
Series A convertible preferred stock, \$.0001 par value; 825,000 shares authorized; 635,822 shares issued and outstanding as of March 31, 2016 and December 31, 2015; and, \$71,701 and \$69,702 liquidation preference as of March 31, 2016 and December 31, 2015, respectively	65,088	62,918
<b>Stockholders' deficit</b>		
Preferred stock, \$.0001 par value; 4,175,000 shares authorized; no shares issued and outstanding as of March 31, 2016 and December 31, 2015, respectively	—	—
Common stock, \$.0001 par value; 125,000,000 shares authorized; 71,441,664 and 71,421,664 shares issued and 68,780,241 and 68,767,613 shares outstanding as of March 31, 2016 and December 31, 2015, respectively	8	8
Treasury stock, 2,661,423 and 2,654,051 shares, at cost, as of March 31, 2016 and December 31, 2015, respectively	(10,754)	(10,737)
Additional paid-in capital	530,671	531,764
Accumulated deficit	(611,449)	(601,913)
<b>Total stockholders' deficit</b>	<b>(91,524)</b>	<b>(80,878)</b>
<b>Total liabilities and stockholders' deficit</b>	<b>\$ 503,494</b>	<b>\$ 530,642</b>

See accompanying Notes to Unaudited Consolidated Financial Statements.

**BIOSCRIP, INC. AND SUBSIDIARIES**  
**UNAUDITED CONSOLIDATED STATEMENTS OF OPERATIONS**  
(in thousands, except per share amounts)

	Three Months Ended March 31,	
	2016	2015
<b>Net revenue</b>	\$ 238,462	\$ 244,357
<b>Cost of revenue (excluding depreciation expense)</b>	174,230	179,402
<b>Gross profit</b>	64,232	64,955
Other operating expenses	39,658	41,615
Bad debt expense	7,591	8,346
General and administrative expenses	11,051	11,699
Restructuring, integration, and other expenses, net	2,667	3,704
Depreciation and amortization expense	4,538	5,794
<b>Loss from continuing operations</b>	<b>(1,273)</b>	<b>(6,203)</b>
Interest expense, net	9,412	9,163
Gain on sale of property and equipment	(939)	—
<b>Loss from continuing operations, before income taxes</b>	<b>(9,746)</b>	<b>(15,366)</b>
Income tax provision	23	1,928
<b>Loss from continuing operations, net of income taxes</b>	<b>(9,769)</b>	<b>(17,294)</b>
Income (loss) from discontinued operations, net of income taxes	233	(2,379)
<b>Net loss</b>	<b>(9,536)</b>	<b>(19,673)</b>
Accrued dividends on preferred stock	(1,998)	(453)
Deemed dividends on preferred stock	(172)	(1,164)
<b>Loss attributable to common stockholders</b>	<b>\$ (11,706)</b>	<b>\$ (21,290)</b>
<b>Loss per common share:</b>		
Loss from continuing operations, basic and diluted	\$ (0.17)	\$ (0.28)
Loss from discontinued operations, basic and diluted	—	(0.03)
<b>Loss per common share, basic and diluted</b>	<b>\$ (0.17)</b>	<b>\$ (0.31)</b>
<b>Weighted average common shares outstanding, basic and diluted</b>	<b>68,771</b>	<b>68,637</b>

See accompanying Notes to Unaudited Consolidated Financial Statements.

**BIOSCRIP, INC. AND SUBSIDIARIES**  
**UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS**  
(in thousands)

	<b>Three Months Ended</b>	
	<b>March 31,</b>	
	<b>2016</b>	<b>2015</b>
<b>Cash flows from operating activities:</b>		
Net loss	\$ (9,536)	\$ (19,673)
Less: income (loss) from discontinued operations, net of income taxes	233	(2,379)
Loss from continuing operations, net of income taxes	(9,769)	(17,294)
Adjustments to reconcile net loss from continuing operations, net of income taxes to net cash (used in) operating activities:		
Depreciation and amortization	4,538	5,794
Amortization of deferred financing costs and debt discount	1,003	780
Change in fair value of contingent consideration	51	21
Change in deferred income taxes	174	1,927
Compensation under stock-based compensation plans	1,474	1,657
Gain on sale of property and equipment	(939)	—
Changes in assets and liabilities:		
Receivables, net of bad debt expense	(4,417)	799
Inventory	13,867	(4,666)
Prepaid expenses and other assets	7,897	(854)
Accounts payable	(11,995)	995
Amounts due to plan sponsors	321	(1,511)
Accrued interest	(4,630)	(4,585)
Accrued expenses and other liabilities	(2,548)	(9,689)
Net cash (used in) operating activities from continuing operations	(4,973)	(26,626)
Net cash (used in) operating activities from discontinued operations	(5,989)	(1,421)
<b>Net cash (used in) operating activities</b>	<b>(10,962)</b>	<b>(28,047)</b>
<b>Cash flows from investing activities:</b>		
Purchases of property and equipment, net	(2,429)	(2,066)
Proceeds from sale of property and equipment	1,106	—
<b>Net cash (used in) investing activities</b>	<b>(1,323)</b>	<b>(2,066)</b>
<b>Cash flows from financing activities:</b>		
Proceeds from issuance of convertible preferred stock and warrants, net of issuance costs	—	58,951
Deferred and other financing costs	—	(1,218)
Borrowings on revolving credit facility	21,000	74,963
Repayments on revolving credit facility	(13,000)	(79,963)
Principal payments of long-term debt	(3,137)	—
Repayments of capital leases	(51)	(114)
Other	(53)	—
<b>Net cash provided by financing activities</b>	<b>4,759</b>	<b>52,619</b>
Net change in cash and cash equivalents	(7,526)	22,506
<b>Cash and cash equivalents - beginning of period</b>	<b>15,577</b>	<b>740</b>
<b>Cash and cash equivalents - end of period</b>	<b>\$ 8,051</b>	<b>\$ 23,246</b>
<b>DISCLOSURE OF CASH FLOW INFORMATION:</b>		
Cash paid during the period for interest	\$ 13,143	\$ 13,748
Cash paid during the period for income taxes	\$ 13	\$ 528

See accompanying Notes to Unaudited Consolidated Financial Statements.

**BIOSCRIP, INC. AND SUBSIDIARIES**  
**NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE 1-- BASIS OF PRESENTATION**

These Unaudited Consolidated Financial Statements should be read in conjunction with the Audited Consolidated Financial Statements, including the notes thereto, and other information included in the Annual Report on Form 10-K of BioScrip, Inc. and its wholly-owned subsidiaries (the “Company”) for the year ended December 31, 2015 (the “Annual Report”) filed with the U.S. Securities and Exchange Commission. These Unaudited Consolidated Financial Statements have been prepared in accordance with U.S. generally accepted accounting principles (“GAAP”) for interim financial information, and the instructions to Form 10-Q and Article 10 of Regulation S-X promulgated under the Securities Exchange Act of 1934, as amended (the “Exchange Act”). Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements.

The information furnished in these Unaudited Consolidated Financial Statements reflects all adjustments, including normal recurring adjustments, which are, in the opinion of management, necessary for a fair presentation of the results for the interim periods presented. Operating results for the three months ended March 31, 2016 require management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes and are not necessarily indicative of the results that may be expected for the full year ending December 31, 2016. The accounting policies followed for interim financial reporting are the same as those disclosed in Note 2 of the Audited Consolidated Financial Statements included in the Annual Report.

The Unaudited Consolidated Financial Statements include the accounts of the Company and its wholly-owned subsidiaries. All significant intercompany accounts and transactions have been eliminated in consolidation.

**Reclassifications**

With the sale of the PBM Services segment (the “PBM Business”) in 2015 and the Company’s Home Health Services segment (the “Home Health Business”) in 2014, all prior period financial statements have been reclassified to include the PBM Business and Home Health Business as discontinued operations, along with other reclassifications, as further described in Note 1 in our Annual Report on Form 10-K for the year ended December 31, 2015.

**Collectability of Accounts Receivable**

The following table sets forth the aging of our net accounts receivable (net of allowance for contractual adjustments and prior to allowance for doubtful accounts), aged based on date of service and categorized based on the three primary overall types of accounts receivable characteristics (in thousands):

	March 31, 2016			December 31, 2015		
	0 - 180 days	Over 180 days	Total	0 - 180 days	Over 180 days	Total
Government	\$ 21,183	\$ 10,717	\$ 31,900	\$ 19,944	\$ 11,369	\$ 31,313
Commercial	92,194	22,237	114,431	94,477	20,213	114,690
Patient	7,081	5,163	12,244	5,014	6,025	11,039
<b>Gross accounts receivable</b>	<b>\$ 120,458</b>	<b>\$ 38,117</b>	<b>158,575</b>	<b>\$ 119,435</b>	<b>\$ 37,607</b>	<b>157,042</b>
Allowance for doubtful accounts			(56,805)			(59,689)
<b>Net accounts receivable</b>			<b>\$ 101,770</b>			<b>\$ 97,353</b>

**Recent Accounting Pronouncements**

In March 2016, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2016-09—Compensation—Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting (“ASU 2016-09”). ASU 2016-09 modifies the accounting for share-based payment awards, including income tax consequences, classification of awards as equity or liabilities, and classification on the statement of cash flows. The effective date for ASU 2016-09 is for annual periods beginning after December 15, 2016, and interim periods within those fiscal years. The Company is still assessing the impact of this new standard on its financial statements.

In February 2016, the FASB issued ASU 2016-02—Leases (Topic 842), requiring lessees to recognize a right-of-use asset and a lease liability on the balance sheet for all leases with the exception of short-term leases. For lessees, leases will continue to be classified as either operating or finance leases in the income statement. The effective date of the new standard for public companies is for fiscal years beginning after December 15, 2018 and interim periods within those fiscal years. Early adoption is permitted. The new standard must be adopted using a modified retrospective transition and requires application of the new guidance at the beginning of the earliest comparative period presented. The Company is evaluating the effect that the updated standard will have on its consolidated financial statements and related disclosures.

In July 2015, the FASB issued ASU 2015-11—Inventory (Topic 330): Simplifying the Measurement of Inventory (“ASU 2015-11”). ASU 2015-11 requires that inventory be measured at the lower of cost and net realizable value, and is effective for fiscal years beginning after December 15, 2016, including interim periods within those fiscal years. The amendments in this update should be applied prospectively with earlier application permitted as of the beginning of an interim or annual reporting period. The Company is currently still assessing the impact of this new standard on its financial statements.

In April 2015, the FASB issued ASU 2015-03—Interest—Imputation of Interest (Subtopic 835-20): Simplifying the Presentation of Debt Issuance Costs (“ASU 2015-03”). ASU 2015-03 requires that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. ASU 2015-03 is effective for fiscal years beginning after December 15, 2015, and interim periods within those fiscal years. The Company adopted ASU 2015-03 in the accompanying consolidated financial statements on a retrospective basis. As of March 31, 2016, we have \$3.4 million and \$11.6 million of deferred financing costs that were reclassified from a current and a long-term asset, respectively, to a reduction in the carrying amount of our debt. As of December 31, 2015, we had \$3.3 million and \$12.6 million of deferred financing costs that were reclassified from a current and a long-term asset, respectively, to a reduction in the carrying amount of our debt.

In April 2015, the FASB issued ASU 2015-05—Intangibles—Goodwill and Other—Internal-Use Software (Subtopic 350-40): Customer’s Accounting for Fees Paid in a Cloud Computing Arrangement, which is effective for annual periods, including interim periods within those annual periods, beginning after December 15, 2015. Adoption of this guidance did not have a significant impact on the Company’s results of operations.

In February 2015, the FASB issued ASU 2015-02—Consolidation (Topic 810): Amendments to the Consolidation Analysis, which is effective for public business entities for fiscal years and for interim periods within those fiscal years, beginning after December 15, 2015. Early adoption is permitted, including adoption in an interim period. If an entity early adopts the amendments of this update in an interim period, any adjustments should be reflected as of the beginning of the fiscal year that includes that interim period. A reporting entity may apply the amendments in this update using a modified retrospective approach by recording a cumulative-effect adjustment to equity as of the beginning of the fiscal year of adoption. A reporting entity also may apply the amendments retrospectively. The Company adopted this guidance and it did not have a material impact on the Company’s Consolidated Financial Statements.

In May 2014, the FASB issued ASU 2014-09—Revenue from Contracts with Customers (Topic 606). The guidance requires an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The FASB delayed the effective date to annual reporting periods beginning after December 15, 2017, including interim reporting periods within that reporting period. Earlier application is permitted only as of annual reporting periods beginning after December 15, 2016, including interim reporting periods within that reporting period. In addition, in March and April 2016, the FASB issued new guidance intended to improve the operability and understandability of the implementation guidance on principal versus agent considerations. Both amendments permit the use of either a retrospective or cumulative effect transition method and are effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2017, with early application permitted. The Company is still assessing the impact of this new standard on its financial statements and has not yet selected a transition method.

## **NOTE 2-- LOSS PER SHARE**

The Company presents basic and diluted loss per share for its common stock, par value \$0.0001 per share (“Common Stock”). Basic loss per share is calculated by dividing the net loss attributable to common stockholders of the Company by the weighted average number of shares of Common Stock outstanding during the period. Diluted loss per share is determined by adjusting the profit or loss attributable to stockholders and the weighted average number of shares of Common Stock outstanding adjusted for the effects of all dilutive potential common shares comprised of options granted, unvested restricted stocks, stock appreciation rights, warrants and Series A convertible preferred stock. Potential Common Stock equivalents that have been issued by the Company related to outstanding stock options, unvested restricted stock and warrants are determined using the treasury stock

method, while potential common shares related to Series A Convertible Preferred Stock are determined using the “if converted” method.

The Company's Series A Convertible Preferred Stock, par value \$0.0001 per share (the “Series A Preferred Stock”), is considered a participating security, which means the security may participate in undistributed earnings with Common Stock. The holders of the Series A Preferred Stock would be entitled to share in dividends, on an as-converted basis, if the holders of Common Stock were to receive dividends. The Company is required to use the two-class method when computing loss per share when it has a security that qualifies as a participating security. The two-class method is an earnings allocation formula that determines loss per share for each class of common stock and participating security according to dividends declared (or accumulated) and participation rights in undistributed earnings. In determining the amount of net earnings to allocate to common stockholders, earnings are allocated to both common and participating securities based on their respective weighted-average shares outstanding during the period. Diluted loss per share for the Company's Common Stock is computed using the more dilutive of the two-class method or the if-converted method.

The following table sets forth the computation of basic and diluted loss per common share (in thousands, except for per share amounts):

	<b>Three Months Ended March 31,</b>	
	<b>2016</b>	<b>2015</b>
<b>Numerator:</b>		
Loss from continuing operations, net of income taxes	\$ (9,769)	\$ (17,294)
Income (loss) from discontinued operations, net of income taxes	233	(2,379)
<b>Net loss</b>	<b>\$ (9,536)</b>	<b>\$ (19,673)</b>
Accrued dividends on preferred stock	(1,998)	(453)
Deemed dividend on preferred stock	(172)	(1,164)
<b>Loss attributable to common stockholders</b>	<b>\$ (11,706)</b>	<b>\$ (21,290)</b>
<b>Denominator - Basic and Diluted:</b>		
<b>Weighted average common shares outstanding</b>	<b>68,771</b>	<b>68,637</b>
<b>Loss per Common Share:</b>		
Loss from continuing operations, basic and diluted	\$ (0.17)	\$ (0.28)
Loss from discontinued operations, basic and diluted	—	(0.03)
<b>Loss per common share, basic and diluted</b>	<b>\$ (0.17)</b>	<b>\$ (0.31)</b>

The loss attributable to common stockholders is used as the basis of determining whether the inclusion of common stock equivalents would be anti-dilutive. Accordingly, the computation of diluted shares for the three months ended March 31, 2016 and 2015 excludes the effect of securities issued in connection with the PIPE Transaction and the Rights Offering (see Note 3 - Stockholders' Deficit), as well as stock options and restricted stock awards, as their inclusion would be anti-dilutive to loss attributable to common stockholders. The computation of diluted shares for three months ended March 31, 2016 and 2015, excludes the effect of 17.5 million and 10.8 million shares, respectively, of securities issued in connection with the PIPE Transaction and the Rights Offering, as well as the stock options and restricted stock awards as their inclusion would be anti-dilutive to loss attributable to common stockholders.

### NOTE 3 -- STOCKHOLDERS' DEFICIT

#### *Securities Purchase Agreement*

On March 9, 2015, the Company entered into a securities purchase agreement (the “Purchase Agreement”) with Coliseum Capital Partners L.P., a Delaware limited partnership, Coliseum Capital Partners II, L.P., a Delaware limited partnership, and Blackwell Partners, LLC, Series A, a Georgia limited liability company (collectively, the “PIPE Investors”). Pursuant to the terms of the Purchase Agreement, the Company issued and sold to the PIPE Investors in a private placement (the “PIPE Transaction”) an aggregate of (a) 625,000 shares of Series A Preferred Stock at a purchase price per share of \$100.00 (the “PIPE Preferred Shares”), (b) 1,800,000 PIPE Class A warrants (the “Class A Warrants”), and (c) 1,800,000 PIPE Class B warrants (the “Class B



Warrants” and, together with Class A Warrants, the “PIPE Warrants”), for gross proceeds of \$62.5 million. The initial conversion price for the PIPE Preferred Shares is \$5.17. The PIPE Warrants may be exercised to acquire shares of Common Stock. Pursuant to an addendum (the “Warrant Addendum”), dated as of March 23, 2015, to the Warrant Agreement, dated as of March 9, 2015, with the PIPE Investors, the PIPE Investors paid the Company \$0.5 million in the aggregate, and the per share exercise price of the Class A Warrants and Class B Warrants was set at \$5.17 and \$6.45, respectively, reduced from \$5.295 to \$5.17 and from \$6.595 to \$6.45, respectively.

The Purchase Agreement contains customary representations, warranties and covenants, including covenants relating to, among other things, information rights, the Company’s financial reporting, tax matters, listing compliance under the NASDAQ Global Market, and potential requirements under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended to make a notice filing with respect to the exercise of the PIPE Warrants.

The Company repaid approximately \$45.3 million of the Revolving Credit Facility indebtedness and accrued interest, representing 77% of the PIPE Transaction’s net proceeds.

The proceeds from the Purchase Agreement were allocated among the instruments based on their relative fair values as follows (in thousands):

	<b>Relative Fair Value Allocation</b>
	<b>March 9, 2015</b>
<b>Financial instruments:</b>	
Series A Preferred Stock <sup>1</sup>	\$ 59,355
PIPE Warrants <sup>2</sup>	3,145
<b>Total Investment</b>	<b>\$ 62,500</b>

<sup>1</sup> The fair value of the Series A Preferred Stock representing the PIPE Preferred Shares was determined using a binomial lattice model using the following assumptions: volatility of 55%, risk-free rate of 0.92%, and a dividend rate of 11.5%. The model also utilized various assumptions about the time to maturity and conditions under which conversion features would be exercised.

<sup>2</sup> The fair value of the PIPE Warrants was determined using the Black Scholes model using the following assumptions: volatility of 55%, risk-free rate of 0.92%, and stated exercise prices. The model also utilized various assumptions about the time to maturity and conditions under which exercise would occur.

#### ***Series A Convertible Preferred Stock***

In connection with the PIPE Transaction, the Company authorized 825,000 shares and issued 625,000 shares of Series A Preferred Stock at \$100.00 per share.

The Series A Preferred Stock may, at the option of the holder, be converted into Common Stock. The conversion rate in effect at any applicable time for conversion of each share of Series A Preferred Stock into Common Stock will be the quotient obtained by dividing the Liquidation Preference then in effect by the conversion price then in effect, plus cash in lieu of fractional shares. The initial conversion price for the Series A Preferred Stock is \$5.17, but is subject to adjustment from time to time upon the occurrence of certain events, including in the event of a stock split, a reverse stock split, or a dividend of Junior Securities (defined below) to the Company’s common stockholders.

Upon any voluntary or involuntary liquidation, dissolution or winding up of the Company (each, a Liquidation Event), after satisfaction of all liabilities and obligations to creditors of the Company and distribution of any assets of the Company to the holders of any stock or debt that is senior to the Series A Preferred Stock, and before any distribution or payment shall be made to holders of any Junior Securities, each holder of Series A Preferred Stock will be entitled to (i) convert their shares of Series A Preferred Stock into Common Stock and receive their pro rata share of consideration distributed to the holders of Common Stock, or (ii) receive, out of the assets of the Company or proceeds thereof (whether capital or surplus) legally available therefor, an amount per share of Series A Preferred Stock equal to the Liquidation Preference. The initial Liquidation Preference was equal to \$100.00 per share which may be adjusted from time to time by the accrual of non-cash dividends. However, if, at any applicable date of determination of the Liquidation Preference, (i) any cash dividend has been declared but is unpaid or (ii) the Company has given notice (or failed to give such notice) of its intention to pay a cash dividend but such cash dividend has not yet been declared by the Company’s board of directors (the “Board”), then such cash dividends shall be deemed, for purposes of calculating the applicable Liquidation Preference, to be Accrued Dividends. Accrued Dividends are paid upon the occurrence of a Liquidation Event and upon conversion or redemption of the Series A Preferred Stock.

As of March 31, 2016, the Liquidation Preference of the Series A Preferred Stock issued in the PIPE Transaction (i.e. the PIPE Preferred Shares) was approximately \$70.5 million. As of March 31, 2016, the Liquidation Preference of the Series A Preferred Stock issued in the Rights Offering (as described below) was approximately \$1.2 million.

The Company may pay a noncumulative cash dividend on each share of the Series A Preferred Stock when, as and if declared by the Board at a rate of 8.5% per annum on the liquidation preference then in effect. Cash dividends, if declared, are payable quarterly in arrears on January 1, April 1, July 1 and October 1 of each year, commencing on the first calendar day of the first July or October following the date of original issuance of the Series A Preferred Stock. If declared, cash dividends will begin to accrue on the first day of the applicable quarterly dividend period. In the event the Company does not declare and pay a cash dividend, the Liquidation Preference of the Series A Preferred Stock will be increased to an amount equal to the Liquidation Preference in effect at the start of the applicable quarterly dividend period, plus an amount equal to such then applicable Liquidation Preference multiplied by 11.5% per annum. If the Company pays a dividend or makes a distribution on the outstanding Common Stock (other than in Junior Securities, as defined below), the Company must, at the same time, pay each holder of the Series A Preferred Stock a dividend equal to the dividend the holder would have received if all of the holder's shares of Series A Preferred Stock were converted into Common Stock immediately prior to the record date for the dividend payment ("Participating Dividend"). The Company would not be required to pay the Participating Dividend if the Company dividend or distribution was in Common Stock, a security ranking equal to or junior to Common Stock, or a security convertible into Common Stock or a security ranking equal to or junior to Common Stock ("Junior Securities"). Instead, where the Company makes a dividend or distribution of a Junior Security, the holder of Series A Preferred Stock is entitled to anti-dilution protection in the form of an adjustment to the conversion price of the Series A Preferred Stock. Unless and until the Company obtains the required consent and/or amendment from the Company's lenders under the Company's Senior Credit Facilities (as defined below), the Company will not be permitted to pay cash dividends.

From and after the tenth anniversary of the original issuance of the Series A Preferred Stock, each holder of shares of Series A Preferred Stock will have the right to request that the Company redeem, in full, out of funds legally available, by irrevocable written notice to the Company, all of such holder's shares of Series A Preferred Stock at a redemption price per share equal to the Liquidation Preference then in effect per share of Series A Preferred Stock. From and after the tenth anniversary of the original issuance of the Series A Preferred Stock, the Company may redeem the outstanding Series A Preferred Stock, in whole or in part, at a price per share equal to the Liquidation Preference then in effect.

The Series A Preferred Stock will, with respect to dividend rights and rights upon liquidation, winding up or dissolution, rank senior to the Company's Common Stock and each other class or series of shares that the Company may issue in the future that do not expressly provide that such class or series ranks equally with, or senior to, the Series A Preferred Stock, with respect to dividend rights and/or rights upon liquidation, winding up or dissolution. The Series A Preferred Stock will also rank junior to the Company's existing and future indebtedness. Holders of shares of Series A Preferred Stock will be entitled to vote with the holders of shares of Common Stock (and any other class or series similarly entitled to vote with the holders of Common Stock) and not as a separate class, at any annual or special meeting of stockholders of the Company, and may act by written consent in the same manner as the holders of Common Stock, on an as-converted basis. So long as shares of the Series A Preferred Stock represent at least five percent (5%) of the outstanding voting stock of the Company, a majority of the voting power of the Series A Preferred Stock shall have the right to designate one (1) member to the Company's Board who shall be appointed to a minimum of two (2) committees of the Board.

The following sets forth the initial carrying value of the PIPE Preferred Shares which is classified as temporary equity (mezzanine equity) on the Consolidated Balance Sheet (in thousands):

	<b>Carrying Value</b>
	<b>March 9, 2015</b>
<b>PIPE Preferred Shares:</b>	
Issuance date liquidation preference	\$ 62,500
Discount related to warrant value <sup>1</sup>	(3,145)
Discount related to beneficial conversion feature <sup>2</sup>	(3,145)
Discount related to issuance costs <sup>3</sup>	(3,830)
<b>Initial carrying value of PIPE Preferred Shares</b>	<b>\$ 52,380</b>

<sup>1</sup> The discount related to the PIPE Warrants represents the difference between the redemption value of the PIPE Preferred Shares and its allocated proceeds. The discount is accreted over the period from issuance to first available redemption and are presented as a deemed dividend on the Statement of Operations.

<sup>2</sup> The value assigned to the Beneficial Conversion Feature (BCF) reflects the difference between the initial fair value assigned to the PIPE Preferred Shares and the conversion value. The BCF value is accreted over the period from issuance date to first date conversion to common shares may take place and is presented as a deemed dividend on the Statement of Operations.

<sup>3</sup> The Company incurred issuance costs of \$4.0 million associated with the PIPE Transaction. The issuance costs were allocated to the PIPE Preferred Shares and PIPE Warrants based on the relative fair value of each instrument or \$3.8 million and \$0.2 million, respectively. The issuance costs are accreted over the period from issuance to first available redemption and are presented as a deemed dividend on the Statement of Operations.

### **PIPE Warrants**

In connection with the PIPE Transaction, the Company issued 1,800,000 Class A Warrants and 1,800,000 Class B Warrants which may be exercised to acquire shares of Common Stock. The rights and terms of the Class A Warrants and the Class B Warrants are identical except for the exercise price. Pursuant to the Warrant Addendum with the PIPE Investors, the PIPE Investors paid the Company \$0.5 million in the aggregate, and the per share exercise price of the Class A Warrants and Class B Warrants was set at \$5.17 and \$6.45, respectively, reduced from \$5.295 to \$5.17 and from \$6.595 to \$6.45, respectively.

The PIPE Warrants are exercisable for a ten year term and may only be exercised for cash. The number of shares of Common Stock that may be acquired upon exercise of the PIPE Warrants is subject to anti-dilution adjustments for stock splits, subdivisions, reclassifications or combinations, or the issuance of Common Stock for a consideration per share less than 85% of the market price per share immediately prior to such issuance. Upon the occurrence of certain business combinations the PIPE Warrants will be converted into the right to acquire shares of stock or other securities or property (including cash) of the successor entity.

The following sets forth the carrying value of the PIPE Warrants which is classified as equity on the Consolidated Balance Sheet (in thousands):

<b>PIPE Warrants</b>	<b>Carrying Value March 9, 2015</b>
Fair value allocated to PIPE Warrants	\$ 3,145
Discount related to issuance costs <sup>1</sup>	(203)
<b>Carrying value of PIPE Warrants</b>	<b>\$ 2,942</b>

<sup>1</sup> The Company incurred issuance costs of \$4.0 million associated with the PIPE Transaction. The issuance costs were allocated to the Series A Preferred Stock and PIPE Warrants based on the relative fair value of each instrument or \$3.8 million and \$0.2 million, respectively.

The Company entered into a registration rights agreement (the "Registration Rights Agreement") with the PIPE Investors that, among other things and subject to certain exceptions, requires the Company, upon the request of the holders of the Series A Preferred Stock to register the Common Stock of the Company issuable upon conversion of the PIPE Preferred Shares or exercise of the PIPE Warrants. Pursuant to the terms of the Registration Rights Agreement, the costs incurred in connection with such registrations will be borne by the Company. As provided under the Registration Rights Agreement, the Company on April 1, 2016 filed a shelf registration statement on Form S-3 under the Securities Act of 1933, as amended (the "Securities Act"), to register, among other things, the Common Stock of the Company issuable upon conversion of the PIPE Preferred Shares or exercise of the PIPE Warrants (see Note 11 - Subsequent Events).

### **Rights Offering**

On June 30, 2015, the Company commenced a rights offering (the "Rights Offering") pursuant to which the Company distributed subscription rights to purchase units consisting of (1) Series A Preferred Stock, each share convertible into shares of Common Stock at a conversion price of \$5.17 per share, (2) Class A warrants to purchase one share of Common Stock at a price of \$5.17 per share (the "Public Class A Warrants"), and (3) Class B warrants to purchase one share of Common Stock at a price of \$6.45 per share (the "Public Class B Warrants" and, together with the Public Class A Warrants, the "Public Warrants"). The Rights Offering expired on July 27, 2015 and was completed on July 31, 2015. Stockholders of the Company exercised subscription

rights to purchase 10,822 units, consisting of an aggregate of 10,822 shares of the Series A Preferred Stock, 31,025 Public Class A Warrants, and 31,025 Public Class B Warrants, at a subscription price of \$100.00 per unit. Pursuant to the Rights Offering, the Company raised gross proceeds of approximately \$1.1 million.

With the exception of the expiration date, the Class A Warrants issued pursuant to the PIPE Transaction, as amended by the Warrant Addendum, have the same terms as the Public Class A Warrants issued pursuant to the Rights Offering. Similarly, with the exception of the expiration date, the Class B Warrants issued pursuant to the PIPE Transaction, as amended by the Warrant Addendum, have the same terms as the Public Class B Warrants issued pursuant to the Rights Offering.

#### ***Carrying Value of Series A Preferred Stock***

As of March 31, 2016, the following values were accreted as described above and recorded as a reduction of additional paid in capital in Stockholders' Equity and a deemed dividend on the Statement of Operations. In addition, dividends were accrued at 11.5% from the date of issuance to March 31, 2016. The following table sets forth the activity recorded during the three months ended March 31, 2016 related to the Series A Preferred Stock (in thousands) issued for both the PIPE Transactions and the Rights Offering.

<b>Series A Preferred Stock carrying value at December 31, 2015</b>	<b>\$</b>	<b>62,918</b>
Accretion of discount related to issuance costs		172
Dividends recorded through March 31, 2016 <sup>1</sup>		1,998
<b>Series A Preferred Stock carrying value March 31, 2016</b>	<b>\$</b>	<b>65,088</b>

<sup>1</sup> Dividends recorded reflect the increase in the Liquidation Preference associated with unpaid dividends.

#### **NOTE 4--DISCONTINUED OPERATIONS**

##### ***Sale of PBM Services***

On August 27, 2015, the Company completed the sale of substantially all of the Company's PBM Services segment (as defined above, the "PBM Business") pursuant to an Asset Purchase Agreement dated as of August 9, 2015 (the "Asset Purchase Agreement"), by and among the Company, BioScrip PBM Services, LLC and ProCare Pharmacy Benefit Manager Inc. (the "PBM Buyer"). Under the Asset Purchase Agreement, the PBM Buyer agreed to acquire substantially all of the assets used solely in connection with the PBM Business and to assume certain PBM Business liabilities (the "PBM Sale"). On the Closing Date, pursuant to the terms of the Asset Purchase Agreement, the Company received total cash consideration of approximately \$24.6 million, including an adjustment for estimated Closing Date net working capital. On October 20, 2015, the Company finalized working capital adjustment negotiations in relation to the PBM Sale whereby the Company agreed to repay approximately \$1.0 million to the PBM Buyer. The Company used the net proceeds from the PBM Sale to pay down a portion of the Company's outstanding debt.

The sale of the PBM Business was consistent with the Company's continuing strategic evaluation of its non-core businesses and its decision to continue to focus growth initiatives and capital in the Infusion Services business. As a result, the Company has reclassified its operations to discontinued operations for all prior periods in the accompanying Unaudited Consolidated Financial Statements.

The operating results included in discontinued operations for the three months ended March 31, 2016 and 2015 are summarized as follows (in thousands):

	Three Months Ended March 31,	
	2016	2015
<b>Revenue</b>	\$ —	\$ 17,324
Gross profit	\$ —	\$ 3,636
Other operating expenses, net	(383)	6,041
Bad debt expense	—	(26)
Income (loss) before income taxes	383	(2,379)
Income tax provision	150	—
<b>Total income (loss) from discontinued operations, net of income taxes</b>	<b>\$ 233</b>	<b>\$ (2,379)</b>

#### NOTE 5-- RESTRUCTURING, INTEGRATION, AND OTHER EXPENSES, NET

Restructuring, integration and other expenses, net include non-operating costs associated with restructuring and integration initiatives such as employee severance costs, certain legal and professional fees, training costs, redundant wage costs, impacts recorded from the change in contingent consideration obligations, and other costs related to contract terminations and closed branches/offices.

Restructuring, integration, and other expenses, net in the Unaudited Consolidated Statements of Operations for the three months ended March 31, 2016 and 2015 consisted of the following (in thousands):

	Three Months Ended March 31,	
	2016	2015
Restructuring expense	\$ 2,254	\$ 3,463
Integration expense	362	220
Change in fair value of contingent consideration	51	21
<b>Total restructuring, integration, and other expense, net</b>	<b>\$ 2,667</b>	<b>\$ 3,704</b>

On August 10, 2015, the Company announced a plan to implement a new operations financial improvement plan (the "Financial Improvement Plan") as part of an initiative to accelerate long-term growth, reduce costs and increase operating efficiencies. In connection with the Financial Improvement Plan, the Company consolidated most corporate functions from our Eden Prairie, Minnesota corporate office and our Elmsford, New York executive office into our new executive and corporate office located in Denver, Colorado. The Financial Improvement Plan was substantially completed by the end of 2015.

**NOTE 6--DEBT**

As of March 31, 2016 and December 31, 2015, the Company's debt consisted of the following (in thousands):

	<b>March 31, 2016</b>	<b>December 31, 2015</b>
Revolving Credit Facility	\$ 23,000	\$ 15,000
Term Loan Facilities	219,620	222,757
2021 Notes, net of unamortized discount	196,191	196,038
Capital leases	137	189
Less: Deferred financing costs	(15,018)	(15,863)
<b>Total Debt</b>	<b>423,930</b>	<b>418,121</b>
Less: Current portion	32,201	24,380
<b>Long-term debt, net of current portion</b>	<b>\$ 391,729</b>	<b>\$ 393,741</b>

**Senior Credit Facilities**

On July 31, 2013, the Company entered into (i) a senior secured first-lien revolving credit facility in an aggregate principal amount of \$75.0 million (the "Revolving Credit Facility"), (ii) a senior secured first-lien term loan B in an aggregate principal amount of \$250.0 million (the "Term Loan B Facility") and (iii) a senior secured first-lien delayed draw term loan B in an aggregate principal amount of \$150.0 million (the "Delayed Draw Term Loan Facility" and, together with the Revolving Credit Facility and the Term Loan B Facility, the "Senior Credit Facilities") with SunTrust Bank, Jefferies Finance LLC and Morgan Stanley Senior Funding, Inc. (collectively, the "Lenders").

The Senior Credit Facilities contain customary events of default that include, among others, non-payment of principal, interest or fees, violation of covenants, inaccuracy of representations and warranties, bankruptcy and insolvency events, material judgments, cross-defaults to material indebtedness, events constituting a change of control and any other development that results in, or would reasonably be expected to result in, a material adverse effect to the debtor's ability to perform its obligation under the facility. The occurrence of certain events of default may increase the applicable rate of interest by 2% and could result in the acceleration of the Company's obligations under the Senior Credit Facilities to pay the full amount of the obligations.

On December 23, 2013, the Company entered into the First Amendment to the Senior Credit Facilities (the "First Amendment") pursuant to which the Company obtained the required consent of the Lenders to enter into the Settlement Agreements (see Note 7 - Commitments and Contingencies) and to begin making payments, in accordance with the payment terms, on the settlement amount of \$15.0 million.

On January 31, 2014, the Company entered into the Second Amendment to the Senior Credit Facilities, which, among other things (i) provides additional flexibility with respect to compliance with the maximum net leverage ratio for the fiscal quarters ending December 31, 2013 through and including December 31, 2014, (ii) provides additional flexibility under the indebtedness covenants to permit the Company to obtain up to \$150.0 million of second-lien debt and issue up to \$250.0 million of unsecured bonds, provided that 100% of the net proceeds are applied first to the Revolving Credit Facility, with no corresponding permanent commitment reduction, and then on a pro rata basis to the Term Loan B Facility and the Delayed Draw Term Loan Facility (collectively, the "Term Loan Facilities"), (iii) provides the requisite flexibility to sell non-core assets, subject to the satisfaction of certain conditions, and (iv) increased the applicable interest rates for each of the Term Loan Facilities to the Eurodollar rate plus 6.00% or the base rate plus 5.00%, until the occurrence of certain pricing decrease triggering events, as defined in the amendment. Upon the occurrence of a pricing decrease triggering event, the interest rates for the Senior Credit Facilities may revert to the Eurodollar rate plus 5.25% or the base rate plus 4.25%.

On March 1, 2015, the Company entered into the Third Amendment to the Senior Credit Facilities (the "Third Amendment"), which establishes an alternate leverage test for the fiscal quarters ending March 31, 2015 through and including March 31, 2016. The maximum net leverage ratio for these quarters is consistent with that in effect for the prior four fiscal quarters. The Third Amendment eliminated the need to meet progressively lower leverage ratio requirements at each quarter end date for the next four quarters. The Third Amendment also provides for certain additional financial reporting.

On August 6, 2015, the Company entered into a Fourth Amendment to its Senior Credit Facilities (the "Fourth Amendment"). The Fourth Amendment, among other things, provides additional relief with respect to measuring compliance with the maximum first lien net leverage ratio for the fiscal quarters ending September 30, 2015 through and including March 31, 2017 and modifies

and extends an alternate leverage test for the fiscal quarters ending September 30, 2015 through and including March 31, 2017. The levels for the maximum first lien net leverage ratio for certain of these quarters were increased by the Fourth Amendment. The availability of the alternative first lien net leverage ratio is subject to a number of conditions, including a minimum liquidity requirement and a maximum utilization test that requires the Revolving Credit Facility balance to remain under \$60.0 million for the alternative first lien net leverage ratio to apply.

On October 9, 2015, the Company entered into the Fifth Amendment to the Senior Credit facilities (the “Fifth Amendment”), The Fifth Amendment directly modifies the definition of a “Continuing Director” in full as, “with respect to any period, any individuals (A) who were members of the board of directors or other equivalent governing body of the Borrower on the first day of such period, (B) whose election or nomination to that board or equivalent governing body was approved by individuals referred to in clause (A) above constituting at the time of such election or nomination at least a majority of that board or equivalent governing body, or (C) whose election or nomination to that board or other equivalent governing body was approved by individuals referred to in clauses (A) and (B) above constituting at the time of such election or nomination at least a majority of that board or equivalent governing body.” This amended definition also indirectly modifies the definition of a “Change in Control.”

As of March 31, 2016, the interest rates related to the Revolving Credit Facility and the Term Loan Facilities are approximately 7.75% and 6.50%, respectively. The interest rates may vary in the future depending on the Company’s consolidated net leverage ratio.

In connection with the PIPE Transaction (see Note 3 - Stockholder’s Deficit), the Company was required to use at least 75% of the net proceeds for the repayment of outstanding indebtedness. The Company repaid approximately \$45.3 million of the Revolving Credit Facility indebtedness and accrued interest from those proceeds. In addition, the Company repaid \$22.7 million of the Revolving Credit facility indebtedness from the net proceeds from the sale of the PBM business.

The Revolving Credit Facility matures on July 31, 2018 at which time all principal amounts outstanding are due and payable. The Term Loan Facilities require quarterly principal repayments of \$3.1 million beginning March 31, 2016 until their July 31, 2020 maturity at which time the remaining principal amount of approximately \$166.3 million is due and payable.

As of March 31, 2016, the Company had an outstanding amount of \$23.0 million drawn down and borrowing capacity of \$46.6 million (or borrowing capacity of \$31.6 million to remain subject to the alternate leverage test) under its Revolving Credit Facility after considering outstanding letters of credit totaling \$5.4 million.

### **2021 Notes**

On February 11, 2014, the Company issued \$200.0 million aggregate principal amount of the 2021 Notes. The 2021 Notes are senior unsecured obligations of the Company and are fully and unconditionally guaranteed by all existing and future subsidiaries of the Company.

Interest on the 2021 Notes accrues at a fixed rate of 8.875% per annum and is payable in cash semi-annually, in arrears, on February 15 and August 15 of each year, commencing on August 15, 2014. The debt discount of \$5.0 million at issuance is being amortized as interest expense through maturity which will result in the accretion over time of the outstanding debt balance to the principal amount. The 2021 Notes are the Company’s senior unsecured obligations and rank equally in right of payment with all of its other existing and future senior unsecured indebtedness and senior in right of payment to all of its existing and future subordinated indebtedness.

The 2021 Notes are guaranteed on a full, joint and several basis by each of the Company’s existing and future domestic restricted subsidiaries that is a borrower under any of the Company’s credit facilities or that guarantees any of the Company’s debt or that of any of its restricted subsidiaries, in each case incurred under the Company’s credit facilities. As of March 31, 2016, the Company does not have any independent assets or operations, and as a result, its direct and indirect subsidiaries (other than minor subsidiaries), each being 100% owned by the Company, are fully and unconditionally, jointly and severally, providing guarantees on a senior unsecured basis to the 2021 Notes.

### **Fair Value of Financial Instruments**

The following details our financial instruments where the carrying value and the fair value differ (in thousands):

Financial Instrument	Carrying Value as of March 31, 2016	Markets for Identical Item (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Term Loan Facilities	\$ 219,620	\$ —	\$ 197,658	\$ —
2021 Notes	196,191	166,272	—	—
Total	\$ 415,811	\$ 166,272	\$ 197,658	\$ —

The fair value hierarchy for disclosure of fair value measurements is as follows:

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2: Quoted prices, other than quoted prices included in Level 1, which are observable for the assets or liabilities, either directly or indirectly.

Level 3: Inputs that are unobservable for the assets or liabilities.

Financial assets with carrying values approximating fair value include cash and cash equivalents and accounts receivable. Financial liabilities with carrying values approximating fair value include accounts payable and capital leases. The carrying value of these financial assets and liabilities approximates fair value due to their short maturities.

## NOTE 7--COMMITMENTS AND CONTINGENCIES

### Legal Proceedings

#### *Breach of Contract Litigation in the Delaware Court of Chancery*

On November 3, 2015, Walgreen Co. and various affiliates (“Walgreens”) filed a lawsuit in the Delaware Court of Chancery against the Company and certain of its subsidiaries (collectively, the “Defendants”). The complaint alleges that the Company breached certain non-compete provisions contained in the Community Pharmacy and Mail Business Purchase Agreement dated as of February 1, 2012, by and among Walgreens and certain subsidiaries and the Company and certain subsidiaries (the “2012 Purchase Agreement”). The complaint seeks both money damages and injunctive relief. On December 7, 2015, the Defendants filed a motion to dismiss the complaint, asserting, among other things, that the claims raised in Walgreens’ complaint were subject to the alternative dispute resolution procedure contained in the 2012 Purchase Agreement. On March 11, 2016, the Court held oral argument on the Company’s motion to dismiss and granted the motion, holding that Walgreens’ breach of contract claims for money damages must be resolved in accordance with the Purchase Agreement’s alternative dispute resolution procedure. On March 15, 2016, Walgreens informed the Court that it would not be pursuing any claims for injunctive relief in the Court at that time, but instead would engage in the required alternative dispute resolution procedure. Walgreens requested that the Court keep the case open pending the results of that process. On March 16, 2016, the Court stayed the lawsuit and removed the trial from its calendar, but did not grant Walgreens any other relief or enjoin the Company from taking any action. The Company continues to believe that Walgreens’ claims are without merit and intends to vigorously defend itself against them. Due to the inherent uncertainty in litigation, however, the Company can provide no assurance as to the outcome of the matter or reasonably estimate a range of possible loss at this time.

#### *McCormack Shareholder Class Action Litigation in the Delaware Court of Chancery*

On September 8, 2015, Thomas McCormack (the “Plaintiff”) filed a complaint in the Court of Chancery of the State of Delaware against the Company, the Board, and SunTrust Bank (“SunTrust”), as administrative agent, captioned Thomas McCormack v. BioScrip, Inc. et al., C.A. No. 11480-CB, alleging that the adoption of what the Plaintiff referred to as a “Proxy Put” or “Dead Hand Proxy Put” in the Company’s July 31, 2013 credit agreement (the “Credit Agreement”), as amended from time to time, constituted a breach of the Board’s fiduciary duty. Among other things, the Plaintiff sought a declaration that the Proxy Put was invalid, unenforceable, and severable from the Credit Agreement. While the Company and SunTrust deny completely all of the allegations of wrongdoing in the complaint, on October 9, 2015, the requisite lenders approved, and the Company and SunTrust executed, the Fifth Amendment to eliminate the so-called “Dead Hand Proxy Put.” As a result of the amendment, the Plaintiff agreed that his claims were moot, and the Company agreed to pay \$130,000 in fees and expenses to the Plaintiff’s counsel. On January 14, 2016, the Court entered a Stipulation and Order (the “Order”) providing that the Plaintiff’s action will be dismissed with prejudice only as to the Plaintiff and the case will be closed. The Court did not rule or opine on the amount of fees and expenses. Pursuant to the Order, the Company publicly disclosed the proposed resolution of the action on January 20, 2016, and on January 21, 2016, filed an affidavit informing the Court of the Company’s compliance with the Order’s public disclosure requirement. As a result, the case has now been dismissed with prejudice.



### **Derivative Lawsuit in the Delaware Court of Chancery**

On May 7, 2015, a derivative complaint was filed in the Delaware Court of Chancery by the Park Employees' & Retirement Board Employees' Annuity & Benefit Fund of Chicago (the "Derivative Complaint"). The Derivative Complaint names as defendants certain current and former directors of the Company, consisting of Richard M. Smith, Myron Holubiak, Charlotte Collins, Samuel Frieder, David Hubers, Richard Robbins, Stuart Samuels and Gordon Woodward (collectively, the "Director Defendants"), certain former officers of the Company, consisting of Kimberlee Seah, Hai Tran and Patricia Bogusz (collectively the "Officer Defendants"), Kohlberg & Co., L.L.C., Kohlberg Management V, L.L.C., Kohlberg Investors V, L.P., Kohlberg Partners V, L.P., Kohlberg TE Investors V, L.P., KOCO Investors V, L.P., and Jefferies LLC. The Company is also named as a nominal defendant in the Derivative Complaint. The Derivative Complaint was filed in the Delaware Court of Chancery as *Park Employees and Retirement Board Employees' Annuity and Benefit Fund of Chicago v. Richard M. Smith, Myron Z. Holubiak, Charlotte W. Collins, Samuel P. Frieder, David R. Huber, Richard L. Robbins, Stuart A. Samuels, Gordon H. Woodward, Kimberlee C. Seah, Hai V. Tran, Patricia Bogusz, Kohlberg & Co., L.L.C., Kohlberg Management V, L.L.C., Kohlberg Investors V, L.P., Kohlberg Partners V, L.P., Kohlberg TE Investors V, L.P., KOCO Investors V, L.P., Jefferies LLC and BioScrip, Inc., C.A. No. 11000-VCG (Del. Ch. Ct., May 7, 2015)*.

The Derivative Complaint alleges generally that certain defendants breached their fiduciary duties with respect to the Company's public disclosures, oversight of Company operations, secondary stock offerings and stock sales. The Derivative Complaint also contends that certain defendants aided and abetted those alleged breaches. The damages sought are not quantified but include, among other things, claims for money damages, restitution, disgorgement, equitable relief, reasonable attorneys' fees, costs and expenses, and interest. The Derivative Complaint incorporates the same factual allegations from *In re BioScrip, Inc., Securities Litigation* (described below). On June 16, 2015, all defendants moved to dismiss the case. Briefing for the motion to dismiss was completed on November 30, 2015, and the court heard oral argument on the motion to dismiss on January 12, 2016. During the hearing, the court requested additional briefing, which was completed on February 12, 2016. The court has not yet ruled on the motion to dismiss.

The Company, Director Defendants and the Officer Defendants deny any allegations of wrongdoing in this lawsuit. The Company and those persons believe all of the claims in this lawsuit are without merit and intend to vigorously defend against these claims. However, there is no assurance that the defense will be successful or that insurance will be available or adequate to fund any settlement, judgment or litigation costs associated with this action. Certain of the defendants have sought indemnification from the Company pursuant to certain indemnification agreements, for which there may be no insurance coverage. Additional similar lawsuits may be filed. The Company is unable to predict the outcome or reasonably estimate a range of possible loss at this time. While no assurance can be given as to the ultimate outcome of this matter, the Company believes that the final resolution of this action is not likely to have a material adverse effect on results of operations, financial position, liquidity or capital resources.

### **Prior State Regulatory Matter**

The Company has accrued an estimate of a potential loss as of March 31, 2016 in connection with a pending regulatory and various other matters related to certain discontinued operations of the Company. The accrual recorded is not a material amount and represents the Company's best estimate of the exposure.

### **United States Attorney's Office for the Southern District of New York and New York State Attorney General investigation**

Effective January 8, 2014, the Company entered into the Federal Settlement Agreement with the U.S. Department of Justice (the "DOJ") and David M. Kester (the "Relator"). The Federal Settlement Agreement represented the federal and private component of the Company's agreement to settle all civil claims under the False Claims Act and related statutes and all common law claims (collectively, the "Claims") that could have been brought by the DOJ and Relator in the qui tam lawsuit filed in the Southern District of New York (the "SDNY") by the Relator relating to the distribution of the Novartis Pharmaceutical Corporation's product Exjade® (the "Medication") by the Company's legacy specialty pharmacy division (the "Legacy Division") that was divested in May 2012 (the "Civil Action"). Until January 8, 2014, the Company was prohibited from publicly disclosing any information related to the existence of the Civil Action. On January 8, 2014, the Civil Action was unsealed and made public on order of the court. Effective February 11, 2014, the Company entered into the State Settlement Agreements with the Settling States. The State Settlement Agreements represented the state component of the Company's agreement to settle the Claims that could have been brought by the Settling States that arose out of the Legacy Division's distribution of the Medication.

With the execution of the Federal Settlement Agreement and the State Settlement Agreements (collectively, the "Settlement Agreements"), the Civil Action has been fully resolved, and the Company also expects to be fully resolved of the federal and state claims that were or could have been raised in the Civil Action. All federal claims and all state claims by the Settling States that have been or could be brought against it in the Civil Action have been dismissed with prejudice. The State Settlement Agreements

expressly recognize and affirmatively provide that, by entering into the State Settlement Agreements, the Company has not made any admission of liability and the Company expressly denies the allegations in the Civil Action.

Under the Settlement Agreements, the Company paid an aggregate of \$15.0 million, plus interest (at an annual rate of 3.25%) in three annual payments from January 2014 through January 2016, of which the remaining \$6.2 million, including interest, and \$0.2 million of fees to the Relator was paid in January 2016. The Settlement Agreements represented a compromise to avoid the costs, distraction and uncertainty of protracted litigation. The Settlement Agreements do not include any admission of wrongdoing, illegal activity, or liability by the Company or its employees, directors, officers or agents.

### ***Securities Class Action Litigation in the Southern District of New York***

On September 30, 2013, a putative securities class action lawsuit was filed in the United States District Court for the Southern District of New York (“SDNY”) against the Company and certain of its officers on behalf of the putative class of purchasers of our securities between August 8, 2011 and September 20, 2013, inclusive.

On November 15, 2013, a putative securities class action lawsuit was filed in SDNY against the Company and certain of its directors and officers and certain underwriters in the Company’s April 2013 underwritten public offering of its common stock, on behalf of the putative class of purchasers of our securities between August 8, 2011 and September 23, 2013, inclusive.

On December 19, 2013, the SDNY entered an order consolidating the two class action lawsuits as *In re BioScrip, Inc., Securities Litigation*, No. 13-cv-6922 (AJN) and appointing an interim lead plaintiff. The Company denies any allegations of wrongdoing in the consolidated class action lawsuit. The lead plaintiff filed a consolidated complaint on February 19, 2014 against the Company, certain of its directors and officers, certain underwriters in the Company’s April 2013 underwritten public offering of its common stock, and a certain stockholder of the Company. The consolidated complaint is brought on behalf of a putative class of purchasers of the Company’s securities between November 9, 2012 and November 6, 2013, inclusive, and persons and entities who purchased the Company’s securities pursuant or traceable to two underwritten public offerings of the Company’s common stock conducted in April 2013, and August 2013. The consolidated complaint alleges generally that the defendants made material misstatements and/or failed to disclose matters related to the Legacy Division’s distribution of Novartis Pharmaceutical Corporation’s product *Exjade*® (the “Medication”) as well as the Company’s PBM Services segment. The consolidated complaint asserts claims under Sections 11, 12(a)(2) and 15 of the Securities Act and Sections 10(b) and 20(a) of the Exchange Act and Rule 10b-5 promulgated thereunder. All defendants in the case moved to dismiss the consolidated complaint on April 28, 2014. On March 31, 2015, the SDNY granted in part and denied in part the defendants’ motions to dismiss. On April 14, 2015, a motion to reconsider a portion of the denial of the motions to dismiss was filed on behalf of all the remaining defendants. Plaintiffs filed their opposition to that motion on April 28, 2015. On June 5, 2015, the SDNY denied the defendants’ motion to reconsider.

On September 25, 2015, the parties entered mediation concerning all pending claims. In October 2015, the parties reached an agreement in principle to settle all claims in the action (the “Proposed Settlement”), the terms and conditions of which were filed with the SDNY on December 18, 2015. The Company has agreed to the Proposed Settlement without any admission of liability or wrongdoing and solely in order to avoid the costs, distraction, and uncertainty of litigation.

On February 11, 2016, the Court granted preliminary approval for the settlement, certified a class of plaintiffs for settlement only, approved of the form of and mailing of notice to the stockholder class, and scheduled a final fairness hearing for June 13, 2016. Following preliminary approval, in accordance with the terms of the Proposed Settlement, the Company and its insurance carriers paid the amount of the settlement into an escrow fund. The Company’s contribution was not material, and the Company does not believe the contribution will have a material effect on results of operations, financial position, liquidity or capital resources. The Proposed Settlement remains subject to final court approval. Until final approval is obtained and until any other conditions precedent in the Proposed Settlement are completed or satisfied, there can be no assurance that this matter will in fact be resolved pursuant to the terms of the Proposed Settlement.

### **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 the Company is in substantial compliance with all existing laws and regulations material to the operation of its business, such laws and regulations are often uncertain in their application to our business practices as they evolve and are subject to rapid change. As controversies continue to arise in the healthcare industry, federal and state regulation and enforcement priorities in this area can be expected to increase, the impact of which cannot be predicted.

From time to time, the Company responds to investigatory subpoenas and requests for information from governmental agencies and private parties. The Company cannot predict with certainty what the outcome of any of the foregoing might be. While the Company believes it is in substantial compliance with all laws, rules and regulations that affects its business and operations, there can be no assurance that the Company will not be subject to scrutiny or challenge under one or more existing laws or that any such challenge would not be successful. Any such challenge, whether or not successful, could have a material effect upon the Company's Unaudited Consolidated Financial Statements. A 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. Moreover, the costs and expenses associated with defending these actions, even where successful, can be significant. Further, there can be no assurance 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 effect on the Company's Unaudited Consolidated Financial Statements.

## NOTE 8--CONCENTRATION OF RISK

### *Customer and Credit Risk*

The Company provides trade credit to its customers in the normal course of business. One commercial payor, United Healthcare, accounted for approximately 26% and 23% of revenue during the three months ended March 31, 2016 and 2015. In addition, Medicare accounted for approximately 10% of revenue during the three months ended March 31, 2016 and March 31, 2015, respectively.

### *Therapy Revenue Risk*

The Company sells products related to the Immune Globulin therapy, which represented 17% of revenue for the three months ended March 31, 2016 and 2015, respectively.

## NOTE 9--INCOME TAXES

The Company's federal and state income tax provision from continuing operations for the three months ended March 31, 2016 and 2015 is summarized in the following table (in thousands):

	Three Months Ended March 31,	
	2016	2015
<b>Current</b>		
Federal	\$ —	\$ —
State	—	1
<b>Total current</b>	<b>—</b>	<b>1</b>
<b>Deferred</b>		
Federal	17	1,628
State	6	299
<b>Total deferred</b>	<b>23</b>	<b>1,927</b>
<b>Total income tax provision</b>	<b>\$ 23</b>	<b>\$ 1,928</b>

The income tax provision recognized for the three months ended March 31, 2016 is a result of a nominal increase in the deferred tax liability.

The Company's reconciliation of the statutory rate from continuing operations to the effective income tax rate for the three months ended March 31, 2016 and 2015 is summarized as follows (in thousands):

	<b>Three Months Ended March 31,</b>	
	<b>2016</b>	<b>2015</b>
Tax benefit at statutory rate	\$ (3,411)	\$ (4,892)
State tax benefit, net of federal taxes	(16)	—
Valuation allowance changes affecting income tax provision	3,388	6,781
Other	62	39
<b>Income tax provision</b>	<b>\$ 23</b>	<b>\$ 1,928</b>

## NOTE 10--STOCK-BASED COMPENSATION

### *BioScrip Equity Incentive Plan*

Under the Company's Amended and Restated 2008 Equity Incentive Plan (as amended and restated, the "2008 Plan"), the Company may issue, among other things, incentive stock options, non-qualified stock options, stock appreciation rights ("SARs"), restricted stock grants, restricted stock units and performance units to key employees and directors. While SARs are authorized under the 2008 Plan, they may also be issued outside of the plan.

On May 8, 2014, the Company's stockholders (i) approved an amendment to the 2008 Plan to increase the number of authorized shares of Common Stock available for issuance by 2,500,000 shares (the "2014 Additional Shares") to 9,355,000 shares and to clarify that cash dividends or dividend equivalents may not be paid to holders of unvested restricted stock units, restricted stock grants and performance units until such awards are vested and non-forfeitable; and (ii) re-approved the material terms of the performance goals that are a part of the 2008 Plan. On September 19, 2014, the Company filed a Registration Statement on Form S-8 to register the issuance of the 2014 Additional Shares that were approved by the Company's stockholders on May 8, 2014.

As of March 31, 2016, 1,664,061 shares remain available for grant under the 2008 Plan.

### *Stock Options*

The Company recognized compensation expense related to stock options of \$1.1 million and \$1.9 million during the three months ended March 31, 2016 and 2015, respectively.

### *Restricted Stock*

The Company recognized a nominal amount of compensation expense related to restricted stock awards during the three months ended March 31, 2016 and \$0.3 million of compensation expense related to restricted stock awards during the three months ended March 31, 2015.

### *Stock Appreciation Rights and Market Based Cash Awards*

The Company recognized a nominal amount of compensation expense related to stock appreciation rights awards during the three months ended March 31, 2016 and \$0.5 million of compensation benefit related to stock appreciation rights awards during the three months ended March 31, 2015. In addition, the Company recognized compensation expense related to market based cash awards of \$0.3 million during the three months ended March 31, 2016. There was no compensation expense related to market based cash awards in the same period in 2015.

### *Employee Stock Purchase Plan*

On May 7, 2013, the Company's stockholders approved the BioScrip, Inc. Employee Stock Purchase Plan (the "ESPP"). The ESPP provides all eligible employees, as defined under the ESPP, the opportunity to purchase up to a maximum number

of shares of Common Stock of the Company as determined by the Compensation Committee. Participants in the ESPP may acquire the Common Stock at a cost of 85% of the lower of the fair market value on the first or last day of the quarterly offering period. The Company has filed a Registration Statement on Form S-8 to register 750,000 shares of Common Stock, par value \$0.0001 per share, for issuance under the ESPP.

As of March 31, 2016, there were 564,441 shares that remained available for grant under the ESPP. Since inception, the ESPP's third-party service provider has purchased 185,559 shares on the open market and delivered these shares to the Company's employees pursuant to the ESPP. During the three months ended March 31, 2016, less than \$0.1 million of expense has been incurred related to the ESPP.

#### **NOTE 11--SUBSEQUENT EVENTS**

##### ***Shelf Registration Statement***

The Company filed a shelf registration statement on Form S-3 under the Securities Act on April 1, 2016, which was declared effective May 2, 2016 (the "2016 Shelf"). Under the 2016 Shelf, the Company has the ability to raise up to \$200 million, in one or more transactions, by selling common stock, preferred stock, debt securities, warrants, units and rights. In addition, the 2016 Shelf registered the offer and sale by selling stockholders of the common stock that may be issued upon conversion of the PIPE Preferred Shares or exercise of the PIPE Warrants.

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

The following discussion should be read in conjunction with the Audited Consolidated Financial Statements, including the notes thereto, and Management's Discussion and Analysis of Financial Condition and Results of Operations included in our Annual Report on Form 10-K for the year ended December 31, 2015 (the "Annual Report") filed with the U.S. Securities and Exchange Commission ("SEC"), as well as our Unaudited Consolidated Financial Statements and the related notes thereto included elsewhere in this report.

This Quarterly Report on Form 10-Q (this "Quarterly Report") contains statements not purely historical and which may be considered forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended (the "Securities Act"), and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), including statements regarding our expectations, beliefs, future plans and strategies, anticipated events or trends 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 Quarterly Report contains, among others, forward-looking statements about:

- our ability to make principal and interest payments on our debt and unsecured notes and satisfy the other covenants contained in our senior secured credit facility and other debt agreements;
- our high level of indebtedness;
- our expectations regarding financial condition or results of operations in future periods;
- our future sources of, and needs for, liquidity and capital resources;
- our expectations regarding economic and business conditions;
- our expectations regarding potential legislative and regulatory changes impacting the level of reimbursement received from the Medicare and state Medicaid programs;
- our internal control over financial reporting;
- periodic reviews and billing audits from governmental and private payors;
- 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;
- our expectations regarding the recoverability of our goodwill and the potential for future impairment charges;
- our ability to maintain contracts and relationships with our customers;
- our ability to avoid delays in payment from our customers;
- sales and marketing efforts;
- status of material contractual arrangements, including the negotiation or re-negotiation of such arrangements;
- our ability to address cybersecurity risks;
- our ability to maintain supplies and services, which could be impacted by force majeure events such as war, strike, riot, crime or "acts of God" such as hurricanes, flooding, blizzards or earthquakes;
- future capital expenditures;
- our ability to hire and retain key employees;
- our ability to successfully execute our succession plans;
- our ability to execute our acquisition and growth strategy;
- our ability to successfully integrate businesses we may acquire;
- our expectations regarding the outcome of litigation; and
- other risks and uncertainties described from time to time in our filings with the SEC.

Investors are cautioned that any such forward-looking statements are not guarantees of future performance, involve risks and uncertainties and that actual results may differ materially from those possible results discussed in the forward-looking statements as a result of various factors. Important factors that could cause such differences include, among other things:

- risks associated with increased government regulation related to the health care and insurance industries in general, and more specifically, home infusion providers;
- our expectation regarding the interim and ultimate outcome of commercial disputes, including litigation;
- unfavorable economic and market conditions;
- disruptions in supplies and services resulting from force majeure events such as war, strike, riot, crime, or "acts of God" such as hurricanes, flooding, blizzards or earthquakes;
- reductions in federal and state reimbursement for our products and services;
- delays or suspensions of Federal and state payments for services provided;

- efforts to reduce healthcare costs and alter health care financing;
- effects of the Patient Protection and Affordable Care Act, or PPACA, and the Health Care and Education Reconciliation Act of 2010, which amended PPACA, and the related accountable care organizations;
- existence of complex laws and regulations relating to our business;
- achieving financial covenants under our senior secured credit facility and unsecured notes indenture;
- availability of financing sources;
- declines and other changes in revenue due to the expiration of short-term contracts;
- network lockouts and decisions to in-source by health insurers including lockouts with respect to acquired entities;
- unforeseen contract terminations;
- our ability to comply with debt covenants in our senior secured credit facility and unsecured notes indenture;
- difficulties in the implementation and ongoing evolution of our operating systems;
- difficulties with the implementation of our growth strategy and integrating businesses we have acquired or will acquire;
- increases or other changes in our acquisition cost for our products;
- increased competition from competitors having greater financial, technical, reimbursement, marketing and other resources could have the effect of reducing prices and margins;
- disruptions in our relationship with our primary supplier of prescription products;
- the level of our indebtedness and its effect on our ability to execute our business strategy and increased risk of default under our debt obligations;
- introduction of new drugs, which can cause prescribers to adopt therapies for existing patients that are less profitable to us;
- risks associated with our issuance of Series A Preferred Stock and PIPE Warrants to the PIPE Investors (as defined below); and
- changes in industry pricing benchmarks, which could have the effect of reducing prices and margins.

You should not place undue reliance on such forward-looking statements as they speak only as of the date they are made. Except as required by law, 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.

## **Business Overview**

We are a national provider of infusion solutions. We partner with physicians, hospital systems, skilled nursing facilities, healthcare payors and pharmaceutical manufacturers to provide patients access to post-acute care services. We operate with a commitment to bring customer-focused healthcare infusion therapy services into the home or alternate-site setting. By collaborating with the full spectrum of healthcare professionals and the patient, we aim to provide cost-effective care that is driven by clinical excellence, customer service and values that promote positive outcomes and an enhanced quality of life for those whom we serve. As of the filing of this Quarterly Report, we have a total of 69 service locations in 28 states, and our corporate office located in Denver, Colorado.

Our platform provides nationwide service capabilities and the ability to deliver clinical management services that offer patients a high-touch, community-based and home-based care environment. Our core services are provided in coordination with, and under the direction of, the patient's physician. Our multidisciplinary team of clinicians, including pharmacists, nurses, dietitians and respiratory therapists, work with the physician to develop a plan of care suited to our patient's specific needs. Whether in the home, physician office, ambulatory infusion center, skilled nursing facility or other alternate sites of care, we provide products, services and condition-specific clinical management programs tailored to improve the care of individuals with complex health conditions such as gastrointestinal abnormalities, infectious diseases, cancer, multiple sclerosis, organ and blood cell transplants, bleeding disorders, immune deficiencies and heart failure.

We operate in one segment, Infusion Services, and accordingly, our results of operations are presented on a consolidated basis.

## **Financial Improvement Plan**

On August 10, 2015, we announced a plan to implement a new operations financial improvement plan (the "Financial Improvement Plan") as part of an initiative to accelerate long-term growth, reduce costs and increase operating efficiencies. In connection with the Financial Improvement Plan, we consolidated most corporate functions from our Eden Prairie, Minnesota corporate office and our Elmsford, New York executive office into our new executive and corporate office located in Denver, Colorado. The Financial Improvement Plan was substantially completed by the end of 2015. We have incurred approximately \$1.8 million for the three months ended March 31, 2016, and \$16.2 million since inception to date, respectively, in total expenses for the Financial Improvement Plan, consisting of \$1.5 million and \$9.3 million, respectively, of employee severance and other benefit-

related costs related to workforce reductions and \$0.3 million and \$6.9 million, respectively, of other consulting and professional fees included in restructuring, integration, and other expenses, net on the Unaudited Consolidated Statement of Operations.

### ***Regulatory Matters Update***

Approximately 21% and 24% of revenue for the three months ended March 31, 2016 and 2015 was derived directly from Medicare, state Medicaid programs and other government payors. We also provide services to beneficiaries of Medicare, Medicaid and other government-sponsored healthcare programs through managed care entities. Medicare Part D, for example, is administered through managed care entities. In the normal course of business, we and our customers are subject to legislative and regulatory changes impacting the level of reimbursement received from the Medicare and state Medicaid programs.

### ***State Medicaid Programs***

Over the last several years, increased Medicaid spending, combined with slow state revenue growth, led many states to institute measures aimed at controlling spending growth. Spending cuts have taken many forms including reducing eligibility and benefits, eliminating certain types of services, and provider reimbursement reductions. In addition, some states have been moving beneficiaries to managed care programs in an effort to reduce costs.

No single state Medicaid program represents greater than 5% of our consolidated revenue for the three months ended March 31, 2016, and no individual state Medicaid reimbursement reduction is expected to have a material effect on our Unaudited Consolidated Financial Statements. We are continually assessing the impact of the state Medicaid reimbursement cuts as states propose, finalize and implement various cost-saving measures.

Given the reimbursement pressures, we continue to improve operational efficiencies and reduce costs to mitigate the impact on results of operations where possible. In some cases, reimbursement rate reductions may result in negative operating results, and we would likely exit some or all services where rate reductions result in unacceptable returns to our stockholders.

States are also in the process of determining whether to expand their Medicaid programs as permitted by the PPACA. We cannot predict the impact of these decisions.

### ***Medicare***

Federal efforts to reduce Medicare spending have continued in 2016. Congress first passed the PPACA, followed by the Health Care and Education Reconciliation Act of 2010, which amended PPACA. In August 2011, Congress passed a deficit reduction agreement that created a committee tasked with proposing legislation to reduce the federal deficit by November 23, 2011. Because the committee did not act, automatic Medicare cuts were scheduled to go into effect January 1, 2013. However, Congress passed legislation extending the time for such cuts by three months. Thus, Medicare reimbursement to providers was reduced overall by 2% (as part of sequestration) beginning April 1, 2013. In addition, the Medicare Prescription Drug, Improvement, and Modernization Act of 2003 established requirements for a competitive bidding program for determining Medicare reimbursement rates for certain items of durable medical equipment, prosthetics, orthotics and supplies (“DMEPOS”), including enteral nutrients, supplies and equipment, certain respiratory therapy and home medical equipment products and external infusion pumps and supplies.

We are contract suppliers under the Round 1 Recompete, which included nine competitive bidding areas (“CBAs”) and six product categories, including external infusion pumps, and expires on December 31, 2016, and Round 2 of competitive bidding, which was conducted in 100 additional CBAs for eight product categories, including enteral nutrition, and expires on June 30, 2016. We have entered into strategic relationships in the CBAs in which we were not awarded contracts. We were not awarded any contracts in Round 2 Recompete, which goes into effect July 1, 2016 and includes 117 CBAs, comprising the same geographic area as the second round of competitive bidding, and seven product categories, including enteral nutrition, but we are currently exploring entering into strategic relationships in those CBAs. If we are unable to enter into such strategic relationships, our revenue may decrease, but we do not expect the negative impact to be material.

The reductions in Medicare reimbursement during the three months ended March 31, 2016 have not been significant, but their effect, together with the effect of Round 2 Recompete, on future results of operations cannot yet be predicted.

Approximately 10% of revenue for the three months ended March 31, 2016 was derived from Medicare.



**Critical Accounting Estimates**

Our Unaudited Consolidated Financial Statements have been prepared in accordance with United States 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 revenue and expenses during the reporting period. As a result, actual results could differ from these estimates.

We evaluate our estimates and judgments on an ongoing basis. We base our estimates and judgments on historical experience and on various other factors 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 may not be readily apparent from other sources. Our actual results may differ from these estimates, and different assumptions or conditions may yield different estimates. There have been no changes to critical accounting estimates in the three months ended March 31, 2016. For a full description of our accounting policies please refer to Management’s Discussion and Analysis of Financial Condition and Results of Operations in the Annual Report.

**Collectability of Accounts Receivable**

The following table sets forth the aging of our net accounts receivable (net of allowance for contractual adjustments and prior to allowance for doubtful accounts), aged based on date of service and categorized based on the three primary overall types of accounts receivable characteristics (in thousands):

	March 31, 2016			December 31, 2015		
	0 - 180 days	Over 180 days	Total	0 - 180 days	Over 180 days	Total
Government	\$ 21,183	\$ 10,717	\$ 31,900	\$ 19,944	\$ 11,369	\$ 31,313
Commercial	92,194	22,237	114,431	94,477	20,213	114,690
Patient	7,081	5,163	12,244	5,014	6,025	11,039
<b>Gross accounts receivable</b>	<b>\$ 120,458</b>	<b>\$ 38,117</b>	<b>158,575</b>	<b>\$ 119,435</b>	<b>\$ 37,607</b>	<b>157,042</b>
Allowance for doubtful accounts			(56,805)			(59,689)
<b>Net accounts receivable</b>			<b>\$ 101,770</b>			<b>\$ 97,353</b>

**Results of Operations**

The following discussion is based on our Unaudited Consolidated Financial Statements. It compares our results of operations for the three months ended March 31, 2016 with the prior year results of operations. As a result of the sale of the PBM Business on August 27, 2015, all prior period financial information has been reclassified to include the PBM Business as discontinued operations. During 2015, the Company reclassified the statement of operations to reflect the information that the Company believes to be most relevant to users of the Unaudited Consolidated Financial Statements.

**Three months ended March 31, 2016 compared to three months ended March 31, 2015**
**Three Months Ended March 31,**

(in thousands)

	2016		2015		Change
Net revenue	\$ 238,462	100 %	\$ 244,357	100 %	\$ (5,895)
Gross profit	64,232	27 %	64,955	27 %	(723)
Loss from continuing operations	(1,273)	(1)%	(6,203)	(3)%	4,930
Interest expense, net	9,412	4 %	9,163	4 %	249
Gain on sale of property and equipment	(939)	— %	—	— %	939
Loss from continuing operations, before income taxes	(9,746)	(4)%	(15,366)	(6)%	5,620
Loss from continuing operations, net of income taxes	(9,769)	(4)%	(17,294)	(7)%	7,525
Income (loss) from discontinued operations, net of income taxes	233	— %	(2,379)	(1)%	2,612
Net loss	\$ (9,536)	(4)%	\$ (19,673)	(8)%	\$ 10,137

*Net Revenue.* Net revenue for the three months ended March 31, 2016 decreased \$5.9 million, or (2)%, to \$238.5 million, compared to net revenue of \$244.4 million for the same period in 2015. The decrease in net revenue is primarily driven by lower patient service volumes in our Hepatitis business, together with the decline in patient volumes in IVIG, Synagis, and Chemo therapies. Net revenue for the three months ended March 31, 2016 and 2015 were as follows (in thousands):

Net Revenue					
Three Months Ended March 31, 2016	Percentage of Revenues	Three Months Ended March 31, 2015	Percentage of Revenues	Increase/ (Decrease)	Percentage Change
\$ 238,462	100%	\$ 244,357	100%	\$ (5,895)	(2)%

*Gross Profit.* Gross profit consists of revenue less cost of revenue (excluding depreciation expense). Our gross profit for the three months ended March 31, 2016 and 2015 were as follows (in thousands):

Gross Profit					
Three Months Ended March 31, 2016	Percentage of Revenues	Three Months Ended March 31, 2015	Percentage of Revenues	Increase/ (Decrease)	Percentage Change
\$ 64,232	27%	\$ 64,955	27%	\$ (723)	(1)%

The cost of revenue (excluding depreciation expense) primarily includes the costs of prescription medications, supplies, nursing services, shipping and other direct and indirect costs. The decrease in gross profit in dollars for the three months ended March 31, 2016 as compared to the same period in 2015, as with revenue, is also driven by lower patient service volume in our Hepatitis business and IVIG, Synagis, and Chemo therapies. Gross profit as a percentage of revenue is relatively consistent for the three months ended March 31, 2016 as compared to the same period in 2015.

*Other Operating Expenses.* Other operating expenses consist primarily of wages and benefits, travel expenses, professional service and field office expenses for our healthcare professionals engaged in providing infusion services to our patients. Other operating expenses for the three months ended March 31, 2016 and 2015 were as follows (in thousands):

Other Operating Expenses					
Three Months Ended March 31, 2016	Percentage of Revenues	Three Months Ended March 31, 2015	Percentage of Revenues	Increase/ (Decrease)	Percentage Change
\$ 39,658	17%	\$ 41,615	17%	\$ (1,957)	(5)%

Other operating expenses for the three months ended March 31, 2016 decreased compared to the same period in 2015 due to decreased wage, benefit, and other employee costs.

*Bad Debt Expense.* Bad debt expense for the three months ended March 31, 2016 and 2015 were as follows (in thousands):

Bad Debt Expense					
Three Months Ended March 31, 2016	Percentage of Revenues	Three Months Ended March 31, 2015	Percentage of Revenues	Increase/ (Decrease)	Percentage Change
\$ 7,591	3%	\$ 8,346	3%	\$ (755)	(9)%

The decrease in bad debt expense in the three months ended March 31, 2016 as compared to the same period in 2015 reflects the \$2.3 million benefit from a change in estimate associated with our allowance for doubtful accounts. The change in estimate had the effect of lowering our doubtful accounts allowance due to improved collection experience evidenced by more predictable cash receipts from our payors. At March 31, 2016, for the majority of our locations and their associated billed revenues, collections have returned to historical Infusion Services business levels experienced prior to the disruption related to acquisition integration.

*General and Administrative Expenses.* General and administrative expenses consist of wages and benefits for corporate overhead personnel and certain corporate level professional service fees, including legal, accounting, and IT fees. General and administrative expenses for the three months ended March 31, 2016 and 2015 were as follows (in thousands):

General and Administrative Expenses					
Three Months Ended March 31, 2016	Percentage of Revenues	Three Months Ended March 31, 2015	Percentage of Revenues	Increase/ (Decrease)	Percentage Change
\$ 11,051	5%	\$ 11,699	5%	\$ (648)	(6)%

The decrease in general and administrative expenses resulted from reductions in the number of corporate personnel and their associated wage and benefits costs, partially offset by increases in professional service fees, facility expenses, and other expenses.

*Restructuring, Integration, and Other Expenses, Net.* Our restructuring, integration, and other expenses, net for the three months ended March 31, 2016 and 2015 were as follows (in thousands):

Restructuring, Integration, and Other Expenses, net					
Three Months Ended March 31, 2016	Percentage of Revenues	Three Months Ended March 31, 2015	Percentage of Revenues	Increase/ (Decrease)	Percentage Change
\$ 2,667	1%	\$ 3,704	2%	\$ (1,037)	(28)%

The restructuring, integration, and other expenses, net decreased by \$1.0 million during the three months ended March 31, 2016 as a result of nearing completion of our strategic assessment and associated restructuring plans. The restructuring, integration, and other expenses consist primarily of employee severance and other benefit-related costs, third-party consulting costs, redundant facility-related costs and certain other costs.

*Depreciation and Amortization Expense.* Depreciation and amortization expense includes the depreciation of property and equipment and the amortization of intangible assets such as customer relationships, trademarks, and non-compete agreements with estimable lives. During the three months ended March 31, 2016 and 2015, we recorded depreciation expense of \$3.7 million and \$4.3 million, respectively, and amortization expense of intangibles of \$0.8 million and \$1.5 million, respectively. Depreciation and amortization expense for the three months ended March 31, 2016 and 2015 were as follows (in thousands):

Depreciation and Amortization Expense					
Three Months Ended March 31, 2016	Percentage of Revenues	Three Months Ended March 31, 2015	Percentage of Revenues	Increase/ (Decrease)	Percentage Change
\$ 4,538	2%	\$ 5,794	2%	\$ (1,256)	(22)%

The decrease in depreciation expense in the three months ended March 31, 2016 as compared to the same period in 2015 is the result of a lower property and equipment net balance at the beginning of the current three months period. The decrease in amortization expense of intangibles is a result of a certain intangibles balance being fully amortized in 2015.

*Interest Expense, Net.* Interest expense, net consists primarily of interest income, interest expense, and amortization of deferred financing costs. During the three months ended March 31, 2016 and 2015, we recorded net interest expense of \$9.4 million and

\$9.2 million, respectively, including \$0.9 million and \$0.6 million of amortization of deferred financing costs, respectively. Our interest expense, net for the three months ended March 31, 2016 and 2015 were as follows (in thousands):

Interest Expense, Net					
Three Months Ended March 31, 2016	Percentage of Revenues	Three Months Ended March 31, 2015	Percentage of Revenues	Increase/ (Decrease)	Percentage Change
\$ 9,412	4%	\$ 9,163	4%	249	3%

*Gain on Sale of Property and Equipment.* Gain on sale of property and equipment includes a gain of \$0.9 million related to the sale of the Infusion Services center in Pittsburgh, Pennsylvania in the first quarter of 2016. Gain on sale of property and equipment for the three months ended March 31, 2016 and 2015 were as follows (in thousands):

Gain on Sale of Property and Equipment					
Three Months Ended March 31, 2016	Percentage of Revenues	Three Months Ended March 31, 2015	Percentage of Revenues	Increase/ (Decrease)	Percentage Change
(939)	—%	—	—%	939	—%

*Income Tax Provision.* Our income tax provision for the three months ended March 31, 2016 and 2015 were as follows (in thousands):

Income Tax Provision					
Three Months Ended March 31, 2016	Percentage of Revenues	Three Months Ended March 31, 2015	Percentage of Revenues	Increase/ (Decrease)	Percentage Change
\$ 23	—%	\$ 1,928	1%	(1,905)	(99)%

The 2016 income tax provision includes a federal tax benefit of \$3.4 million, offset by a \$3.4 million adjustment related to deferred tax asset valuation allowances. The income tax provision of \$1.9 million for three months ended March 31, 2015 includes a federal tax benefit of \$4.9 million, offset by a \$6.8 million adjustment to deferred tax asset valuation allowances.

#### Non-GAAP Measures

The following table reconciles GAAP loss from continuing operations, net of income taxes to Consolidated Adjusted EBITDA. Consolidated Adjusted EBITDA is net income (loss) adjusted for net interest expense, income tax provision (benefit), depreciation and amortization, impairments, and stock-based compensation expense. Consolidated Adjusted EBITDA also excludes restructuring, integration and other expenses including non-operating costs associated with restructuring and integration initiatives such as employee severance costs, certain legal and professional fees, training costs, redundant wage costs, impacts recorded from the change in contingent consideration obligations, and other costs related to contract terminations and closed branches/offices.

Consolidated Adjusted EBITDA is a measure of earnings that management monitors as an important indicator of financial performance, particularly future earnings potential and recurring cash flow. Consolidated Adjusted EBITDA is also a primary objective of the management bonus plan.

Non-GAAP financial measures have limitations as analytical tools and should not be considered in isolation or as a substitute for our financial results prepared in accordance with GAAP. Our calculation of Non-GAAP Consolidated Adjusted EBITDA, as presented, may differ from similarly titled measures reported by other companies. We encourage investors to review these reconciliations and we qualify our use of non-GAAP financial measures with cautionary statements as to their limitations.

	<b>Three Months Ended March 31,</b>	
	<b>2016</b>	<b>2015</b>
	<b>(in thousands)</b>	
Infusion services Adjusted EBITDA	\$ 16,983	\$ 14,994
Corporate overhead Adjusted EBITDA	(9,577)	(10,042)
Consolidated Adjusted EBITDA	7,406	4,952
Interest expense, net	(9,412)	(9,163)
Gain on sale of property and equipment	939	—
Income tax provision	(23)	(1,928)
Depreciation and amortization expense	(4,538)	(5,794)
Stock-based compensation expense	(1,474)	(1,657)
Restructuring, integration, and other expenses, net	(2,667)	(3,704)
<b>Loss from continuing operations, net of income taxes</b>	<b>\$ (9,769)</b>	<b>\$ (17,294)</b>

Consolidated Adjusted EBITDA increased during the three months ended March 31, 2016 compared to the same periods in the prior year mainly due to the restructuring efforts undertaken by the Company, the reduction in corporate overhead cost and the focus on the core Infusion Services business.

## Liquidity and Capital Resources

### Sources and Uses of Funds

Net cash used in operating activities from continuing operations totaled \$5.0 million during the three months ended March 31, 2016 compared to \$26.6 million during the three months ended March 31, 2015, a decrease of \$21.7 million. Significant changes in operating assets and liabilities provided \$18.0 million more cash in the three months ended March 31, 2016 as compared to the same period in 2015. This consisted primarily of a year over year decrease in inventory and prepaid expenses of \$27.3 million and year over year increases in accrued expenses of \$7.1 million and amounts due to plan sponsors of \$1.8 million, offset by a year over year decrease in accounts payable of \$13.0 million and an increase in accounts receivable of \$5.2 million, primarily as a result of improved billing and collection efforts, offset by a reduction in the allowance for doubtful accounts. Net cash used in operating activities from discontinued operations was predominantly for the final payment of the Settlement Agreements discussed in Note 7 - Commitments and Contingencies to our Unaudited Consolidated Financial Statements.

Net cash used in investing activities from continuing operations during the three months ended March 31, 2016 was \$1.3 million compared to \$2.1 million of cash used during the same period in 2015. Expenditures for property and equipment were \$2.4 million during the three months ended March 31, 2016 as compared to \$2.1 million during the same period in 2015.

Net cash provided by financing activities from continuing operations during the three months ended March 31, 2016 was \$4.8 million compared to \$52.6 million of cash provided by financing activities during the same period in 2015. The cash provided by financing activities in the first quarter of 2016 is a result of advances of \$21.0 million offset by repayments of \$13.0 million on our Revolving Credit Facility (defined below), offset by \$3.1 million of principal payments made on the Term Loan Facility. The cash provided by financing activities in the first quarter of 2015 primarily resulted from the net proceeds of \$59.0 million related to our issuance of Series A Preferred Stock and PIPE Warrants in the PIPE Transaction.

At March 31, 2016, we had working capital of \$23.2 million, including \$8.1 million of cash on hand, compared to \$30.9 million at December 31, 2015. The \$7.8 million decrease in working capital primarily results from a decrease in our cash and cash equivalents of \$7.5 million. At March 31, 2016, approximately \$46.6 million of our Revolving Credit Facility was available for working capital needs after considering outstanding letters of credit totaling \$5.4 million. Our Revolving Credit Facility borrowing capacity is subject to certain conditions described below in "MD&A - Liquidity and Capital Resources - Senior Credit Facilities."

## Senior Credit Facilities

On July 31, 2013, we entered into (i) a senior secured first-lien revolving credit facility in an aggregate principal amount of \$75.0 million (the “Revolving Credit Facility”), (ii) a senior secured first-lien term loan B in an aggregate principal amount of \$250.0 million (the “Term Loan B Facility”) and (iii) a senior secured first-lien delayed draw term loan B in an aggregate principal amount of \$150.0 million (the “Delayed Draw Term Loan Facility”) and, together with the Revolving Credit Facility and the Term Loan B Facility, the “Senior Credit Facilities”) with SunTrust Bank, Jefferies Finance LLC and Morgan Stanley Senior Funding, Inc.

On January 31, 2014, we entered into a Second Amendment to the Senior Credit Facilities (the “Second Amendment”), which, among other things (i) provides additional flexibility with respect to compliance with the maximum net leverage ratio for the fiscal quarters ending December 31, 2013 through and including December 31, 2014, (ii) provides additional flexibility under the indebtedness covenants to permit us to obtain up to \$150.0 million of second-lien debt and issue up to \$250.0 million of unsecured bonds, provided that 100% of the net proceeds are applied first to the Revolving Credit Facility, with no corresponding permanent commitment reduction, and then to the Term Loan B Facility, (iii) provides the requisite flexibility to sell non-core assets, subject to the satisfaction of certain conditions, and (iv) increased the applicable interest rates for the Term Loan Facilities to the Eurodollar rate plus 6.00% or the base rate plus 5.00%, until the occurrence of certain pricing decrease triggering events, as defined in the Second Amendment. Upon the occurrence of a pricing decrease triggering event, the interest rates for the Senior Credit Facilities may revert to the Eurodollar rate plus 5.25% or the base rate plus 4.25%. The partial repayments of the Senior Credit Facilities as a result of the issuance of the 2021 Notes and from the March 31, 2014 sale of the Company’s Home Health Services segment (the “Home Health Business”) were pricing decrease triggering events that resulted in the interest rates reverting to the Eurodollar rate plus 5.25% or the base rate plus 4.25% as of March 31, 2014. As of March 31, 2016 the interest rate related to the Revolving Credit Facility is approximately 7.75% and 6.50% for the Term Loan Facilities. The interest rates may vary in the future depending on our consolidated net leverage ratio.

On March 1, 2015, we entered into the Third Amendment to the Senior Credit Facilities (the “Third Amendment”) which establishes an alternate leverage test for the fiscal quarters ending March 31, 2015 through and including March 31, 2016. The maximum net leverage ratio for these quarters is consistent with that in effect for the prior four fiscal quarters. The Third Amendment eliminated the need to meet progressively lower leverage ratio requirements at each quarter end date for the next four quarters. The Third Amendment also provides for certain additional financial reporting.

On August 6, 2015, we entered into a Fourth Amendment to the Senior Credit Facilities (the “Fourth Amendment”). The Fourth Amendment, among other things, provides additional relief with respect to measuring compliance with the maximum first lien net leverage ratio for the fiscal quarters ending September 30, 2015 through and including March 31, 2017 and modifies and extends an alternate leverage test for the fiscal quarters ending September 30, 2015 through and including March 31, 2017. The levels for the maximum first lien net leverage ratio for certain of these quarters were increased by the Fourth Amendment. The availability of the alternative first lien net leverage ratio is subject to a number of conditions, including a minimum liquidity requirement and a maximum utilization test that requires the Revolving Credit Facility balance to remain under \$60.0 million for the alternative first lien net leverage ratio to apply.

On October 9, 2015, we entered into the Fifth Amendment to the Senior Credit Facilities (the “Fifth Amendment”). The Fifth Amendment directly modifies the definition of a “Continuing Director” to remove the following language: “(excluding, in the case of both clauses (B) and (C), any individual whose initial nomination for, or assumption of office as, a member of that board or equivalent governing body occurs as a result of an actual or threatened solicitation of proxies or consents for the election or removal of one or more directors by any person or group other than a solicitation for the election of one or more directors by or on behalf of the board of directors).” The definition of “Continuing Director” is now defined in full as, “with respect to any period, any individuals (A) who were members of the board of directors or other equivalent governing body of the Borrower on the first day of such period, (B) whose election or nomination to that board or equivalent governing body was approved by individuals referred to in clause (A) above constituting at the time of such election or nomination at least a majority of that board or equivalent governing body, or (C) whose election or nomination to that board or other equivalent governing body was approved by individuals referred to in clauses (A) and (B) above constituting at the time of such election or nomination at least a majority of that board or equivalent governing body.” This amended definition also indirectly modifies the definition of a “Change in Control.”

As discussed below, the net proceeds of approximately \$194.5 million from the issuance of the 2021 Notes on February 11, 2014 were used to repay \$59.3 million of the Revolving Credit Facility and \$135.2 million of the term loan portion of the Senior Credit Facilities. In addition, approximately \$54.2 million of the net proceeds from the sale of our Home Health Business were used to repay \$17.2 million of the Revolving Credit Facility and \$37.0 million of the term loan portion of the Senior Credit Facilities. Further, approximately \$45.3 million of the net proceeds from the PIPE Transaction (as defined below) were used to repay the Revolving Credit Facility and accrued interest. In addition, as disclosed in “Sources and Uses of Funds,” we repaid

\$22.7 million on the Revolving Credit Facility from the net proceeds from the sale of the PBM Business. Once repaid, amounts under the Term Loan B Facility and the Delayed Draw Term Loan Facility may not be re-borrowed. The Senior Credit Facilities are secured by substantially all of the Company's and its subsidiaries' assets.

The Revolving Credit Facility matures on July 31, 2018 at which time all principal amounts outstanding are due and payable. The Term Loan Facilities require quarterly principal repayments of \$3.1 million beginning March 31, 2016 until their July 31, 2020 maturity at which time the remaining principal amount of approximately \$166.3 million is due and payable.

### ***Issuance of 2021 Notes***

On February 11, 2014, we issued \$200.0 million aggregate principal amount of 8.875% senior notes due in 2021 (the "2021 Notes") with net proceeds to us of approximately \$194.5 million. The 2021 Notes are senior unsecured obligations of the Company and are fully and unconditionally guaranteed by all existing and future subsidiaries of the Company. As of March 31, 2016, we do not have any independent assets or operations and, as a result, our direct and indirect subsidiaries (other than minor subsidiaries), each being 100% owned by us, are fully and unconditionally, jointly and severally, providing guarantees on a senior unsecured basis to the 2021 Notes.

Interest on the 2021 Notes accrues at the rate of 8.875% per annum and is payable semi-annually in cash in arrears on February 15 and August 15 of each year, commencing on August 15, 2014. The debt discount of \$5.0 million at issuance is being amortized as interest expense through maturity which will result in the accretion over time of the outstanding debt balance to the principal amount. The 2021 Notes are the Company's senior unsecured obligations and rank equally in right of payment with all of its other existing and future senior unsecured indebtedness and senior in right of payment to all of its existing and future subordinated indebtedness.

### ***PIPE Transaction***

On March 9, 2015, we entered into a securities purchase agreement (the "Purchase Agreement") with Coliseum Capital Partners, L.P., Coliseum Capital Partners II, L.P., and Blackwell Partners, LLC, Series A, (collectively, the "PIPE Investors"). Pursuant to the terms of the Purchase Agreement, we issued and sold to the PIPE Investors in a private placement (the "PIPE Transaction") an aggregate of (a) 625,000 shares of Series A Convertible Preferred Stock, par value \$0.0001 per share (the "Series A Preferred Stock"), at a purchase price per share of \$100.00, (b) 1,800,000 Class A warrants (the "Class A Warrants"), and (c) 1,800,000 Class B warrants (the "Class B Warrants" and, together with the Class A Warrants, the "PIPE Warrants"), for gross proceeds of \$62.5 million. The initial conversion price for the Series A Preferred Stock is \$5.17. The PIPE Warrants may be exercised to acquire shares of Common Stock. Pursuant to an addendum (the "Warrant Addendum"), dated March 23, 2015, to the Warrant Agreement, dated March 9, 2015, with the PIPE Investors, the PIPE Investors paid the Company \$0.5 million in the aggregate, and the per share exercise price of the Class A Warrants and Class B Warrants was set at \$5.17 and \$6.45, respectively, reduced from \$5.295 to \$5.17 and from \$6.595 to \$6.45, respectively. The Series A Preferred Stock and the PIPE Warrants were issued in reliance upon the exemptions from the registration requirements of the Securities Act as set forth in Section 4(a)(2) of the Securities Act and Rule 506(b) of Regulation D promulgated thereunder.

In 2015, we repaid approximately \$45.3 million of the Revolving Credit Facility indebtedness and accrued interest, representing 77% of the PIPE Transaction's net proceeds.

### ***Rights Offering***

On June 30, 2015, we announced the commencement of a rights offering (the "Rights Offering") pursuant to which we distributed subscription rights to purchase units consisting of (1) Series A Preferred Stock, each share convertible into shares of Common Stock at a conversion price of \$5.17 per share, (2) Class A warrants to purchase one share of Common Stock at a price of \$5.17 per share (the "Public Class A Warrants"), and (3) Class B warrants to purchase one share of Common Stock at a price of \$6.45 per share (the "Public Class B Warrants" and, together with the Public Class A Warrants, the "Public Warrants"). The Rights Offering was completed on July 31, 2015. Our stockholders exercised subscription rights to purchase 10,822 units, consisting of an aggregate of 10,822 shares of the Series A Preferred Stock, 31,025 Public Class A Warrants, and 31,025 Public Class B Warrants, at a subscription price of \$100.00 per unit. Pursuant to the Rights Offering, we raised gross proceeds of approximately \$1.1 million.

With the exception of the expiration date, the Class A Warrants issued pursuant to the PIPE Transaction, as amended by the Warrant Addendum, have the same terms as the Public Class A Warrants issued pursuant to the Rights Offering. Similarly, with the exception of the expiration date, the Class B Warrants issued pursuant to the PIPE Transaction, as amended by the Warrant Addendum, have the same terms as the Public Class B Warrants issued pursuant to the Rights Offering.

## **Income Taxes**

At March 31, 2016, we had Federal net operating loss (“NOL”) carry forwards of approximately \$259.7 million, of which \$17.7 million is subject to an annual limitation, which will begin expiring in 2026 and later. Of our Federal NOLs, \$18.0 million will be recorded in additional paid-in capital when realized. These NOLs are related to the exercise of non-qualified stock options and restricted stock grants. We have post-apportioned state NOL carry forwards of approximately \$339.5 million, the majority of which will begin expiring in 2017 and later.

## **Future Cash Requirements**

Net cash used in operating activities from continuing operations totaled \$5.0 million during the three months ended March 31, 2016. Our working capital decreased \$7.8 million as of March 31, 2016 compared to December 31, 2015. Our future cash requirements may cause us to seek additional or alternative sources of liquidity, including borrowings under our Revolving Credit Facility. As of April 30, 2016, we have \$23.0 million drawn on our Revolving Credit Facility and outstanding letters of credit of \$5.4 million, thereby giving us \$46.6 million of additional capacity subject to triggering more stringent financial covenants, or \$31.6 million of additional borrowing capacity to remain subject to the alternate leverage test. We are subject to certain financial covenants, including a consolidated first lien leverage ratio. On August 6, 2015, we entered into the Fourth Amendment, which amended the Senior Credit Facility to provide additional flexibility, including an alternate leverage test for the consolidated first lien leverage ratio, with the financial covenants through March 31, 2017. Under the Fourth Amendment, the alternate leverage test is available to us as long as our Revolving Credit Facility balance does not exceed \$60.0 million.

We regularly evaluate market conditions and financing options to improve our current liquidity profile and enhance our financial flexibility. These options may include opportunities to raise additional funds through the issuance of various forms of equity and/or debt securities or other instruments, the sale of assets or refinancing all or a portion of our indebtedness. However, there is no assurance that, if necessary, we would be able to raise capital to provide required liquidity.

Additionally, we will pursue our operational and strategic plan and will also, with the assistance of our financial advisor, review a range of strategic alternatives, which could include, among other things, transitioning chronic therapies to alliance partners, a potential sale or merger of our company, or continuing to pursue our operational and strategic plan. Additionally, we may pursue joint venture arrangements, additional business acquisitions and other transactions designed to expand our business.

As of the filing of this Quarterly Report, we expect that our cash from operations and available borrowing capacity under our Revolving Credit Facility will be sufficient to fund our anticipated working capital, information technology systems investments, scheduled principal and interest repayments and other cash needs for at least the next 12 months.

## **Item 3. Quantitative and Qualitative Disclosures About Market Risks**

There have been no material changes to our exposure to market risk since the Annual Report.

## **Item 4. Controls and Procedures**

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

The Company maintains disclosure controls and procedures (as such term is defined under Rule 13a-15(e) promulgated under the Exchange Act) that are designed to ensure that information required to be disclosed by the Company in the reports we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC’s rules and forms, and that such information is accumulated and communicated to the Company’s management, including its Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure. Under the supervision and with the participation of the Company’s management, including its Chief Executive Officer and Chief Financial Officer, management evaluated the effectiveness of the Company’s disclosure controls and procedures as of March 31, 2016. Based on that evaluation, the Company’s Chief Executive Officer and its Chief Financial Officer concluded that the Company’s disclosure controls and procedures were effective as of March 31, 2016.

### **Changes in Internal Control Over Financial Reporting**

There have been no changes in our internal control over financial reporting that occurred during the three months ended March 31, 2016 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.



**PART II**  
**OTHER INFORMATION**

**Item 1. *Legal Proceedings***

For a summary of legal proceedings please refer to Note 7 within the financial statements section of this document.

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

The risk factors disclosed in “Item 1A. Risk Factors” included in our Annual Report on Form 10-K for the year ended December 31, 2015, are hereby incorporated by reference. There have been no material changes to such risk factors during the three months ended March 31, 2016.

**Item 5. *Other Information***

None.

**Item 6. Exhibits**

(a) Exhibits.

<b>Exhibit Number</b>	<b>Description</b>
3.1	Second Amended and Restated Certificate of Incorporation of the Company (incorporated by reference to Exhibit 3.2 to the Company's Registration Statement on Form S-4 (File No. 333-119098) declared effective on January 26, 2005).
3.2	Amendment to the Second Amended and Restated Certificate of Incorporation of the Company (incorporated by reference to Exhibit 3.1 to the Company's Current Report on Form 8-K filed on June 10, 2010, SEC File Number 000-28740).
3.3	Certificate of Designations for Series A Convertible Preferred Stock (incorporated by reference to Exhibit 3.1 to the Company's Current Report on Form 8-K filed on March 10, 2015, SEC File Number 000-28740).
3.4	Amended and Restated By-Laws of the Company (incorporated by reference to Exhibit 3.2 to the Company's Current Report on Form 8-K filed on April 28, 2011, SEC File Number 000-28740).
31.1	Certification of Chief Executive Officer 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 Chief Financial Officer 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 Chief Executive Officer 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 Chief Financial Officer pursuant to 18 U.S. C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101 *	The following financial information from BioScrip, Inc.'s Quarterly Report on Form 10-Q for the period ended March 31, 2016, formatted in XBRL (eXtensible Business Reporting Language): (i) Unaudited Consolidated Statements of Operations for the three months ended March 31, 2016 and 2015, (ii) Consolidated Balance Sheets as of March 31, 2016 and December 31, 2015, (iii) Unaudited Consolidated Statements of Cash Flows for the three months ended March 31, 2016 and 2015, and (iv) Notes to Unaudited Consolidated Financial Statements.

\* Pursuant to Rule 406T of Regulation S-T, these interactive data files are deemed not filed or part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933 or Section 18 of the Securities Exchange Act of 1934 and otherwise are not subject to liability under those sections.

**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, thereunto duly authorized, on May 6, 2016.

**BIOSCRIP INC.**

/s/ C. Britt Jeffcoat

C. Britt Jeffcoat

Vice President, Controller  
and Chief Accounting Officer

## CERTIFICATION PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Richard M. Smith, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q 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.

Date: May 6, 2016

/s/ Richard M. Smith

Richard M. Smith, President, Chief Executive Officer  
and Principal Executive Officer

## CERTIFICATION PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Jeffrey M. Kreger, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q 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.

Date: May 6, 2016

/s/ Jeffrey M. Kreger

Jeffrey M. Kreger, Chief Financial Officer,  
Treasurer and Principal Financial Officer

**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 Quarterly Report of BioScrip, Inc. (the "Company") on Form 10-Q for the quarter ended March 31, 2016, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Richard M. Smith, 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.

Date: May 6, 2016

/s/ Richard M. Smith  
Richard M. Smith, President, Chief Executive Officer  
and Principal Executive Officer

**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 Quarterly Report of BioScrip, Inc. (the "Company") on Form 10-Q for the quarter ended March 31, 2016, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Jeffrey M. Kreger, 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.

Date: May 6, 2016

/s/ Jeffrey M. Kreger  
Jeffrey M. Kreger, Chief Financial Officer,  
Treasurer and Principal Financial Officer