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# UNITED STATES SECURITIES AND EXCHANGE COMMISSION

**Washington, D.C. 20549**

# Form 10-K

(Mark One)

☑ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

**For the fiscal year ended December 31, 2005**

**OR**

**o PERIODIC REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

**For the transition period from to**

**Commission file number: 0-28740**

# BioScrip, Inc.

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

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

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

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

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

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

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

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act.

o Large accelerated filer ☑ Accelerated filer o Non-accelerated filer

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

The aggregate market value of the registrant's Common Stock held by non-affiliates of the registrant as of June 30, 2005, the last business day of the registrant's most recently completed second fiscal quarter, was approximately $214,012,152 based on the closing price of the Common Stock on the Nasdaq National Market on such date.

On March 24, 2006 there were outstanding 37,346,838 shares of the registrant's Common Stock.

**DOCUMENTS INCORPORATED BY REFERENCE**

Portions of the registrant's definitive proxy statement for its 2006 Annual Meeting of Stockholders to be filed with the SEC within 120 days after the close of the registrant's fiscal year are incorporated by reference into Part III of this Annual Report.

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## PART I

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

- our expectations regarding financial condition or results of operations for periods after December 31, 2005;
- our future sources of, and needs for, liquidity and capital resources;
- our expectations regarding general economic and business conditions;
- our critical accounting policies;
- our expectations regarding the size and growth of the market for our products and services;
- our business strategies and our ability to grow our business;
- the implementation or interpretation of current or future regulations and legislation; and
- our ability to maintain contracts and relationships with our customers;

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

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

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

### Item 1. *Business*

### Overview

We are a specialty pharmacy services provider that distributes prescription drugs, coordinates customer benefits and provides specialized therapy management services for people with certain chronic health conditions, particularly those treated with biotech injectable medications, as well as those afflicted with potentially life threatening or debilitating diseases or genetic disorders and requiring specialty medications. We work with patients, physicians and pharmaceutical manufacturers. We also work directly with a variety of health insurers, including HMO’s, indemnity plans and PPO’s, managed care organizations, other insurance companies, and, to a lesser extent, labor unions, self-funded employer groups, government agencies (including Medicaid and Medicare) and other self-funded plan sponsors, as well as through third-party administrators. We work with all of these constituents in a concerted effort to improve clinical and economic outcomes while enhancing the quality of life for patients who are living with chronic health conditions.

We were incorporated in Delaware in 1996 under the name MIM Corporation. On March 12, 2005 we acquired all of the issued and outstanding stock of Chronimed Inc. ("Chronimed") in a stock-for-stock transaction and changed our name to BioScrip, Inc. The acquisition resulted in an organization that is able to offer broader disease coverage, focused therapy management, expansive national retail and mail distribution capabilities and a pharmacy benefit management ("PBM") platform. We believe that the acquisition of Chronimed resulted in an organization with increased scale, enhanced financial capacity and a diversified customer portfolio.

Our services are organized under two operating segments: (i) specialty pharmacy distribution and clinical management services (collectively, "Specialty Services") which are provided through our community pharmacy, infusion services, and specialty mail pharmacy businesses; and (ii) pharmacy benefit management and traditional mail services (collectively, "PBM Services").

Our Specialty Services are provided primarily to patients who either have chronic health conditions or who are afflicted with potentially life threatening or debilitating diseases or genetic disorders and require specialty medications. These specialty services include the distribution of biotech and other high cost injectable, oral and infusable prescription medications and the provision of pharmacy-related clinical management services, product administration and disease state programs. Specialty Services are also offered to physicians, in a variety of practice and/or hospital settings, on behalf of their patients. Many of these physicians have network affiliations with Plan Sponsors, who in turn have a relationship with us.

Historically, our PBM Services were offered to Plan Sponsors and were designed to promote a broad range of cost-effective, clinically appropriate pharmacy benefit management services through our network of retail pharmacies and our dedicated traditional mail service distribution facility. Over the past several years we have focused on building our Specialty Services for strategic growth. Consequently, the PBM Services' managed care business has decreased as a percentage of total revenue.

As part of our business we develop and maintain existing relationships with pharmaceutical manufacturers through a dedicated Pharmaceutical Relations department. These efforts have been concentrated on the creation and execution of new drug distribution and service contracts in our core specialty therapeutic areas, including providing those medications used for the treatment of Cancer, Multiple Sclerosis, HIV, Immune Deficiency and other chronic illnesses and life threatening diseases. We believe that the specialty management services we provide through our national mail pharmacy, community pharmacies and infusion businesses are attractive to the pharmaceutical manufacturer community as demonstrated by recent successes in being selected for participation in national specialty distribution networks for newly approved, high-cost medications. These new contracts provide new sales and revenue opportunities which we began to realize in 2005 and expect to continue in 2006 and beyond.

We also distribute and administer high cost specialty infusion therapies to patients principally requiring immunological blood products, parenteral nutrition products, and infused antibiotic therapies. We strive to maximize therapy outcomes through strict adherence to the clinical guidelines or protocols for a particular prescription therapy while at the same time managing the costs of such therapies on behalf of a Plan Sponsor or patient. Unlike the other specialty programs, infusion patients have their therapies administered intravenously by IV certified nurses.

**Specialty Services**

We provide specialty pharmaceutical products and services throughout the United States. Our Specialty Services segment distributes biotech and other high-cost injectable and infusible prescription medications, in addition to traditional tablets and capsules, and provides clinically focused case and therapy management programs to patients with chronic health conditions or who are genetically impaired or are afflicted with potentially life threatening or debilitating diseases. Our Specialty Services segment has two distinct distribution models: (i) local or community based distribution through our community pharmacies, under which we dispense medication to retail consumers at the point of sale or through home delivery. Those patients typically have commercial prescription drug coverage or coverage through Medicare or Medicaid, and we are reimbursed for our prescription drugs by pharmacy benefit managers, third party payors, Medicare or

Medicaid; and (ii) national/regional specialty mail distribution, under which we contract with Plan Sponsors on an exclusive or preferred basis to dispense and ship injectable and infusible medications directly to a patient or to the patient's physician for administration. Our specialty services and programs help to improve the quality of life for patients while managing Plan Sponsors' drug spending through compliance and appropriate utilization. Our software and data management tools permit Plan Sponsors, pharmaceutical manufacturers and physicians to: (i) better manage healthcare outcomes; (ii) control prescription costs; and (iii) measure cost, utilization, prescribing and other pharmacy trends.

We have 34 specialty pharmacies that operate under the "BioScrip" name. Our specialty pharmacies are located in major metropolitan areas across the United States. While all of our locations are full-service community retail pharmacies, which carry both traditional and specialty medications and are able to treat people with a variety of diseases and medical conditions, we primarily focus our efforts on serving populations with rare or uncommon conditions, including:

- Cancer and related conditions
- Crohn's Disease
- Hemophilia
- Hepatitis C
- HIV/AIDS
- Multiple Sclerosis
- Organ Transplant
- Rheumatoid Arthritis

We also distribute specialty medications through the mail. Our mail service locations in Columbus, Ohio and San Francisco, California, are able to mail prescriptions to patients in all 50 states.

The services we provide include:

***Distribution***

We carry a full range of prescription medications. We can dispense nearly any prescription medication for common, acute and chronic diseases and conditions. As a specialty pharmacy provider, our mail and community pharmacy locations also carry hard-to-find and very expensive medications that other pharmacies generally will not or cannot obtain or stock. This allows us to guarantee timely delivery of specialty medications and differentiates us from other retail pharmacies.

Our pharmacies also deliver medications to physicians' offices for in-office administration. We provide the drug product along with supplies and equipment needed for administration. We can bill these medications directly to the physicians or bill the patient's insurance plan, removing some of the administrative burden placed upon the physician's office.

***Billing and Coordination of Benefits***

Our pharmacies offer comprehensive billing and coordination of benefits ("COB") services. All of our locations are contracted with their respective state Medicaid programs and with Medicare. Approximately 50% of our locations are also contracted with state AIDS Drug Assistance Programs ("ADAPs") and other Ryan White-funded programs. In addition, our pharmacies are contracted with all of the major and smaller regional pharmacy benefit management companies many of the local, regional and national HMOs, PPO and indemnity insurance companies; and local third party administrators and union funds.

Our comprehensive COB services help combat a patient's inability to pay a co-payment or coinsurance which is a common cause of non-compliance with prescribed drug therapy and prescription refills. Many of our patients take advantage of this service to reduce their out-of-pocket expenses while they await reimbursement from secondary or other payors. We will bill all potential payors for the prescription and only charge the patient for co-payment or coinsurance amounts once their benefits have been exhausted. Because

other retail pharmacies do not typically provide COB services, we believe it to be a major differentiator from our competitors. All co-payments and coinsurance payments are billed and collection efforts are diligently pursued unless approved financial hardship exemptions are in effect.

***Professional Intervention***

Most of the diseases and conditions we support require complex, multi-drug regimens for treatment. Some of those regimens may include up to 20 different medications, many of which have potentially adverse side effects and drug interactions. Our pharmacists review every prescription presented for a patient against that patient's medical history, his or her past and current medication usage, and clinical references to make sure the therapy selected is clinically appropriate. If our pharmacists find a potential or actual problem, they contact the prescriber to discuss that patient's case and alternative medications.

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

***Patient Education***

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

Our pharmacies also teach patients requiring injectable medications self-injection techniques. Many of the specialty medications we dispense are given by injection, either just below the skin or into the muscle. We teach patients how to mix their medications, how to inject them, and how to deal with any site reactions that may occur. We often have the patient administer their first dose in the pharmacy so they feel comfortable with taking the medication(s) when they get home. Our pharmacists are available by telephone in case the patient has questions, and generally follow up by telephone within 3 to 5 days on their teaching session.

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

***Adherence and Persistence Management***

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

Because adherence and persistence are keys to achieving the optimal results for which a medication is prescribed, our pharmacists take a very active role in promoting and managing them. We stress the importance of adherence and persistence during our initial teaching sessions and with each medication refill. We provide refill reminders, either by phone call or e-mail, to alert people when a prescription refill is due. We routinely

follow up with people who do not show up on time for their refills, alerting physicians and other health care providers when the patient cannot be located. We back up these activities with a nurse-based adherence management program for select conditions that carry a higher risk of complications or treatment failures. We believe that these services and programs allow us to achieve adherence rates markedly above the industry's averages.

***Pharmacy Case Management***

We provide patients with access to our pharmacy case management team ("PCM Team"), which is a specialized unit of skilled professionals including Pharmacists, Registered Nurses, Certified Pharmacy Technicians, Insurance Verification and Reimbursement Specialists, and Customer Service Representatives. The PCM Team is available via phone to both providers and patients 24 hours per day, seven days per week, 365 days per year. Each PCM Team member is cross-trained in case management as well as in each of the individual disease states for which we have programs, in order to provide Plan Sponsors and their Members with a variety of basic services, including:

*Prior Authorizations.* We assist in developing formal criteria and protocols for the effective management of specialty pharmaceutical care. Criteria are established and reviewed prior to the onset of a patient's therapy to ensure appropriate prescribing and utilization, thereby managing a Plan Sponsor's drug spend accordingly.

*Infusion Therapy.* We also distribute and administer high cost specialty infusion therapies to patients principally requiring immunological blood products, parenteral nutrition products, and infused antibiotic therapies. We strive to maximize therapy outcomes through strict adherence to the clinical guidelines or protocols for a particular prescription therapy while at the same time managing the costs of such therapies on behalf of a Plan Sponsor or patient. Unlike the other specialty programs, infusion patients have their therapies administered intravenously by IV certified nurses.

*Therapy Assessment and Compliance Monitoring.* The PCM Team collectively tracks the patient's progress and initiates reminders, reinforcements and non-compliance alerts to both physicians and the patient. The PCM Team is responsible for understanding compliance risks and coordinating the support necessary to maximize the Member's treatment.

*Patient Enrollment.* The PCM Team is the main point of contact for both physicians and patients during the enrollment process. PCM Team members are responsible for identifying immediate patient needs, triggering important patient and physician mailings and following through on the enrollment process and delivery of the initial prescription.

*Risk Assessment.* Upon enrollment, the PCM Team assesses each new patient to determine his or her knowledge level, self-care ability and non-compliance risk. Depending on the results of this assessment, patients are classified and an appropriate monitoring program is selected and administered. Patients are reassessed at appropriate times during their treatment as determined by the PCM Team.

***Coordinated Medication Delivery***

Our pharmacies provide express, often same-day, delivery of medications to a patient's home or physician's office. Special handling techniques and/or refrigeration, including shipping with dry-ice packing, are utilized in compliance with a manufacturer's specific shipping and handling requirements. In addition to injectable medications, we also provide Sharps containers, syringes and other ancillary supplies needed for the administration of a product. Express delivery via overnight courier is provided without additional charge to the Plan Sponsor, patient or physician.

***Pharmacy Data Services***

Our proprietary software and data management tools permit Plan Sponsors and drug manufacturers to access key industry measures, pre-analyzed, updated daily and delivered through secure internet based access. Business partners monitor these key measures associated with their membership to review the effectiveness

and success of our programs and services. Pre-analyzed information includes disease state, diagnosis, clinical effectiveness and cost analysis. In addition we also build custom drug measurement and reporting systems to support specific customer projects.

***Disease Management***

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

We offer numerous products and services for a broad number of disease states in order to permit patients freedom of choice in their physician's selection of a particular prescription product as well as control over all pharmacy and medical expenditures in the most clinically appropriate manner. We do not associate or promote a particular pharmaceutical manufacturer's products over another manufacturer's product within a therapeutic class unless clinically appropriate based upon our pharmacy staff's professional judgment, and always in consultation with a patient's physician.

**PBM Services**

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

***Formulary and Benefit Design***

We work closely with our Plan Sponsors to develop customized, flexible formularies and benefit plan designs to meet their specific program requirements. Formulary design assists in controlling program costs to the extent consistent with accepted medical and pharmacy practices and applicable law, primarily through two principal techniques: (i) generic substitution, which involves the selection of a generic drug as a cost-effective alternative to its bio-equivalent brand name drug; and/or (ii) therapeutic interchange, which involves the selection of a lower cost brand name drug as an alternative to a higher priced brand name drug within a therapeutic category. After a Plan Sponsor has established a formulary, rebates on brand name drugs are typically negotiated with drug manufacturers and are typically shared with Plan Sponsors.

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

The primary method for assuring formulary compliance on behalf of a Plan Sponsor is by managing pharmacy reimbursement to ensure that non-formulary drugs are not dispensed, or dispensed with higher co-payments, subject to certain limited exceptions. Benefit design and formulary parameters are managed through a point-of-sale ("POS") electronic claims processing system through which real-time electronic edits

control plan restrictions and real-time electronic messages are transmitted to pharmacists to ensure compliance with specified benefit design and formulary parameters before services are rendered and prescriptions are dispensed. Overutilization of medication is monitored and managed through quantity limitations based upon nationally recognized standards. Step protocols, which are procedures requiring that preferred therapies be tried and shown ineffective before more expensive therapies are covered, are also established in collaboration with the relevant P&T Committee to control improper utilization of certain high-risk or high-cost medications.

***Clinical Service***

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

***Drug Usage Evaluation***

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

***Pharmacy Data Services***

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

***Disease Management***

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

***Pharmacy Dispensing Facility***

We believe that pharmacy benefit program costs may also be reduced through the distribution of pharmaceutical products directly to Plan Sponsors' Members by the use of mail service programs through our own proprietary pharmacy dispensing facilities. We provide mail services from fully automated fulfillment facilities in Columbus, Ohio and San Francisco, California. Mail service is typically provided to Members who receive maintenance medications. The use of mail service affords Plan Sponsors the ability to reduce cost as compared to the often more costly retail distribution of prescription products.

***Discount Prescription Card Programs***

The above description of our service offerings principally apply to a managed pharmacy benefit and not to cash card or discount card programs.

We administer numerous cash card or discount card programs on behalf of program sponsors or third party administrators. Those cards may be a "stand-alone" pharmacy discount program or bundled with other healthcare or other discount arrangements.

Under those discount programs, individuals enroll and are entitled to receive a percentage discount off the retail or "cash" price for a prescription medication. As the administrator of these discount card programs, we manage the program's eligibility through our real-time electronic claims adjudication system. There is typically no formulary associated with these programs as they are unmanaged from a cost perspective; also, typically, there is no benefit design either.

**Sales and Marketing**

In 2005, a significant focus of our sales and marketing efforts was in uniting our operating subsidiaries under the BioScrip brand name and informing current and prospective customers about the merger and name change. Prior to the merger the BioScrip brand was used for our national managed care specialty business.

We believe that these efforts will make all sales and marketing initiatives more impactful as we build the BioScrip brand with every communication across all of our business lines within our segments. We have value-added products and services that we deliver for each of our core customer groups and we actively market to a variety of healthcare payors, pharmaceutical companies, healthcare providers and segments of the population. Our sales efforts are divided between a national managed care sales effort and regional and local sales activities to physicians, hospitals and clinics.

**Information Technology**

The Information Technology ("IT") function has completed the initial systems integration of our Minnesota and Ohio national mail distribution centers into our Columbus, Ohio facility. The completion of that integration has allowed our IT function to focus now on continued automation of receiving, fulfilling, and delivering prescriptions directly to our patients and physicians nationwide. We have expanded the utilization of the automated dispensing system to contain costs and maintain accuracy rates that meet or exceed industry standards.

The IT function is in the process of integrating seven separate IT dispensing and billing software systems used in our community pharmacies into one standard software solution. We currently operate these seven systems as a result of acquiring various pharmacies utilizing different billing and dispensing software platforms. That integration will continue into 2006. The system has been expanded to include e-prescribing, which will allow our community pharmacies to electronically receive refill requests, refill authorizations, and new prescription requests from referring physicians. In 2006 we will also provide the ability for our patients to refill their prescriptions over the phone utilizing an Integrated Voice Response System.

The PBM Services business utilizes a proprietary system that offers exact benefit implementation and execution. Member coverage verification, formulary compliance, claims approvals, member co-pay and

pharmacy reimbursement are adjudicated in real time through that proprietary system. The system's flexibility allows for a variety of plan design options.

Overall, we will be making substantial IT systems investments in 2006 to improve internal control and streamline our business processes.

**Loss of Major Customers**

On November 30, 2004, Value Options of Texas, Inc. transitioned business away from our PBM Services segment. Revenue from Value Options for the years ended December 31, 2004 and 2003 was $19.7 million and $20.8 million, respectively. There was no revenue from Value Options in 2005.

On December 21, 2005, Centene Corporation announced the acquisition of its own pharmacy benefits management business and began transitioning its business to its own PBM during calendar 2006. Revenue from Centene Corporation for the years ended December 31, 2005, 2004 and 2003 was $133.1 million, $102.1 million and $92.4 million, respectively.

**Mergers and Acquisitions**

On March 12, 2005 we acquired all of the issued and outstanding stock of Chronimed Inc. in a stock-for-stock transaction valued at $105.3 million pursuant to which each share of Chronimed common stock was exchanged for 1.12 shares of our common stock. We believe that the acquisition of Chronimed resulted in an organization with increased scale, enhanced financial capacity and a diversified customer portfolio. To date we are continuing the integration of Chronimed into our business with the goal of increasing cost efficiencies and consequently stockholder value and also enhancing customer care and satisfaction.

On October 7, 2005 we acquired all of the issued and outstanding stock of JPD, Inc. d/b/a Northland Medical Pharmacy ("Northland"), a community-based retail specialty pharmacy located in Columbus, Ohio. Northland has a history of servicing individuals that may benefit from a number of specialty pharmacy therapies that we serve and is complementary to our community pharmacies. Northland was purchased for $12 million in cash, plus a potential earn-out payment contingent on achieving certain future performance benchmarks.

On March 1, 2006 we acquired all of the issued and outstanding stock of Intravenous Therapy Services, Inc. ("ITS"), a specialty home infusion company located in Burbank, California. The addition of ITS will enhance our ability to service infusion patients on both the East and West coasts and complements our strategic objective of expanding our infusion operations nationally. ITS was purchased for approximately $13 million in cash, plus a potential earn-out payment contingent on achieving certain future performance benchmarks.

**Competition**

We face substantial competition within the pharmaceutical healthcare services industry, and the past year has seen even more consolidation among PBMs and specialty pharmacy providers. We expect to see this trend continue in the coming year and it is uncertain what effect, if any, these consolidations will have on us or the industry as a whole. In the past year, several independent specialty pharmacy companies were acquired by the larger nationally recognized PBM companies; Accredo Health Inc. (by Medco Health Solutions, Inc.) and Priority Healthcare Corporation (by Express Scripts, Inc.). The industry also includes a number of large, well-capitalized companies with nationwide operations and capabilities in both the Specialty and PBM arenas, such as Caremark Rx, Inc., Express Scripts, Inc., Medco Health Solutions, Inc., MedImpact Healthcare Systems, Inc., National Medical Health Card Systems, Inc. and WellPoint Pharmacy Management, as well as many smaller organizations that typically operate on a local or regional basis. In the Specialty Services segment, we compete with several national and regional specialty pharmaceutical distribution companies that have substantial financial resources and which also provide products and services to the chronically ill such as Caremark, ESI and Medco.

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

**Financial Information about Segments**

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

**Segment Financial Information**
**(In thousands)**

| | 2005 | 2004 | 2003 |
|---|---|---|---|
| Revenue: | | | |
| Specialty Services | $ 688,512 | $ 251,487 | $ 193,243 |
| PBM Services | 384,723 | 379,029 | 395,527 |
| Total | $ 1,073,235 | $ 630,516 | $ 588,770 |
| (Loss) income from operations: | | | |
| Specialty Services(1,2) | $ (14,423) | $ 9,769 | $ 11,899 |
| PBM Services(3) | (14,780) | 2,525 | 4,126 |
| Total | $ (29,203) | $ 12,294 | $ 16,025 |

(1) The year ended December 31, 2005 includes $6.5 million of goodwill and intangible impairment and $4.6 million of merger related expenses associated with the acquisition of Chronimed in the Specialty Services segment (see Note 4 of Notes to Consolidated Financial Statements).

(2) The year ended December 31, 2005 includes a $7.1 million charge to reflect an increase in the allowance for doubtful accounts receivable created by lower than expected collections during the Chronimed merger integration period in the Specialty Services segment.

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

For the year ended December 31, 2003, TennCare® PBM Services revenues totaled $67.8 million. PBM Services revenues without TennCare were $327.7 million for 2003. We ceased providing PBM Services to TennCare Plan Sponsors on July 1, 2003.

**Government Regulation**

As a participant in the healthcare industry our operations and relationships are subject to Federal and state laws and regulations and enforcement by Federal and state governmental agencies. Various Federal and state laws and regulations govern the purchase, dispensing or distribution, and management of prescription

drugs and related services we provide and may affect us. We believe that we are in compliance with all legal requirements material to our operations.

In the second quarter of 2000, we entered into a global settlement agreement with the Office of Inspector General (the "OIG"), within the U.S. Department of Health and Human Services ("HHS"), and the State of Tennessee relating to certain civil and criminal charges brought against former officers of our predecessor company. We did not admit any wrongdoing in the global settlement agreement but agreed to enter into a corporate integrity agreement in order to ensure ongoing compliance with the requirements of Medicare, Medicaid and all other Federal health care programs. Under the terms of that agreement, we were required to, and continue to, conduct ongoing educational programs to inform employees regarding compliance with relevant laws and regulations and institute a formal reporting procedure to disclose possible violations of law to the OIG. The OIG recently notified us that our obligations under the corporate integrity agreement terminated. Nonetheless, we continue to maintain a comprehensive company-wide compliance program.

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

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

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

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

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

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

*Other Laws Affecting Pharmacy Operations.* We are subject to state and Federal statutes and regulations governing the operation of pharmacies, repackaging of drug products, wholesale distribution,

dispensing of controlled substances, medical waste disposal, and clinical trials. Federal statutes and regulations govern the labeling, packaging, advertising and adulteration of prescription drugs and the dispensing of controlled substances. Federal controlled substance laws require us to register our pharmacies and repackaging facilities with the United States Drug Enforcement Administration and to comply with security, recordkeeping, inventory control and labeling standards in order to dispense controlled substances.

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

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

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

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

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

*Anti-Kickback Laws.* Subject to certain statutory and regulatory exceptions (including exceptions relating to certain managed care, discount, group purchasing and personal services arrangements), federal law prohibits the payment or receipt of remuneration to induce, arrange for or recommend the purchase of health care items or services paid for in whole or in part by Medicare or state health care programs (including

Medicaid programs and Medicaid waiver programs). Certain state laws may extend the prohibition to items or services that are paid for by private insurance and self-pay patients. Management carefully considers the importance of such “anti-kickback” laws when structuring our operations, and believes that we are in compliance therewith. Violation of the federal anti-kickback statute could subject us to criminal and/or civil penalties, including suspension or exclusion from Medicare and Medicaid programs or state-funded programs in the case of state enforcement.

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

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

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

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

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

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

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

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

*Statutes Prohibiting False Claims and Fraudulent Billing Activities.* A range of Federal civil and criminal laws target false claims and fraudulent billing activities. One of the most significant is the Federal False Claims Act, which prohibits the submission of a false claim or the making of a false record or statement in order to secure a reimbursement from a government-sponsored program. In recent years, the Federal government has launched several initiatives aimed at uncovering practices, which violate false claims or fraudulent billing laws. Claims under these laws may be brought either by the government or by private individuals on behalf of the government, through a "whistleblower" or "qui tam" action.

*Reimbursement.* Approximately 41% of our revenues are derived directly from Medicare or Medicaid or other government-sponsored healthcare programs subject to the Federal anti-kickback laws and/or the Stark laws. Also, we indirectly provide benefits to managed care entities that provide services to beneficiaries of Medicare, Medicaid and other government-sponsored healthcare programs. Should there be material changes to Federal or state reimbursement methodologies, regulations or policies, our reimbursements from government-sponsored healthcare programs could be adversely affected. In addition, certain state Medicaid programs only allow for reimbursement to pharmacies residing in the state or in a border state. While we believe that we can service our current Medicaid patients through existing pharmacies, there can be no assurance that additional states will not enact in-state dispensing requirements for their Medicaid programs. To the extent such requirements are enacted, certain therapeutic pharmaceutical reimbursements could be adversely affected.

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

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

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

Since October 16, 2003 we have been subject to compliance with the rules governing transaction standards and code sets issued by HHS pursuant to HIPAA (the "Transactions Standards"). The Transactions Standards establish uniform standards to be utilized by covered entities in the electronic transmission of health information in connection with certain common health care financing transactions, such as health care claims. Under the new Transactions Standards, any party transmitting or receiving health transactions electronically must send and receive data in a single format, rather than the large number of different data formats currently used. The Transactions Standards apply to us in connection with submitting and processing health care claims. The Transactions Standards also applies to many of our payors and to our relationships with those payors. We are currently in compliance with the Transactions Standards.

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

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

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

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

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

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

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

**Employees**

At March 18, 2006, we had 760 full-time, 36 part-time and 178 per diem employees, including 129 licensed pharmacists. Per diem employees are defined as those available on an as needed basis. None of our employees are represented by any union and, in our opinion, relations with our employees are satisfactory.

**Subsequent Events**

On February 27, 2006, Henry F. Blissenbach, currently our President and Chief Executive Officer, announced his retirement upon the expiration of his employment contract, effective June 30, 2006. Mr. Blissenbach will serve as a consultant to BioScrip for one year following the end of his contract. Following Mr. Blissenbach's retirement, Mr. Richard H. Friedman, our Executive Chairman, will assume the role of interim Chief Executive Officer during our search for a replacement for Mr. Blissenbach.

On February 28, 2006, Mr. Richard A. Cirillo, a director since April 1998, informed Mr. Friedman that he was resigning from our Board of Directors. Mr. Cirillo has had no disagreements with us with respect to any matters.

**Available Information**

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

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

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

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

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

In light of the consolidation of our company after the acquisition of Chronimed on March 12, 2005 the collection of accounts receivable remains one of our most significant challenges and requires constant focus and involvement by management and ongoing enhancements to information systems and billing center operating procedures. If we are unable to properly bill and collect our accounts receivable, our results will be materially and adversely affected. During the fourth quarter of 2005, we recorded a $7.1 million charge to reflect an increase in the allowance for doubtful accounts receivable created by lower than expected collections during our integration of Chronimed. We have recently consolidated our collections and cash posting functions into one location in Minnesota, have appointed a full time project executive to drive improvements in receivables performance, added resources to prevent delays in cash posting, implemented new processes to improve timeliness and accountability and are expanding our use of automated tools to post cash in order to improve both speed and accuracy. In addition, we implemented an improved process to quantify and document our estimates for uncollectible accounts. While management believes these efforts will improve collections, there can be no assurance that any of these controls and processes will improve our current level of collectability in future periods.

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

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

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

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

*We may fail to realize the anticipated synergies, cost savings and other benefits expected from our acquisition of Chronimed.*

In March 2005, we acquired Chronimed for $105.3 million in stock and are in the process of integrating this business into our operations. While we have completed a number of aspects of our integration, there are risks associated with completing the remainder of that process.

Any delays encountered in the integration of Chronimed could have a material adverse effect upon our revenues, level of expenses, operating results and financial condition. Although we expect significant benefits

to result from the acquisition, such as increased cost savings and incremental sales opportunities, there can be no assurance that we will realize the full value of these anticipated benefits.

We may continue to incur substantial expenses in connection with the integration of Chronimed. There are a large number of systems that we continue to integrate, including information technology, purchasing, finance, and sales. In addition, we have hired additional labor to improve our accounts receivable collections. While we have assumed that a certain amount of expenses would be incurred, we expended amounts greater than expected during the integration planning process. Additional factors beyond our control could further affect the total amount or the timing of all of the expected integration expenses. These expenses could, particularly in the near term, exceed the savings that we expect to achieve from the elimination of duplicative expenses and the realization of economies of scale and cost and revenue synergies related to the integration of the businesses.

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

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

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

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

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

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

insured. Such costs have become material to our financial performances and we can give no assurance that such costs will not increase in the future.

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

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

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

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

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

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

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

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

Technology is also an important component of our business, as we continue to utilize new and better channels, such as the Internet, to communicate and interact with our clients, members and business partners. If our competitors are more successful than us in employing this technology, our ability to attract new clients, retain existing clients and operate efficiently may suffer.

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

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

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

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

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

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

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

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

None.

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

Our executive offices are located in Elmsford, New York, and our business offices are located in Eden Prairie, Minnesota. Our mail operations are located in Columbus, Ohio and San Francisco, California. Our pharmacies are located in major metropolitan locations across the United States. We currently lease all of our properties from third parties under various lease terms expiring over periods extending to 2012. Property locations are as follows:

**Corporate Offices**

Elmsford, NY

Eden Prairie, MN

**Mail Operations**

Columbus, OH

San Francisco, CA

**Community and Infusion Pharmacies**

***California***
Burbank (Infusion)
Palm Springs
San Diego
San Francisco
Sherman Oaks
West Hollywood

***District of Columbia***
Washington D. C.

***Florida***
Ft. Lauderdale
Miami Beach
Orlando
St. Petersburg
Tampa
West Palm Beach

***Georgia***
Atlanta

***Indiana***
Indianapolis(2)

***Illinois***
Chicago

***Massachusetts***
Boston

***Minnesota***
Minneapolis

***Missouri***
Kansas City
St. Louis

***Nevada***
Las Vegas

***New Jersey***
Livingston (Infusion)

***New York***
Bronx
Long Island
Manhattan

***Ohio***
Columbus

***Pennsylvania***
Philadelphia

***Tennessee***
Memphis

***Texas***
Dallas(2)
Houston

***Washington***
Seattle

***Wisconsin***
Milwaukee

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

Robert Unger, a shareholder of Chronimed, Inc., filed a purported class action lawsuit in the state court of Minnesota, Hennepin County, on August 16, 2004, naming Chronimed, Inc, and certain of its officers and directors as defendants. He amended his complaint on December 10, 2004, to add an additional plaintiff and BioScrip, Inc, (under the name MIM Corporation) as an additional defendant. The amended complaint asserts claims against the Chronimed officer and director defendants, who are represented by other law firms, for alleged breach of their fiduciary duties in connection with the merger agreement by which we acquired Chronimed in March 2005 and alleges that we aided those alleged breaches. The amended complaint seeks rescission of the merger and other relief. The amended complaint was never served on us, and we have not responded to the pleading, appeared in the lawsuit, or been involved in any proceedings in the case. The court dismissed the amended complaint as against the Chronimed officer and director defendants and denied the plaintiffs' motion to reinstate it.

On February 14, 2005, a complaint was filed in the Alabama Circuit Court for Barbour County, captioned Eufaula Drugs, Inc. v. ScriptSolutions [sic]. On April 8, an amended complaint was filed against one of our subsidiaries, ScripSolutions. The plaintiff alleges breach of contract and related claims on behalf of a putative nationwide class of pharmacies alleging insufficient reimbursement for prescriptions dispensed,

principally on the theory that ScripSolutions, was obligated to update its prescription pricing files on a daily, rather than weekly, basis. ScripSolutions removed the case to the United States Federal District Court for the Middle District of Alabama in April 2005. The plaintiff moved to remand the action to state court, which ScripSolutions opposed. ScripSolutions also moved in May 2005 to dismiss the complaint on jurisdictional grounds or to transfer the matter to a federal court in New York or Rhode Island which the plaintiff opposed. On October 6, 2005, the District Court granted Plaintiff's motion to remand the case to the state court and did not decide ScripSolutions' motion to dismiss or transfer. The district court did not rule on our motion to dismiss or transfer the action and remanded the action to the Alabama State court. ScripSolutions appealed that decision to the Eleventh Circuit Court of Appeals. The U.S. Court of Appeals for the Eleventh Circuit has declined to review the district court's remand discussion and denied our motion for rehearing of the decision. Our time to seek further appellate review has not yet expired. ScripSolutions has not filed an answer to the complaint and no other proceedings have occurred. ScripSolutions intends to deny the plaintiff's allegations and defend the claims vigorously. The action is one of approximately 14 substantially identical actions commenced in Alabama courts against Pharmacy Benefit Management companies.

The U.S. Attorney's Office in Boston and the Department of Justice have informed us that our subsidiary, BioScrip Pharmacy, is a defendant in a Qui Tam lawsuit under the federal False Claims Act filed by a whistleblower against Serono, Inc., and several other defendants. The government has settled the Qui Tam claims in the lawsuit with Serono, Inc., and has not yet made a decision to intervene in the suit against remaining defendants. No complaint has been served on us and we have had only limited opportunity to review it as it is filed under seal in the United States District Court for the District of Massachusetts. The government however has invited us to explore settlement. For purposes of settlement discussions, the government's estimate of damages is close to $10.0 million, which allegedly resulted from claims for government reimbursement made by StatScript during 1997 through 2000 for the sale of Serono's drug Serostim. The government alleges that these claims are tainted by data sharing and preferred provider agreements between Serono and BioScrip Pharmacy. According to a government attorney, as part of its settlement, Serono agreed to pay 50% of damages allegedly resulting from its relationships with pharmacies, which should include 50% of the amount attributed to the StatScript sales. American Prescription Providers (APP) also is reported to be a defendant in the same lawsuit. Our Chronimed, Inc. subsidiary purchased several pharmacies from APP in February 2001, after the time period at issue in the Qui Tam case. Currently, the government is separately discussing directly with APP settlement of the alleged APP damages of approximately $7.5 million. It is not known at this time whether APP or the government will take the position that we are liable for the alleged APP damages.

The Eufaula litigation and Serono investigation are in the early stages of their proceedings and, as such, we are currently unable to assess the probable outcomes of these proceedings or their respective financial impact. If either or both of these matters were resolved adversely to us, either could have a material adverse effect on us.

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

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

## PART II

**Item 5.** ***Market for Registrant's Common Equity and Related Stockholder Matters***

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

| | High | Low |
|---|---|---|
| **2004** | | |
| First Quarter | $ 8.15 | $ 6.81 |
| Second Quarter | $ 9.80 | $ 7.10 |
| Third Quarter | $ 9.14 | $ 5.66 |
| Fourth Quarter | $ 6.95 | $ 5.25 |
| | | |
| **2005** | | |
| First Quarter | $ 7.01 | $ 5.75 |
| Second Quarter | $ 6.57 | $ 5.13 |
| Third Quarter | $ 7.03 | $ 5.88 |
| Fourth Quarter | $ 9.07 | $ 5.93 |

As of March 24, 2006, there were 243 stockholders of record in addition to approximately 8,300 stockholders whose shares were held in nominee name. On March 24, 2006 the closing sale price of our Common Stock on Nasdaq was $7.04.

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

During the twelve months ended December 31, 2005, we did not sell any securities without registration under the Securities Act of 1933, as amended (the "Securities Act").

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

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

| | December 31, | | | | |
|---|---|---|---|---|---|
| | 2005 | 2004 | 2003 | 2002 | 2001 |
| | | | (In thousands) | | |
| **Balance Sheet Data** | | | | | |
| Cash and cash equivalents | $ 1,521 | $ 2,957 | $ 9,428 | $ 5,751 | $ 12,487 |
| Working capital | 67,438 | 13,967 | 20,283 | 5,101 | 9,307 |
| Total assets | 288,637 | 185,778 | 171,191 | 182,231 | 139,819 |
| Capital lease obligations, net of current portion | — | — | 35 | 430 | 1,031 |
| Stockholders' equity | 195,765 | 115,683 | 107,202 | 94,208 | 60,296 |

| | Year Ended December 31, | | | | |
|---|---|---|---|---|---|
| | 2005 | 2004 | 2003 | 2002 | 2001 |
| | | | (In thousands, except per share amounts) | | |
| **Statement of Operations Data** | | | | | |
| Revenue(1) | $ 1,073,235 | $ 630,516 | $ 588,770 | $ 576,596 | $ 456,646 |
| Merger related expenses(2) | 4,575 | — | — | — | — |
| TennCare® reserve(3) | — | — | — | (851) | (2,476) |
| Goodwill and intangible impairment(4) | 25,165 | — | — | — | — |
| Net (loss) income(5,6,7,8) | (23,847) | 7,033 | 9,130 | 18,685 | 14,202 |
| Net (loss) income per basic share | (0.70) | 0.32 | 0.41 | 0.83 | 0.67 |
| Net (loss) income per diluted share(9) | (0.70) | 0.31 | 0.40 | 0.79 | 0.64 |
| Weighted average shares outstanding used in computing basic (loss) income per share | 34,129 | 22,245 | 22,164 | 22,616 | 21,273 |
| Weighted average shares outstanding used in computing diluted (loss) income per share | 34,129 | 22,702 | 22,640 | 23,563 | 22,289 |

(1) Revenue includes: TennCare® PBM Services revenue of $67.8 million, $140.2 million and $141.9 million for the years 2003, 2002 and 2001, respectively; Synagis® revenue of $13.7 million, $14.6 million and $3.7 million for the years 2003, 2002 and 2001, respectively; and Value Options revenue of $19.7 million and $20.8 million for the years 2004 and 2003, respectively. Revenue from TennCare and Synagis ended in 2003. Revenue from Value Options ended in 2004.

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

(3) In 1999, we recorded $6.0 million of TennCare® reserve adjustments for estimated losses on contract receivables relating to Tennessee Health Partnership ("THP"), Preferred Health Plans and Xantus Health Plans of Tennessee, Inc. ("Xantus"). During 2001, we recorded a reserve adjustment credit of $1.0 million to reflect a favorable settlement with THP relative to the amount initially reserved in 1999. In the third quarter of 2001 and the first quarter of 2002, we recorded TennCare® reserve adjustment credits of $1.5 million and $0.9 million, respectively, as a result of the collection of the receivables reserved in 1999 from Xantus.

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

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

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

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

(8) Effective tax rate (see Management's Discussion and Analysis for explanation of the change in the effective tax rate).

| 2005 | 2004 | 2003 | 2002 | 2001 |
|---|---|---|---|---|
| 19.4% | 38.8% | 40.0% | 20.0% | 6.2% |

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

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

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

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

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

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

**Business Overview**

We are a specialty pharmacy services provider that distributes prescription drugs, coordinates customer benefits and provides specialized therapy management services for people with certain health conditions, particularly those treated with biotech injectable medications, as well as those afflicted with potentially life threatening or debilitating diseases or genetic disorders and requiring specialty medications. We work with patients, physicians and pharmaceutical manufacturers. We also work directly with a variety of health insurers, including HMO's, indemnity plans and PPO's, managed care organizations, other insurance companies, and, to a lesser extent, labor unions, self-funded employer groups, government agencies (including Medicaid and Medicare) and other self-funded plan sponsors, as well as through third-party administrators. We work with all of these constituents in a concerted effort to improve clinical and economic outcomes while enhancing the quality of life for the individuals living with chronic conditions.

On March 12, 2005 we acquired all of the issued and outstanding stock of Chronimed Inc. ("Chronimed") in a stock-for-stock transaction. The companies had a shared vision of balanced health care cost containment with better patient outcomes and localized distribution, providing high-touch care to the chronically ill and the acquisition resulted in an organization that is able to offer broader disease coverage,

focused therapy management, expansive national retail and mail distribution capabilities and a pharmacy benefit management ("PBM") platform.

Our services are organized under two operating segments: (i) specialty pharmacy distribution and clinical management services (collectively, "Specialty Services") which are provided through our community pharmacy, infusion services, and specialty mail pharmacy businesses; and (ii) pharmacy benefit management and traditional mail services (collectively, "PBM Services").

Our Specialty Services are provided primarily to patients who either have chronic health conditions or are afflicted with potentially life threatening or debilitating diseases or genetic disorders and require specialty medications. These specialty services include the distribution of biotech and other high cost injectable, oral and infusable prescription medications and the provision of pharmacy-related clinical management services, product administration and disease state programs. Specialty Services are also offered to physicians, in a variety of practice and/or hospital settings, on behalf of their patients. Many of these physicians have network affiliations with Plan Sponsors, who in turn have a relationship with us.

Historically, our PBM Services were offered to Plan Sponsors and were designed to promote a broad range of cost-effective, clinically appropriate pharmacy benefit management services through our network of retail pharmacies and our dedicated traditional mail service distribution facility. Over the past several years we have focused on building our Specialty Services for strategic growth. Consequently, the PBM Services' managed care business has decreased as a percentage of total revenue.

As part of our business we develop and maintain existing relationships with pharmaceutical manufacturers through a dedicated Pharmaceutical Relations department. These efforts have been concentrated on the creation and execution of new drug distribution and service contracts in our core specialty therapeutic areas, including providing those medications used for the treatment of Cancer, Multiple Sclerosis, HIV, Immune Deficiency and other patients living with chronic illnesses and life threatening diseases. The specialty management services that we provide through our national mail pharmacy, community pharmacies and infusion businesses are attractive to the pharmaceutical manufacturer community, demonstrated by recent successes in being selected for participation in national specialty distribution networks for newly approved, high-cost medications. These new contracts provide new sales and revenue opportunities which we began to realize in 2005 and expect to continue in 2006 and beyond.

We also distribute and administer high cost specialty infusion therapies to patients principally requiring immunological blood products, parenteral nutrition products, and infused antibiotic therapies. We strive to maximize therapy outcomes through strict adherence to the clinical guidelines or protocols for a particular prescription therapy while at the same time managing the costs of such therapies on behalf of a Plan Sponsor or patient. Unlike the other specialty programs, infusion patients have their therapies administered intravenously by IV certified nurses.

We plan to grow our infusion business through a variety of means. We believe that there are acquisition opportunities that will expand our geographic reach, permitting us to service a greater number of patients and Plan Sponsors under contract. We also plan to broaden our product offering in our current geographic service area by adding new therapies to our current focus on immunological blood products, including our most recent focus on patients with hemophilia. We will also work with physicians who utilize our services to support their in-office infusion activities.

**Critical Accounting Estimates**

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

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

The following discussion is not intended to be a comprehensive list of all the accounting estimates or judgments made in the preparation of our financial statements, and in many cases the accounting treatment of a particular transaction is specifically dictated by generally accepted accounting principles, with no need for management's judgment in its application. See our audited consolidated financial statements and notes thereto which appear in Item 8 — Financial Statements and Supplementary Data of this Annual Report on Form 10-K, which contain accounting policies and other disclosures required by GAAP.

***Revenue Recognition***

We generate revenue principally through the sale of prescription drugs, which are dispensed either through a pharmacy participating in our pharmacy network or a pharmacy owned by us. Revenue is generally derived under fee-for-service agreements; however, an immaterial amount of revenue is derived from capitated agreements. Prescription drug revenue is offset by the rebates shared with Plan Sponsors.

*Fee-For-Service Agreements.* Fee-for-service agreements include: (i) specialty and mail service agreements, where we dispense prescription medications through our pharmacy facilities and (ii) PBM agreements, where prescription medications are dispensed through pharmacies participating in our retail pharmacy network as well as through our traditional mail service facility. Under fee-for-service agreements, revenue is recognized either: (a) when the pharmacy services are reported to us through the point of sale ("POS") claims processing system and the drug is dispensed to the Member, in the case of a prescription filled through a pharmacy participating in our retail pharmacy network, or (b) at the time the drug is dispensed, in the case of a prescription filled through a pharmacy owned by us. Fee-for-service agreements accounted for more than 95% of our revenue for each of the years ended December 31, 2005, 2004 and 2003.

Revenue generated under PBM agreements is classified as either gross or net by us based on whether we are acting as a principal or an agent in the fulfillment of prescriptions through our retail pharmacy network. When we independently have a contractual obligation to pay a network pharmacy provider for benefits provided to its Plan Sponsors' Members, and have other indicia of risk and reward, we include payments (which include the drug ingredient cost) from these Plan Sponsors as revenue and payments to the network pharmacy providers as cost of revenue, as these transactions require us to assume credit risk and act as a principal. If we merely act as an agent, and consequently administer plan sponsors' network pharmacy contracts, we do not assume credit risk and record only the administrative fees (and not the drug ingredient cost) as revenue.

*Co-Payments; Co-Insurance.* When prescriptions are filled by our own pharmacies (that is, where we are acting as a participating pharmacy in another PBM's or payor's pharmacy network), we collect and retain co-payments or co-insurance from Plan Sponsors' members and record these receipts as revenue when the amounts are collected or deemed collectible and reasonably estimable. Conversely, when prescriptions are filled through pharmacies participating in our retail pharmacy networks, we are not entitled to retain co-payments or co-insurance and accordingly do not recognize revenue with respect to or account for retail pharmacy co-payments or co-insurance in our financial statements. In our capacity as a PBM, pharmacy network co-payments and co-insurance are never billed or collected by us and we have no legal right or obligation to receive them as they are collected by our network pharmacies.

***Allowance for Doubtful Accounts***

Allowances for doubtful accounts are based on estimates of losses related to customer receivable balances. The procedure for estimating the allowance for doubtful accounts requires significant judgment and assumptions. The risk of collection varies based upon the product, the payor (commercial health insurance, government, physician), the patient's ability to pay the amounts not reimbursed by the payor and point of distribution (retail, national mail). We estimate the allowance for doubtful accounts based upon a variety of factors including the age of the outstanding receivables and our historical experience of collections, adjusting for current economic conditions and, in some cases, evaluating specific customer accounts for risk of loss. We periodically review the estimation process and make changes to the estimates as necessary. In the fourth quarter of 2005 we recorded a $7.1 million charge to reflect an increase in the allowance for doubtful accounts receivable created by lower than expected collections during the Chronimed merger integration period.

***Allowance for Contractual Discounts***

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

***Rebates***

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

***Payables to Plan Sponsors***

Payables to Plan Sponsors represent the sharing of pharmaceutical rebates with the Plan Sponsors as part of our PBM Services segment. We estimate the portion of those pharmacy rebates that are shared with Plan Sponsors and adjust pharmacy rebates payable to Plan Sponsors when the amounts are paid, typically on a quarterly basis in arrears, or as significant events occur. These estimates are recorded based on actual and estimated claims data and agreed upon contractual rebate sharing rates. We adjust these estimates on a periodic basis based on changing circumstances such as contract modifications, product mix subject to rebates, and changes in the applicable formulary.

***Income Taxes***

As part of the process of preparing our consolidated financial statements, we estimate income taxes in each of the jurisdictions in which we operate. We account for income taxes under Statement of Financial Accounting Standards ("SFAS") No. 109, *Accounting for Income Taxes*. SFAS No. 109 requires the use of the asset and liability method of accounting for income taxes. Under this method, deferred taxes are determined by calculating the future tax consequences attributable to differences between the financial accounting and tax bases of existing assets and liabilities. A valuation allowance is recorded against deferred tax assets when, in the opinion of management, it is more likely than not that we will be able to realize the benefit from the deferred tax assets. Deferred tax assets that will be utilized within twelve months are classified as current assets.

In addition, we have established, and periodically review and reevaluate, an estimated income tax reserve. This income tax reserve is for exposures related to various Federal and state tax matters. An accrual is

established at the time an exposure is identified when it is both probable that a liability has been incurred and the amount of the liability can be reasonably estimated. While we believe that we have identified all reasonably identifiable exposures and that the reserve we have established for identifiable exposures is appropriate under the circumstance, it is possible that additional exposures exist and that the exposures will be settled at amounts different than the amounts reserved. It is possible that changes in estimates in the future could cause us to either materially increase or reduce the carrying amount of our income tax reserve.

***Purchase Price Allocation***

We account for acquisitions under the purchase method of accounting. Accordingly, any assets acquired and liabilities assumed are recorded at their respective fair values. The recorded values of assets and liabilities are based on third party estimates and independent valuations. The remaining values are based on management's judgments and estimates. Accordingly, our financial position or results of operations may be affected by changes in estimates and judgments used to value these assets and liabilities.

***Goodwill***

Effective on January 1, 2002, we adopted SFAS No. 142, *Goodwill and Other Intangible Assets*. This statement addresses the accounting and reporting of goodwill and other intangible assets subsequent to their acquisition. Since adoption, amortization of goodwill was discontinued and goodwill is reviewed at least annually for impairment, generally in the fourth quarter.

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

We have two reporting units: (i) Specialty Services and (ii) PBM Services. The fair value of the Specialty Services segment exceeded its carrying amount resulting in no impairment charges in fiscal year 2005. The fair value of the PBM Services segment was less than its carrying amount, resulting in an $18.6 million goodwill impairment charge in the fourth quarter of 2005.

***Impairment of Long Lived Assets***

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

In the fourth quarter of 2005 we evaluated goodwill for impairment and recorded a charge as described above. As part of goodwill impairment testing, we further determined that certain intangible assets associated with customer lists were no longer recoverable from future cash flows. This resulted in a $0.8 million intangible impairment charge in fourth quarter 2005.

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

We account for employee stock and stock-based compensation plans through the intrinsic value method in accordance with APB Opinion No. 25, *Accounting for Stock Issued to Employees* ("APB 25") as permitted by SFAS No. 123, *Accounting for Stock-Based Compensation* ("SFAS No. 123") and as such, generally recognize no compensation expense for employee stock options.

On December 16, 2004, the Financial Accounting Standards Board (FASB) issued SFAS No. 123 (revised 2004), *Share-Based Payment*, which is a revision of SFAS No. 123. SFAS No. 123(R) supersedes APB 25, and amends SFAS No. 95, *Statement of Cash Flows*. Generally, the approach to estimating the fair value of options in SFAS No. 123(R) is similar to the approach described in SFAS No. 123. However, SFAS No. 123(R) requires all share-based payments to employees, including grants of employee stock options, to be recognized as a current period expense in the income statement based on their fair values. Pro forma disclosure is no longer an alternative and SFAS No. 123(R) must be adopted no later than January 1, 2006.

We adopted the fair-value-based method of accounting for share-based payments effective January 1, 2006. The impact of adoption of SFAS No. 123(R) is difficult to predict because it will depend on levels of share-based payments granted from and after January 1, 2006. As of the date of this Annual Report on Form 10-K, the impact of SFAS No. 123(R) in 2006 would be a reduction of approximately $1.2 million in net income and $0.03 earnings per share for known grants through the date of this report. We expect additional grants to be made during the remainder of 2006, the impact of which is not estimable at this time. Had we adopted SFAS No. 123(R) in prior periods, the impact of that standard would have approximated the impact of SFAS No. 123 as described in the disclosure of pro forma net income and earnings per share in Note 2 of Notes to Consolidated Financial Statements.

**Reclassifications**

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

**Results of Operations**

The following unaudited condensed consolidated pro forma financial information for the years ended December 31, 2005, 2004 and 2003 has been prepared as if the Chronimed acquisition had been consummated at the beginning of each respective period, utilizing the purchase method of accounting, with pro forma adjustments for amortization of intangibles associated with the acquisition. The number of basic and diluted shares has also been adjusted assuming we exchanged each outstanding share of Chronimed common stock for 1.12 shares of our common stock. We believe this information to be helpful in gaining an understanding of future financial and operating results and trends. In the following Management's Discussion and Analysis we provide discussion of both the reported results as set forth in the Financial Statements and the pro forma results as presented in the tables below.

**Pro Forma Consolidated Results**
**(In thousands, except per share and percentage data)**
**(Unaudited)**

| | Year Ended December 31, 2005 | | | |
|---|---|---|---|---|
| | BioScrip As Reported | Chronimed Pre-Merger | Pro Forma Adjustments | Pro Forma Combined |
| Revenue | | | | |
| Specialty Services | $ 688,512 | $ 114,079 | $ — | $ 802,591 |
| PBM Services | 384,723 | — | — | 384,723 |
| Total revenue | 1,073,235 | 114,079 | | 1,187,314 |
| Cost of revenue | 956,968 | 101,155 | — | 1,058,123 |
| Gross profit | 116,267 | 12,924 | — | 129,191 |
| % of Revenue | 10.8% | 11.3% | | 10.9% |
| Operating expenses | | | | |
| Selling, general and administrative expenses | 96,521 | 10,498 | — | 107,019 |
| Bad debt expense | 12,814 | 840 | | 13,654 |
| Amortization of intangibles | 6,395 | — | 958(1) | 7,353 |
| Merger related expenses | 4,575 | 2,037 | — | 6,612 |
| Goodwill and intangible impairment | 25,165 | — | — | 25,165 |
| Total operating expenses | 145,470 | 13,375 | 958 | 159,803 |
| % of Revenue | 13.6% | 11.7% | | 13.5% |
| Loss from operations | (29,203) | (451) | (958) | (30,612) |
| Interest (expense) income, net | (392) | 84 | — | (308) |
| Loss before income taxes | (29,595) | (367) | (958) | (30,920) |
| Income tax benefit | (5,748) | (143) | (114) | (6,005) |
| Net loss | $ (23,847) | $ (224) | $ (844) | $ (24,915) |
| Basic weighted average shares | 34,129 | | | 34,129 |
| Diluted weighted average shares | 34,129 | | | 34,129 |
| Basic net (loss) per share | $ (0.70) | | | $ (0.73) |
| Diluted net (loss) per share | $ (0.70) | | | $ (0.73) |

(1) Reflects estimated amortization expense as if Chronimed was acquired at the beginning of the year

**Pro Forma Consolidated Results**
**(In thousands, except per share and percentage data)**
**(Unaudited)**

| | Year Ended December 31, 2004 | | | |
|---|---|---|---|---|
| | MIM Corp. As Reported | Chronimed Pre-Merger | Pro Forma Adjustments | Pro Forma Combined |
| Revenue | | | | |
| Specialty Services | $ 251,487 | $ 589,034 | $ — | $ 840,521 |
| PBM Services | 379,029 | — | — | 379,029 |
| Total revenue | 630,516 | 589,034 | — | 1,219,550 |
| Cost of revenue | 562,360 | 525,511 | — | 1,087,871 |
| Gross profit | 68,156 | 63,523 | — | 131,679 |
| % of Revenue | 10.8% | 10.8% | | 10.8% |
| Operating expenses | | | | |
| Selling, general and administrative expenses | 50,935 | 50,767 | — | 101,702 |
| Bad debt expense | 1,908 | 4,163 | | 6,071 |
| Amortization of intangibles | 3,019 | — | 4,960(1) | 7,979 |
| Total operating expenses | 55,862 | 54,930 | 4,960 | 115,752 |
| % of Revenue | 8.9% | 9.3% | | 9.5% |
| Income (loss) from operations | 12,294 | 8,593 | (4,960) | 15,927 |
| Interest (expense) income, net | (808) | 280 | — | (528) |
| Other income | — | 326 | — | 326 |
| Income (loss) before income taxes | 11,486 | 9,199 | (4,960) | 15,725 |
| Income tax expense (benefit) | 4,453 | 3,530 | (1,882) | 6,101 |
| Net income (loss) | $ 7,033 | $ 5,669 | $ (3,078) | $ 9,624 |
| Basic weighted average shares | 22,245 | | | 36,609 |
| Diluted weighted average shares | 22,702 | | | 37,204 |
| Basic net income per share | $ 0.32 | | | $ 0.26 |
| Diluted net income per share | $ 0.31 | | | $ 0.26 |

(1) Reflects estimated amortization expense as if Chronimed was acquired at the beginning of the year

**Pro Forma Consolidated Results**
**(In thousands, except per share and percentage data)**
**(Unaudited)**

| | Year Ended December 31, 2003 | | | |
|---|---|---|---|---|
| | MIM Corp. As Reported | Chronimed Pre-Merger | Pro Forma Adjustments | Pro Forma Combined |
| Revenue | | | | |
| Specialty Services | $ 193,243 | $ 487,147 | $ — | $ 680,390 |
| PBM Services | 395,527 | — | — | 395,527 |
| Total revenue | 588,770 | 487,147 | — | 1,075,917 |
| Cost of revenue | 520,249 | 428,889 | — | 949,138 |
| Gross profit | 68,521 | 58,258 | — | 126,779 |
| % of Revenue | 11.6% | 12.0% | | 11.8% |
| Operating expenses | | | | |
| Selling, general and administrative expenses | 48,920 | 46,167 | — | 95,088 |
| Bad debt expense | 1,713 | 3,595 | | 5,307 |
| Amortization of intangibles | 1,863 | — | 4,960(1) | 6,823 |
| Total operating expenses | 52,496 | 49,762 | 4,960 | 107,218 |
| % of Revenue | 8.9% | 10.2% | | 10.0% |
| Income (loss) from operations | 16,025 | 8,496 | (4,960) | 19,561 |
| Interest (expense) income, net | (808) | 263 | — | (545) |
| Other income | — | 75 | — | 75 |
| Income (loss) before income taxes | 15,217 | 8,834 | (4,960) | 19,091 |
| Income tax expense (benefit) | 6,087 | 2,747 | (1,198) | 7,636 |
| Net income (loss) | $ 9,130 | $ 6,087 | $ (3,762) | $ 11,455 |
| Basic weighted average shares | 22,164 | | | 36,528 |
| Diluted weighted average shares | 22,640 | | | 37,142 |
| Basic net income per share | $ 0.41 | | | $ 0.31 |
| Diluted net income per share | $ 0.40 | | | $ 0.31 |

(1) Reflects estimated amortization expense as if Chronimed was acquired at the beginning of the year

**CONSOLIDATED RESULTS**

***Year ended December 31, 2005 vs. December 31, 2004***

*Revenue*. Total reported revenue for the year ended December 31, 2005 increased $442.7 million, or 70.2%, to $1,073.2 million from $630.5 million for the same period in 2004. This increase was concentrated in the Specialty Services segment and is primarily attributable to the acquisition of Chronimed (discussed in Note 4 of the Notes to Consolidated Financial Statements), the results of which are included in our Consolidated Statements of Operations starting March 12, 2005.

On a pro forma combined basis, revenue for the year ended December 31, 2005 was $1,187.3 million compared to $1,219.6 million for the same period in 2004, a $32.3 million, or 2.6%, decrease. The discussion below explains the primary reasons for these revenue changes in each of our segments, Specialty Services and PBM Services.

On a pro forma basis, Specialty Services revenue for the year ended December 31, 2005 was $802.6 million compared to $840.5 million for the same period a year ago, a $37.9 million, or 4.5% decrease. This decrease was due primarily to the loss of Chronimed's specialty pharmacy distribution contract with Aetna that ended February 28, 2005, partially offset by growth in our community pharmacies. Revenue from Aetna was approximately $34.1 million for the year ended December 31, 2005 compared to $127.7 million for the previous year. Excluding the lost business from Aetna, Specialty Services grew 7.8%.

On a pro forma basis, PBM Services revenue for the year ended December 31, 2005 was $384.7 million compared to $379.0 million for the same period in 2004, a $5.7 million, or 1.5% increase. New members from existing contracts, as well as additional contracts, offset the termination of certain PBM clients, the most significant being Value Options, which terminated its contract with us effective November 30, 2004. Revenue from Value Options and certain other terminated PBM clients was $58.9 million in 2004. On December 21, 2005, we were notified by a material PBM Services' customer, Centene Corporation, that it had acquired its own PBM business and would be transitioning its PBM business with us to its own PBM throughout 2006. PBM Services revenue in 2006 is expected to decrease approximately $150 million as Centene transitions this business throughout the year and as a result of other contract termination notices received at the end of 2005.

*Cost of Revenue and Gross Profit*. Reported cost of revenue for the year ended December 31, 2005 was $957.0 million compared to $562.4 million for the same period in 2004. The total gross profit rate as a percentage of revenue was 10.8% for both 2005 and 2004. The Specialty Services segment gross profit rate decreased with the addition of the acquired Chronimed specialty business, which was at a lower gross profit rate. The PBM Services segment gross profit rate, which is lower than Specialty Services, increased in 2005 from 2004 due to improved generic utilization and favorable rate impact created from the loss of lower margin business in 2005.

Pro forma combined cost of revenue decreased $29.8 million, or 2.7%, to $1,058.1 million for the year ended December 31, 2005 from $1,087.9 million for the year ended December 31, 2004. The pro forma gross profit rate as a percentage of revenue increased to 10.9% for the year ended December 31, 2005 compared to 10.8% for the same period in 2004. The PBM services gross profit rate increase in 2005 discussed above was partially offset by a lower Specialty Services gross profit rate primarily due to higher infusion product costs and overall lower Specialty Services payor reimbursement rates.

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

*Selling, General and Administrative Expenses*. For the year ended December 31, 2005, Selling, General and Administrative expenses ("SG&A") increased to $96.5 million, or 9.0% of total revenue, from $50.9 million, or 8.1% of total revenue, for the same period a year ago. This increase in SG&A is primarily the

result of the addition of Chronimed's expenses starting March 12, 2005. The pro forma SG&A discussion below provides a more meaningful detail on year-over-year expense increases.

Pro forma SG&A for the year ended December 31, 2005 was $107.0 million, or 9.0% of total revenue, compared to $101.7 million, or 8.3% of total revenue, for the year ended December 31, 2004. The increase in SG&A primarily is due to increased sales and marketing costs to support BioScrip's expanded sales force and community focused business strategy, and increased costs for compliance with the provisions of Section 404 of the Sarbanes-Oxley Act of 2002. The higher level of SG&A spending does not fully reflect merger related cost savings to be realized in 2006 by the elimination of duplicate functions, locations and other costs associated with the integration in the second half of 2005.

*Bad Debt Expense*. For the year ended December 31, 2005 we recorded bad debt expense of $12.8 million, an increase of $10.9 million compared to $1.9 million in 2004. The increase is the result of increased accounts receivable due to the merger and a $7.1 million fourth quarter charge to reflect an increase in the allowance for doubtful accounts receivable created by lower than expected collections during the Chronimed merger integration period. We have added resources and are enhancing collection processes to improve 2006 financial performance. While we believe our efforts will improve collections performance, there can be no assurance that it will improve in 2006 and our results could be adversely impacted. See Item 1A. "Risk Factors" for additional information regarding billing and collecting risks.

Pro forma bad debt expense for the year ended December 31, 2005 was $13.7 million compared to $6.1 million in 2004, an increase of $7.6 million. The increase is due to the fourth quarter charge of $7.1 million to reflect an increase in the allowance for doubtful accounts receivable created by lower than expected collections during the Chronimed merger integration period.

*Amortization of Intangibles*. For the year ended December 31, 2005 we recorded amortization expense from intangibles of $6.4 million compared to amortization expense from intangibles of $3.0 million in 2004. The increase in 2005 was the result of increased amortization expense associated with the Chronimed acquisition and its related amortizable intangible assets, which was partially offset by the second quarter write-off of the trade name assets associated with Natural Living, Inc. and Vitality Home Infusion Services, Inc. due to the rebranding strategy previously disclosed.

Pro forma amortization expense for the year ended December 31, 2005 was $7.4 million compared to $8.0 million in 2004, a decrease of $0.6 million. This decrease is due primarily to the write-off of trade name assets discussed above.

*Merger Related Expenses*. The year ended December 31, 2005 includes merger related expenses of $4.6 million. There were no merger related expenses in 2004. The merger related expenses include expenses incurred to consolidate the acquisition of Chronimed during 2005, including expenses incurred to consolidate to one brand, BioScrip, in the marketplace.

Pro forma merger related expenses were $6.6 million and $0 for the years ended December 31, 2005 and 2004, respectively, and reflect $2.0 million of merger related expenses incurred by Chronimed from January 1, 2005 to March 12, 2005, the date of the Chronimed acquisition, in addition to those discussed above.

*Goodwill and Intangible Impairment*. The year ended December 31, 2005 includes the write off of $5.8 million for the trade name intangible assets associated with Natural Living, Inc. and Vitality Home Infusion Services, Inc. The re-branding of all of our business lines to a single brand, BioScrip, prompted the write off of the existing trade name intangible assets. Also included in 2005 are goodwill and intangible impairment charges of $19.4 million, principally associated with the PBM Services segment. The PBM Services impairment is the result of the loss of the Centene contract and other related PBM Services contracts, and its negative impact on the long term financial outlook for the PBM Services business.

*Net Interest Expense*. Net interest expense was $0.4 million for the year ended December 31, 2005 compared to $0.8 million for the year ended December 31, 2004. Interest expense associated with our line of credit was lower in 2005 as our average borrowing levels were lower. Interest expense was further offset by

interest income received on overnight investments of excess cash and the receipt of interest on a past due receivable.

Pro forma net interest expense was $0.3 million for the year ended December 31, 2005 compared to $0.5 million for the year ended December 31, 2004.

*Benefit from and Provision for Income Taxes*. The reported benefit from income taxes was $5.7 million for 2005 compared to a reported provision for income taxes of $4.5 million for 2004. The effective tax rate was 19.4% in 2005 compared to 38.8% in 2004. The 2005 tax rate was impacted by permanent differences created by specific write-offs of intangibles of $17.4 million, which had no tax basis, and other non-deductible items. At December 31, 2005, we had Federal net operating loss carryforwards ("NOLs") of $14.0 million which begin expiring in 2017.

*Net Income and Earnings Per Share*. We reported a net loss of $23.8 million, or $0.70 per diluted share, for the year ended December 31, 2005, compared to net income of $7.0 million, or $0.31 per diluted share, for the same period a year ago. The decline primarily is due to goodwill and intangible impairment charges and increased bad debt expense, as well as increased SG&A expenses, amortization expense and merger expenses related to the Chronimed acquisition. The number of average diluted shares at December 31, 2005 was 34,128,650 compared to 22,701,862 at December 31, 2004, due to the acquisition and the related issuance of stock.

Pro forma net loss for the year ended December 31, 2005 was $24.9 million, or $0.73 per diluted share, compared to pro forma net income of $9.6 million, or $0.26 per diluted share, for the year ended December 31, 2004. The decline primarily is due to goodwill and intangible impairment charges, as well as increased SG&A expenses, bad debt expense and merger expenses related to the Chronimed acquisition.

***Year ended December 31, 2004 vs. December 31, 2003***

*Revenue*. Total reported revenue for the year ended December 31, 2004 increased $41.7 million, or 7.1%, to $630.5 million from $588.8 million for the same period in 2003. This increase was concentrated in the Specialty Services segment, up $58.2 million, due to the acquisition of Natural Living, Inc. in February 2004, which added $48.0 million in revenue, and was partially offset by $13.7 million in revenue decline from Synagis®. The PBM Services segment revenue was down $16.5 million caused by the loss of $67.8 million of TennCare® revenues, mostly offset by new contract growth and utilization increases.

On a pro forma combined basis, revenue for the year ended December 31, 2004 was $1,219.6 million compared to $1,075.9 million for the same period in 2003, a $143.6 million, or 13.4%, increase. The increase was concentrated in Specialty Services, with volume growth in both mail and community operations, including the acquisition of Natural Living, Inc. noted above.

*Cost of Revenue and Gross Profit*. Total reported cost of revenue increased 8.1% to $562.4 million from $520.2 million for the year ended December 31, 2003. This is commensurate with the increase in revenues experienced in 2004.

Pro forma combined cost of revenue increased $138.7 million, or 14.6%, to $1,087.9 million for the year ended December 31, 2004 from $949.2 million for the year ended December 31, 2003. This is commensurate with the increase in revenues experienced in 2004.

Total reported gross profit for the year ended December 31, 2004 was $68.2 million representing a gross profit percentage of 10.8%, compared to $68.5 million, or 11.6%, for the prior year. The reduction in the gross profit percentage reflects reimbursement pressures experienced in Specialty Services. Within Specialty Services we were adversely affected by pressures in our infusion business, both reimbursement pressure and cost of goods purchasing pressure.

Pro forma gross profit as a percentage of revenue decreased to 10.8% for the year ended December 31, 2004 compared to 11.8% for the same period in 2003. The decline in gross profit percentage reflects reimbursement pressure experienced in Chronimed's specialty pharmacy business from 2003 to 2004, as well as in the infusion business as noted above.

*Selling, General and Administrative Expenses*. For the year ended December 31, 2004, SG&A expenses increased to $50.9 million from $48.9 million, while decreasing as a percent of revenue to 8.1% for the year ended December 31, 2004 compared to 8.3% for the year ended 2003. The spending increase is due to overall revenue volume growth.

Pro forma SG&A for the year ended December 31, 2004 was $101.7 million, or 8.3% of total revenue, compared to $95.1 million, or 8.8% of total revenue, for the year ended December 31, 2003. The spending increase is due to overall revenue volume growth.

*Bad Debt Expense*. For the year ended December 31, 2004 we recorded bad debt expense of $1.9 million, an increase of $0.2 million, or 11.4%, compared to $1.7 million in 2003. The increase is commensurate with the increase in accounts receivables.

Pro forma bad debt expense for the year ended December 31, 2004 was $6.1 million compared to $5.3 million in 2003, an increase of $0.8 million, or 14.4%. The increase is commensurate with the increase in accounts receivables.

*Amortization of Intangibles*. For the year ended December 31, 2004 we recorded amortization expense from intangibles of $3.0 million compared to amortization expense from intangibles of $1.9 million in 2003. The increase in 2004 was the result of increased amortization expense associated with the Natural Living, Inc. acquisition in February 2004.

Pro forma amortization expense for the year ended December 31, 2004 was $8.0 million compared to $6.8 million for the year ended December 31, 2003. The increase in 2004 was the result of increased amortization expense associated with the Natural Living, Inc. acquisition in February 2004.

*Net Interest Expense*. Net interest expense was $0.8 million for each of the years ended December 31, 2004 and 2003. The average daily borrowings were consistent for the years 2004 and 2003.

Pro forma net interest expense was $0.5 million for each of the years ended December 31, 2004 and 2003.

*Benefit from and Provision for Income Taxes*. The reported provision for income taxes was $4.5 million for 2004 and $6.1 million for 2003. The effective tax rate was 38.8% in 2004 compared to 40.0% in 2003. The 2004 tax rate was positively impacted by state tax planning effectuated in 2004. At December 31, 2004, we had remaining NOLs of $16.7 million which begin expiring in 2017.

*Net Income and Earnings Per Share*. Net income for 2004 was $7.0 million, or $0.31 per diluted share, compared to net income of $9.1 million, or $0.40 per diluted share, for 2003. The decrease is principally the result of the factors enumerated above, including the TennCare and Synagis revenue losses. Pro forma net income for the year ended December 31, 2004 was $9.6 million, or $0.26 per diluted share, compared to pro forma net income of $11.5 million, or $0.31 per diluted share, for the year ended December 31, 2003.

**Liquidity and Capital Resources**

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

For 2005, net cash used in operating activities totaled $6.4 million compared to $3.3 million provided by operating activities for 2004. The decrease in operating cash flows from 2004 to 2005 was the result of increases in accounts receivable balances of $21.5 million, inventory of $3.6 million and decreases in accrued expenses of $14.9 million, partially offset by the decreases in prepaid assets of $1.2 million and increases in accounts payable of $11.1 million and claims payable of $2.7 million.

Net cash provided by investing activities in 2005 was $3.1 million compared to net cash used in investing activities of $17.1 million in 2004. The change was driven primarily by the 2004 acquisition of Natural Living, Inc.

Net cash provided by financing activities in 2005 was $1.9 million compared to net cash provided by financing activities in 2004 of $7.3 million due to lower borrowings in 2005.

At December 31, 2005, we had working capital of $67.5 million compared to $14.0 million at December 31, 2004. The increase in working capital primarily is attributable to the acquisitions of Chronimed and JPD, Inc. d/b/a Northland Medical Pharmacy ("Northland") in 2005.

At December 31, 2005 there were $7.4 million of outstanding bank borrowings under our revolving credit facility (the "Facility") with an affiliate of Healthcare Finance Group, Inc. ("HFG"), a $0.1 million increase from the same period in 2004. At December 31, 2005 the Facility provided for borrowings of up to $45 million at the London Inter-Bank Offered Rate (LIBOR) plus 2.4%, with interest paid monthly. The Facility automatically renews for additional one-year terms unless either party gives notice not less than 90 days prior to the expiration of the initial term or any renewal term, currently November 1, 2006, of its intention not to renew the Facility. The Facility permits us to request an increase in the amount available for borrowing up to $100 million, as well as to convert a portion of any outstanding borrowings from a Revolving Loan into a Term Loan. The Facility was increased from $45 million to $65 million in March 2006 to allow for acquisitions and general working capital needs. The borrowing base is based on receivables balances, among other things.

The Facility contains various covenants that, among other things, require us to maintain certain financial ratios, as defined in the agreements governing the Facility. We have received a waiver from HFG on a certain financial ratio (debt to earnings before interest, taxes, depreciation and amortization) that we were not in compliance with as of December 31, 2005, due to losses incurred in fourth quarter 2005 as a result of goodwill and intangible asset impairment and accounts receivable reserve charges. We were in compliance with all other covenants.

Our daily borrowings during 2005 were $744.4 million, of which $744.3 million was repaid during 2005. At the end of any given month during 2005 the line of credit balance did not exceed $14 million.

On October 7, 2005, we acquired Northland for $12.0 million in cash. Direct expenses associated with the acquisition were less than $0.1 million. The acquisition was paid for with proceeds from the Facility, as well as available cash on hand. As we continue to grow, we anticipate that our working capital needs will also continue to increase. Also, we intend to make substantial IT systems investments in 2006 to improve internal control and streamline our business processes. We believe that our cash on hand, together with funds available under the Facility and cash expected to be generated from operating activities will be sufficient to fund our anticipated working capital, IT systems investments and other cash needs for at least the next twelve months.

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

At December 31, 2005, we had Federal NOLs of approximately $14.0 million, which will begin expiring in 2017. Certain of the NOLs are subject to limitation and may be utilized in a future year upon release of the limitation. If the NOLs are not utilized in the year they are available they may be utilized in a future year to the extent they have not expired.

We expect our 2006 annual effective tax rate to be approximately 39%. This rate differs from the Federal statutory rate of 34% primarily due to state taxes.

On February 28, 2003 we announced a stock repurchase program pursuant to which we are authorized to purchase up to $10 million of our common stock from time to time by various means. As of December 31, 2005, we used, in the aggregate, approximately $5.1 million of that authorization. No stock was repurchased during 2005 or 2004.

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

| Contractual Obligations | Payments Due in Period | | | | |
|---|---|---|---|---|---|
| | Total | Less than 1 Year | 1-3 Years | 4-5 Years | After 5 Years |
| | | | (In thousands) | | |
| Line of Credit | $ 7,427 | $ 7,427 | $ — | $ — | $ — |
| Operating Leases | 12,789 | 3,689 | 5,478 | 3,411 | 210 |
| Total Contractual Cash Obligations | $ 20,216 | $ 11,116 | $ 5,478 | $ 3,411 | $ 210 |

## Other Matters

### *Controls and Procedures*

As of the end of the period covered by this Annual Report, evaluations of disclosure controls and internal control over financial reporting were performed under the supervision and with the participation of management, including our Chief Executive Office ("CEO") and Chief Financial Officer ("CFO"). Based upon these evaluations, management believes our controls were not effective as of December 31, 2005. See Part II, Item 9A. "Controls and Procedures" for a full discussion of the Evaluation of Disclosure Controls and Procedures, Management Report on Internal Control over Financial Reporting and our Management Remediation Plan.

### *Restructure*

The acquisition of Chronimed has resulted in the consolidation of certain finance and information technology (IT) functions. The Company's two Rhode Island offices, which included the finance and IT functions, have been closed as a result of these consolidations. These functions were fully transitioned to the Company's Minnesota offices as of December 31, 2005. Accordingly, there have been severance and closure costs associated with the consolidation.

In connection with the consolidation of the finance and IT departments as described above, on March 4, 2005 the Company notified 67 employees that their employment with the Company would be involuntarily terminated. All of these terminations were the result of the purchase of Chronimed and were expensed in the Specialty Services segment. All employees were terminated by December 31, 2005. Severance costs of $2.3 million were recorded in SG&A expenses for employee separation costs in 2005, in connection with the termination of these employees. In September and December of 2005 the two Rhode Island offices were closed, resulting in $0.4 million of expense recorded in SG&A. We do not anticipate any further restructuring costs associated with the merger of Chronimed.

### *Regulatory Matters*

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

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

Exposure to market risk for changes in interest rates relates to our outstanding debt. At December 31, 2005 we did not have any long-term debt. We are exposed to interest rate risk primarily through our borrowing activities under our line of credit discussed in Item 7 of this report. A 10% increase in interest rates would not have a significant effect on our interest expense. Interest rate risk on our investments is immaterial due to our level of investment dollars. Foreign currency exchange rate risk, commodity price risk, or other market risks (e.g. equity price) are not present. We do not use financial instruments for trading or other speculative purposes and are not a party to any derivative financial instruments.

At December 31, 2005, the carrying values of cash and cash equivalents, accounts receivable, accounts payable, claims payable, payables to plan sponsors and others, debt and line of credit approximate fair value due to their short-term nature.

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

* * * * * * * *

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

**Report of Independent Registered Public Accounting Firm**

The Board of Directors and Stockholders of BioScrip, Inc.

We have audited the accompanying consolidated balance sheets of BioScrip, Inc. as of December 31, 2005 and 2004, and the related consolidated statements of operations, stockholders' equity (deficit), and cash flows for each of the three years in the period ended December 31, 2005. Our audits also included the financial statement schedule listed in the Index at Item 15(A). These financial statements and schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of BioScrip, Inc. at December 31, 2005 and 2004, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2005, in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of BioScrip, Inc.'s internal control over financial reporting as of December 31, 2005, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated March 27, 2006, expressed an unqualified opinion on management's assessment and an adverse opinion on the effectiveness of internal control over financial reporting.

/s/ Ernst & Young LLP

Minneapolis, Minnesota
March 27, 2006

**BIOSCRIP, INC.**

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

| | 2005 | 2004 |
|---|---|---|
| **ASSETS** | | |
| **Current assets** | | |
| Cash and cash equivalents | $ 1,521 | $ 2,957 |
| Receivables, less allowance for doubtful accounts of $8,900 and $3,240 at December 31, 2005 and 2004, respectively | 118,762 | 65,439 |
| Inventory | 25,873 | 11,897 |
| Prepaid expenses and other current assets | 2,054 | 2,113 |
| Deferred taxes | 11,225 | 1,666 |
| Total current assets | 159,435 | 84,072 |
| Property and equipment, net | 9,232 | 4,300 |
| Deferred taxes, net | — | 2,830 |
| Other assets and investments | 939 | 427 |
| Goodwill | 104,268 | 74,874 |
| Intangible assets, net | 14,713 | 17,583 |
| Deferred acquisition costs | — | 1,702 |
| **Total assets** | $ 288,587 | $ 185,788 |
| **LIABILITIES AND STOCKHOLDERS' EQUITY** | | |
| **Current liabilities** | | |
| Line of credit | $ 7,427 | $ 7,303 |
| Accounts payable | 39,969 | 20,012 |
| Claims payable | 31,402 | 28,659 |
| Payables to plan sponsors | 1,695 | 2,217 |
| Accrued expenses and other current liabilities | 11,454 | 11,914 |
| Total current liabilities | 91,947 | 70,105 |
| Deferred taxes, net | 875 | — |
| **Total liabilities** | 92,822 | 70,105 |
| **Stockholders' equity** | | |
| Common stock, $.0001 par value; 75,000,000 shares authorized, 37,094,252 issued and outstanding at December 31, 2005; 40,000,000 shares authorized, 22,306,658 shares issued and outstanding at December 31, 2004 | 4 | 2 |
| Treasury stock, 2,198,076 shares at cost | (8,002) | (8,002) |
| Additional paid-in capital | 234,958 | 131,031 |
| Accumulated deficit | (31,195) | (7,348) |
| **Total stockholders' equity** | 195,765 | 115,683 |
| **Total liabilities and stockholders' equity** | $ 288,587 | $ 185,788 |

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

**BIOSCRIP, INC.**

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

| | 2005 | 2004 | 2003 |
|---|---|---|---|
| Revenue | $ 1,073,235 | $ 630,516 | $ 588,770 |
| Cost of revenue | 956,968 | 562,360 | 520,249 |
| Gross profit | 116,267 | 68,156 | 68,521 |
| Selling, general and administrative expenses | 96,521 | 50,935 | 48,920 |
| Bad debt expense | 12,814 | 1,908 | 1,713 |
| Amortization of intangibles | 6,395 | 3,019 | 1,863 |
| Merger related expenses | 4,575 | — | — |
| Goodwill and intangible impairment | 25,165 | — | — |
| (Loss) income from operations | (29,203) | 12,294 | 16,025 |
| Interest expense, net | (392) | (808) | (808) |
| (Loss) income before provision for income taxes | (29,595) | 11,486 | 15,217 |
| Tax (benefit) provision | (5,748) | 4,453 | 6,087 |
| Net (loss) income | $ (23,847) | $ 7,033 | $ 9,130 |
| Basic (loss) income per share | $ (0.70) | $ 0.32 | $ 0.41 |
| Diluted (loss) income per share | $ (0.70) | $ 0.31 | $ 0.40 |
| Weighted average shares used in computing basic (loss) income per share | 34,129 | 22,245 | 22,164 |
| Weighted average shares used in computing diluted (loss) income per share | 34,129 | 22,702 | 22,640 |

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

**BIOSCRIP, INC.**

**CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY (DEFICIT)**
**(In thousands)**

| | Common Stock | Treasury Stock | Additional Paid-In Capital | Accumulated Deficit | Total Stockholders' Equity |
|---|---|---|---|---|---|
| Balance December 31, 2002 | $ 2 | $ (2,934) | $ 120,651 | $ (23,511) | $ 94,208 |
| Exercise of stock options and other related activities | — | — | 911 | — | 911 |
| Tax benefit recorded from non-qualified option exercises | | | 8,021 | | 8,021 |
| Purchase of treasury stock | — | (5,068) | — | — | (5,068) |
| Net income | — | — | — | 9,130 | 9,130 |
| Balance December 31, 2003 | 2 | (8,002) | 129,583 | (14,381) | 107,202 |
| Exercise of stock options and other related activities | — | — | 969 | — | 969 |
| Tax benefit recorded from non-qualified option exercises | | | 479 | | 479 |
| Net income | — | — | — | 7,033 | 7,033 |
| Balance December 31, 2004 | 2 | (8,002) | 131,031 | (7,348) | 115,683 |
| Exercise of stock options and other related activities | — | — | 1,892 | — | 1,892 |
| Tax benefit recorded from option exercises | — | — | 475 | — | 475 |
| Shares issued in connection with Chronimed acquisition | 2 | — | 101,560 | — | 101,562 |
| Net loss | — | — | — | (23,847) | (23,847) |
| Balance December 31, 2005 | $ 4 | $ (8,002) | $ 234,958 | $ (31,195) | $ 195,765 |

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

**BIOSCRIP, INC.**

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

| | 2005 | 2004 | 2003 |
|---|---|---|---|
| **Cash flows from operating activities:** | | | |
| Net (loss) income | $ (23,847) | $ 7,033 | $ 9,130 |
| Adjustments to reconcile net (loss) income to net cash (used in) provided by operating activities: | | | |
| Depreciation | 3,520 | 2,005 | 3,102 |
| Amortization | 6,395 | 3,020 | 1,979 |
| Goodwill and intangible impairment | 25,165 | — | — |
| Deferred income taxes | (6,032) | 2,584 | 2,516 |
| Tax benefit from exercise of stock options | 476 | 479 | 8,021 |
| Non cash stock compensation | 116 | 93 | 289 |
| Provision for losses on receivables | 12,814 | 1,908 | 1,713 |
| Loss on disposal of fixed assets | 465 | — | — |
| Changes in assets and liabilities, net of acquired assets: | | | |
| Receivables, net | (21,471) | (3,818) | 12,938 |
| Inventory | (3,556) | (2,559) | 767 |
| Prepaid expenses and other current assets | 1,154 | 136 | (56) |
| Accounts payable | 11,073 | (3,949) | (445) |
| Claims payable | 2,743 | 1,300 | (7,510) |
| Payables to plan sponsors and others | (522) | (9,011) | (12,694) |
| Accrued expenses and other current and non-current liabilities | (14,915) | 4,073 | (5,407) |
| Net cash (used in) provided by operating activities | (6,422) | 3,294 | 14,343 |
| **Cash flows from investing activities:** | | | |
| Purchases of property and equipment, net of disposals | (5,129) | (1,058) | (961) |
| Acquisitions, net of cash acquired | 6,918 | (14,256) | — |
| (Increase) decrease in deferred acquisition costs and other assets | 1,332 | (1,764) | (20) |
| Net cash provided by (used in) investing activities | 3,121 | (17,078) | (981) |
| **Cash flows from financing activities:** | | | |
| Borrowings/(repayments) on line of credit, net | 124 | 7,303 | (4,608) |
| Purchase of treasury stock | — | — | (5,068) |
| Proceeds from exercise of stock options | 1,776 | 876 | 622 |
| Principal payments on short term debt | — | (467) | — |
| Principal payments on capital lease obligations | (35) | (399) | (631) |
| Net cash provided by (used in) financing activities | 1,865 | 7,313 | (9,685) |
| Net (decrease) increase in cash and cash equivalents | (1,436) | (6,471) | 3,677 |
| **Cash and cash equivalents-beginning of period** | 2,957 | 9,428 | 5,751 |
| Cash and cash equivalents-end of period | $ 1,521 | $ 2,957 | $ 9,428 |
| **DISCLOSURE OF CASH FLOW INFORMATION:** | | | |
| Cash paid during the period for interest | $ 613 | $ 727 | $ 421 |
| Cash paid during the period for income taxes | $ 1,620 | $ 3,349 | $ 1,836 |

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

**BIOSCRIP, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

## NOTE 1 — NATURE OF BUSINESS

***Corporate Organization***

BioScrip, Inc. (the "Company") is a specialty pharmacy services provider that distributes prescription drugs, coordinates customer benefits and provides specialized therapy management services for people with certain health conditions, particularly those treated with biotech injectable medications, as well as those afflicted with potentially life threatening or debilitating diseases or genetic disorders and requiring specialty medications. The Company works with patients, physicians and pharmaceutical manufacturers. The Company also works directly with a variety of health insurers, including HMO's, indemnity plans and PPO's, managed care organizations, other insurance companies, and, to a lesser extent, labor unions, self-funded employer groups, government agencies (including Medicaid and Medicare) and other self-funded plan sponsors, as well as through third-party administrators. The Company works with all of these constituents in a concerted effort to improve clinical and economic outcomes while enhancing the quality of life for the individuals living with chronic conditions.

On March 12, 2005 the Company acquired all of the issued and outstanding stock of Chronimed Inc. ("Chronimed") in a stock-for-stock transaction. The acquisition resulted in an organization that is able to offer broader disease coverage, focused therapy management, expansive national retail and mail distribution capabilities and a pharmacy benefit management ("PBM") platform. The Company believes that the acquisition of Chronimed resulted in an organization with increased scale, enhanced financial capacity and a diversified customer portfolio.

***Business***

The Company derives revenues by providing Specialty Services to patients who are chronically ill, genetically impaired, or afflicted with potentially life threatening diseases that require injection and infusion therapies, as well as infusion therapies and home healthcare services to patients recently discharged from hospitals. The Company also derives revenues from agreements to provide PBM Services, which include prescription Mail Service, to the Members of Plan Sponsors in the United States.

Through its BioScrip® specialty injectable and infusion therapy programs, the Company distributes high-cost pharmaceuticals and provides clinically focused case and disease management programs to Members afflicted with chronic illnesses or genetic impairments. The disease states or conditions for which the Company has such programs include HIV/ AIDS, Immune Deficiency, Cancer, Hemophilia, Multiple Sclerosis, Growth Hormone Deficiency, Gaucher's Disease, Rheumatoid Arthritis, Infertility, Hepatitis C, Psoriasis, Crohn's Disease and Transplants. The specialty drugs distributed through the BioScrip® programs are dispensed and serviced from the Company's 36 mail, infusion and community specialty pharmacy locations across the United States.

***Basis of Presentation***

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

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

**BIOSCRIP, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

## NOTE 2 — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

***Consolidation***

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

***Use of Estimates***

The preparation of financial statements in conformity with GAAP requires management to make certain estimates and assumptions. These estimates and assumptions affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

***Cash and Cash Equivalents***

Cash and cash equivalents are carried at cost, which approximates fair market value, and include demand deposits, overnight investments and money market accounts, with original maturities of ninety days or less when purchased.

***Receivables***

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

***Allowance for Doubtful Accounts***

Allowances for doubtful accounts are based on estimates of losses related to customer receivable balances. The procedure for estimating the allowance for doubtful accounts requires significant judgment and assumptions. The risk of collection varies based upon the product, the payor (commercial health insurance, government, physician), the patient’s ability to pay the amounts not reimbursed by the payor and point of distribution (retail, national mail). The Company estimates the allowance for doubtful accounts based upon a variety of factors including the age of the outstanding receivables and the historical experience of collections, adjusting for current economic conditions and, in some cases, evaluating specific customer accounts for risk of loss. The Company periodically reviews the estimation process and makes changes to the estimates as necessary. In the fourth quarter of 2005 the Company recorded a $7.1 million charge to reflect an increase in the allowance for doubtful accounts receivable resulting from lower than expected collections during the Chronimed merger integration period.

***Allowance for Contractual Discounts***

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

regulations and contract negotiations occur frequently, necessitating the continual review and assessment of the estimation process.

***Inventory***

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

***Property and Equipment***

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

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

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

***Claims Payable***

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

***Payables to Plan Sponsors***

Payables to plan sponsors represent the sharing of manufacturer's rebates with the plan sponsors and, on a limited basis, profit sharing plans with certain contracts, primarily in the PBM Services segment.

The Company estimates the portion of those rebates that are shared with plan sponsors and adjusts rebates payable to plan sponsors when the amounts are paid, typically on a quarterly basis in arrears, or as significant events occur. These estimates are accrued based on actual and estimated claims data and agreed upon contractual rebate sharing rates. The Company adjusts these estimates on a periodic basis according to changing circumstances such as changes to contracts, product mix subject to rebates, and changes in the applicable formulary.

***Rebates***

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

some instances, rebate payments are shared with the Company's managed care organizations. Shared rebates are recorded as a reduction of revenue. Total rebates are recorded as a reduction of cost of goods sold.

***Revenue Recognition***

The Company generates revenue principally through the sale of prescription drugs, which are dispensed either through a pharmacy participating in the Company's retail pharmacy network or a pharmacy owned by the Company. Revenue is generally derived under fee-for-service agreements; however an immaterial number of capitated agreements exist. Prescription drug revenue is offset by the rebates shared with plan sponsors.

*Fee-For-Service Agreements.* Fee-for-service agreements include: (i) specialty and mail service agreements, where the Company dispenses prescription medications through its own pharmacy facilities and (ii) PBM agreements, where prescription medications are dispensed through pharmacies participating in the Company's retail pharmacy network as well as the Company's mail service facility. Under fee-for-service agreements, revenue is recognized either: (a) when the pharmacy services are reported to the Company through the point of sale ("POS") claims processing system and the drug is dispensed to the Member, in the case of a prescription filled through a pharmacy participating in the Company's retail pharmacy network, or (b) at the time the drug is dispensed to the patient, in the case of a prescription filled through a pharmacy owned by the Company. Fee-for-service agreements accounted for more than 95% of revenue for each of the years ended December 31, 2005, 2004 and 2003.

Revenue generated under PBM agreements is classified as either gross or net by the Company based on whether it is acting as a principal or an agent in the fulfillment of prescriptions through its retail pharmacy network. When the Company independently has a contractual obligation to pay a network pharmacy provider for benefits provided to its plan sponsors' members, and has other indicia of risk and reward, the Company includes payments (which includes the drug ingredient cost) from these plan sponsors as revenue and payments to the network pharmacy providers as cost of revenue, as these transactions require the Company to assume credit risk and act as a principal. If the Company merely acts as an agent, and consequently administers plan sponsors' network pharmacy contracts, the Company does not assume credit risk and records only the administrative fees (and not the drug ingredient cost) as revenue.

*Co-payments.* When prescriptions are filled in a Company owned pharmacy, the Company collects and retains co-payments from plan sponsors' members and records these receipts as revenue when the amounts are collected or deemed collectible and reasonably estimable. When prescriptions are filled through pharmacies participating in the Company's retail pharmacy networks, the Company is not entitled to retain co-payments and accordingly does not account for retail pharmacy co-payments in its financial statements. Pharmacy network co-payments are never billed or collected by the Company and the Company has no legal right or obligation to receive them as they are collected by its network pharmacies.

***Cost of Revenue***

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

***Impairment of Long Lived Assets***

The Company evaluates whether events and circumstances have occurred that indicate the remaining estimated useful life of long lived assets, including intangible assets, may warrant revision or that the remaining balance of an asset may not be recoverable. The measurement of possible impairment is based on the ability to recover the balance of assets from expected future operating cash flows on an undiscounted basis.

Impairment losses, if any, would be determined based on the present value of the cash flows using discount rates that reflect the inherent risk of the underlying business. During 2005, the Company implemented a rebranding of all its business lines to a single brand — "BioScrip". As a result of that strategy the value of the trade names associated with the Company's Natural Living, Inc. and Vitality Home Infusion Services, Inc. subsidiaries has been written off. This resulted in a $5.8 million charge in the second quarter of 2005.

In the fourth quarter of 2005, as part of the Company's annual goodwill impairment testing, it determined that intangible assets associated with certain customer lists were no longer recoverable from future cash flows. This resulted in an $0.8 million intangible impairment charge in fourth quarter 2005.

***Goodwill***

Effective on January 1, 2002, the Company adopted SFAS No. 142, *Goodwill and Other Intangible Assets.* This statement addresses the accounting and reporting of goodwill and other intangible assets subsequent to their acquisition. Since adoption, amortization of goodwill was discontinued and goodwill is reviewed at least annually for impairment, generally in the fourth quarter.

The Company evaluates goodwill for impairment based on a two-step process. The first step compares the fair value of a reporting unit with its carrying amount, including goodwill. If the fair value of a reporting unit exceeds its carrying amount, goodwill of the reporting unit is not impaired and the second step of the impairment test is unnecessary. If the carrying amount of the reporting unit exceeds its fair value, the second step of the goodwill impairment test is necessary to measure the amount of impairment loss, if any. The second step compares the implied fair value of reporting unit goodwill with the carrying amount of that goodwill. If the carrying amount of the reporting unit goodwill exceeds the implied fair value of that goodwill, an impairment loss would be recognized in an amount equal to that excess.

The Company has two reporting units — Specialty Services and PBM Services. The fair value of Specialty Services exceeded its carrying amount resulting in no impairment charges in fiscal year 2005. The fair value of PBM Services was less than its carrying amount, resulting in an $18.6 million goodwill impairment charge in the fourth quarter of 2005, primarily as a result of contract terminations, including the termination of the Company's contract with Centene Corporation, the Company's largest PBM Services customer.

***Lease Accounting***

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

***Income Taxes***

As part of the process of preparing the Company's consolidated financial statements, management is required to estimate income taxes in each of the jurisdictions in which it operates. The Company accounts for income taxes under SFAS No. 109, *Accounting for Income Taxes* ("SFAS No. 109"). SFAS No. 109 requires the use of the asset and liability method of accounting for income taxes. Under this method, deferred taxes are determined by calculating the future tax consequences attributable to differences between the financial accounting and tax bases of existing assets and liabilities. A valuation allowance is recorded against deferred tax assets when, in the opinion of management, it is more likely than not that the Company will not be able to realize the benefit from its deferred tax assets.

In addition, the Company has established, and periodically reviews and reevaluates an estimated income tax reserve. This income tax reserve is for exposures related to various Federal and state tax matters. An accrual is established at the time an exposure is identified when it is both probable that a liability has been incurred and the amount of the liability can be reasonably estimated. While the Company believes that it has identified all reasonably identifiable exposures and that the reserve it has established for identifiable exposures is appropriate under the circumstance, it is possible that additional exposures exist and that the exposures will be settled at amounts different than the amounts reserved. It is possible that changes in estimates in the future could cause the Company to either increase or reduce the carrying amount of its income tax reserve.

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

The Company's financial instruments consist mainly of cash and cash equivalents, accounts receivable, accounts payable and its line of credit. The carrying amounts of cash and cash equivalents, accounts receivable, accounts payable and line of credit approximate fair value due to their fully liquid or short-term nature. The outstanding balance on the line of credit at December 31, 2005 was $7.4 million.

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

The Company accounts for employee stock and stock-based compensation plans using the intrinsic value method in accordance with APB Opinion No. 25, *Accounting for Stock Issued to Employees* ("APB 25") as permitted by SFAS No. 123, *Accounting for Stock-Based Compensation* ("SFAS No. 123"), and as such, generally recognizes no compensation cost for employee stock options.

The Company's compensation cost for stock option plans for employees and directors, had it been determined in accordance with the fair value method prescribed by SFAS No. 123, would have been as follows for the years ended December 31 (in thousands except per share data):

| | For the Years Ended December 31, | | |
|---|---|---|---|
| | 2005 | 2004 | 2003 |
| Net (loss) income, as reported | $ (23,847) | $ 7,033 | $ 9,130 |
| Add: Stock award-based employee compensation included in reported net income, net of related tax effect | 27 | 19 | 49 |
| Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effect | (2,023) | (3,626) | (3,289) |
| Pro forma net (loss) income | $ (25,843) | $ 3,426 | $ 5,890 |
| Earnings per share: | | | |
| Basic — as reported | $ (0.70) | $ 0.32 | $ 0.41 |
| Basic — pro forma | $ (0.76) | $ 0.15 | $ 0.27 |
| Diluted — as reported | $ (0.70) | $ 0.31 | $ 0.40 |
| Diluted — pro forma | $ (0.76) | $ 0.15 | $ 0.26 |

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

**BIOSCRIP, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

The fair value of each option grant was estimated on the grant date using the Black-Scholes option-pricing model with the following weighted-average assumptions:

| | 2005 | 2004 | 2003 |
|---|---|---|---|
| Volatility | 69.5% | 89.5% | 98.4% |
| Risk-free interest rate | 4.98% | 3.25% | 2.00% |
| Expected life of options | 4.5 years | 5 years | 5 years |
| Fair value of options | $3.74 | $5.30 | $4.95 |

The Black-Scholes option-pricing model was developed for use in estimating the fair value of traded options that have no vesting restrictions and are fully transferable. In addition, option-pricing models require the input of highly subjective assumptions including expected stock price volatility. Because the Company's employee stock options have characteristics significantly different from those of traded options, and because changes in the subjective input assumptions can materially affect the fair value estimate, in management's opinion, the existing models do not necessarily provide a reliable single measure of the fair value of its employee stock options.

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

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

| | Years Ended December 31, | | |
|---|---|---|---|
| | 2005 | 2004 | 2003 |
| Numerator: | | | |
| Net (loss) income | $ (23,847) | $ 7,033 | $ 9,130 |
| Denominator — Basic: | | | |
| Weighted average number of common shares outstanding | 34,129 | 22,245 | 22,164 |
| Basic (loss) income per common share | $ (0.70) | $ 0.32 | $ 0.41 |
| Denominator — Diluted: | | | |
| Weighted average number of common shares outstanding | 34,129 | 22,245 | 22,164 |
| Common share equivalents of outstanding stock options | — | 457 | 476 |
| Total shares outstanding | 34,129 | 22,702 | 22,640 |
| Diluted (loss) income per common share | $ (0.70) | $ 0.31 | $ 0.40 |

***Recent Accounting Pronouncements***

On December 16, 2004, the Financial Accounting Standards Board (FASB) issued SFAS No. 123 (revised 2004), *Share-Based Payments*, which is a revision of SFAS No. 123. SFAS No. 123(R) supersedes APB 25, and amends SFAS No. 95, *Statement of Cash Flows*. Generally, the approach to estimating the fair value of options in SFAS No. 123(R) is similar to the approach described in SFAS No. 123. However, SFAS No. 123(R) requires all share-based payments to employees, including grants of employee stock options, to be recognized in the income statement based on their fair values. Pro forma disclosure is no longer an alternative and SFAS No. 123(R) must be adopted no later than January 1, 2006. Had the Company adopted SFAS No 123(R) in prior periods, the impact of that standard would have approximated the impact

of SFAS No. 123 as described above. The Company adopted the fair-value-based method of accounting for share-based payments effective January 1, 2006. The impact of adoption of SFAS No. 123(R) is difficult to predict because it will depend on levels of shares-based payments granted from and after January 1, 2006. As of the date of this Annual Report on Form 10-K the impact of SFAS No. 123(R) in 2006 would be a reduction of approximately $1.2 million in net income and $0.03 earnings per share for grants through the date of this report. The Company expects additional grants to be made during the remainder of 2006, the impact of which is not estimable at this time.

In May 2005, FASB issued SFAS 154, *Accounting Changes and Error Corrections*, a replacement of APB Opinion No. 20, *Accounting Changes*, and SFAS No. 3, *Reporting Accounting Changes in Interim Financial Statements*. SFAS 154 requires retrospective application to prior periods' financial statements of a voluntary change in accounting principle unless it is impracticable to determine either the period-specific effects or the cumulative effect of the change. FASB believes that SFAS 154 improves financial reporting because its requirements enhance the consistency of financial information between periods. SFAS 154 is effective for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005. The adoption of SFAS 154 is not expected to have a material impact on the Company's condensed consolidated financial statements.

**NOTE 3 — OPERATING SEGMENTS**

The Company operates in two reportable segments: (1) Specialty Services, which is comprised of specialty pharmacy distribution and clinical management services; and (2) PBM Services, which is comprised of fully integrated pharmacy benefit management and traditional mail services.

The accounting policies applied to the business segments are the same as those described in the Summary of Significant Accounting Policies. The 2005 information below includes Chronimed beginning March, 2005 and Northland beginning October, 2005. See Note 4 of Notes to Consolidated Financial Statements.

**BIOSCRIP, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

**Segment Reporting Information**
**(In thousands)**

| | For the Years Ended December 31 | | |
|---|---|---|---|
| | 2005 | 2004 | 2003 |
| Revenue: | | | |
| Specialty Services | $ 688,512 | $ 251,487 | $ 193,243 |
| PBM Services | 384,723 | 379,029 | 395,527 |
| Total | $ 1,073,235 | $ 630,516 | $ 588,770 |
| Depreciation expense: | | | |
| Specialty Services | $ 2,231 | $ 832 | $ 673 |
| PBM Services | 1,289 | 1,173 | 2,429 |
| Total | $ 3,520 | $ 2,005 | $ 3,102 |
| (Loss) income from operations: | | | |
| Specialty Services (1,2) | $ (14,423) | $ 9,769 | $ 11,899 |
| PBM Services(3) | (14,780) | 2,525 | 4,126 |
| Total | $ (29,203) | $ 12,294 | $ 16,025 |
| Total assets: | | | |
| Specialty Services | $ 242,657 | $ 124,510 | $ 103,694 |
| PBM Services | 45,930 | 61,278 | 66,600 |
| Total | $ 288,587 | $ 185,788 | $ 170,294 |
| Capital expenditures: | | | |
| Specialty Services | $ 4,652 | $ 609 | $ 479 |
| PBM Services | 477 | 449 | 482 |
| Total | $ 5,129 | $ 1,058 | $ 961 |

(1) The year ended December 31, 2005 includes $6.5 million of goodwill and intangible impairment and $4.6 million of merger related expenses (see Note 4 of Notes to the Financial Statements) in the Specialty Services segment.

(2) The year ended December 31, 2005 includes a $7.1 million charge to reflect an increase in the allowance for doubtful accounts receivable created by lower than expected collections during the Chronimed merger integration period in the Specialty Services segment.

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

**BIOSCRIP, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

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

| | For the Year Ended December 31, | |
|---|---|---|
| | 2005 | 2004 |
| Significant customer A | | |
| PBM Services: | | |
| Revenue | $ 133,143 | $ 102,122 |
| % of Total Revenue | 12% | 16% |
| Significant customer B | | |
| PBM Services: | | |
| Revenue | $ 113,914 | $ 102,467 |
| % of Total Revenue | 11% | 16% |
| Specialty Services: | | |
| Revenue | $ 21,524 | $ 17,153 |
| % of Total Revenue | 2% | 3% |

**NOTE 4 — ACQUISITIONS**

***Chronimed Inc. Acquisition***

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

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

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

- the opportunity to combine the companies' individual strengths in payor contracting, physician sales, manufacturer services, clinical management and fulfillment;
- the opportunity to sell the Company's products through Chronimed's existing retail pharmacies;
- the opportunity to broaden the Company's suite of disease states and customer base;
- the expansion of the Company's retail pharmacy coverage;
- the opportunity to create significant mail-operations synergies; and

- the opportunity to create corporate function and other cost synergies, which will enable the combined entity to grow and improve margins.

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

**Purchase Price Allocation**
**(In thousands)**

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

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

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

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

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

**BIOSCRIP, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

As part of the merger, the Company consolidated Chronimed's Minnetonka, Minnesota mail service operations into the Company's higher capacity mail distribution operation in Columbus, Ohio and closed the Minnetonka mail facility. Severance costs of $1.0 million were included in the purchase price. The following table outlines severance costs for the closing of the Minnetonka mail facility that were accrued for at March 12, 2005 and subsequently paid out by December 31, 2005:

**2005 Severance Costs — Chronimed**
**(In thousands)**

| | |
|---|---|
| Liability assumed March 12, 2005 | $ 939 |
| Additional liability recorded | 74 |
| Payments | (1,013) |
| Ending liability at December 31, 2005 | $ — |

The following unaudited consolidated pro forma financial information for the years ended December 31, 2005 and 2004 has been prepared assuming Chronimed was acquired as of the beginning of 2004, utilizing the purchase method of accounting, with certain pro forma adjustments for amortization of intangibles. The pro forma financial information is presented for informational purposes only and is not necessarily indicative of the actual results had the acquisition occurred at the beginning of each period. This pro forma financial information is not intended to be a projection of future operating results.

**Pro Forma Statements of Operations**
**(In thousands, except per share amounts)**

| | Twelve Months Ended December 31, | |
|---|---|---|
| | 2005 (Unaudited) | 2004 (Unaudited) |
| Revenue | $1,187,314 | $1,219,550 |
| Net (loss) income | (24,915) | 9,624 |
| Basic income (loss) per common share | $ (0.73) | $ 0.26 |
| Diluted income (loss) per common share | $ (0.73) | $ 0.26 |

***Northland Medical Pharmacy Acquisition***

On October 7, 2005 the Company acquired all of the issued and outstanding stock of JPD, Inc. d/b/a Northland Medical Pharmacy ("Northland"), a community-based specialty pharmacy located in Columbus, Ohio for $12 million in cash, plus a potential earn-out payment contingent on Northland achieving certain performance benchmarks in 2006. Northland complements the Company's expanding community pharmacy model.

***Natural Living Acquisition***

On February 2, 2004, the Company acquired all of the issued and outstanding stock of Natural Living, Inc., d/b/a Fair Pharmacy, a specialty pharmaceutical provider located in Bronx, New York for $15 million in cash, plus a performance-based earn-out of $4.0 million paid after the first anniversary of the closing. The acquisition enhanced the Company's HIV, Cancer and Hepatitis C disease therapies and has been incorporated into the Company's Specialty Services segment.

***Intravenous Therapy Service Acquisition***

On March 1, 2006 the Company acquired all of the issued and outstanding stock of Intravenous Therapy Services, Inc. ("ITS"), a specialty home infusion company located in Burbank, California for approximately $13 million in cash, plus a potential earn-out payment contingent on achieving certain future performance benchmarks. The addition of ITS enhances the Company's ability to service infusion patients on both the East and West coasts and complements its strategic objective of expanding its infusion operations nationally.

**NOTE 5 — RESTRUCTURING**

The acquisition of Chronimed resulted in the consolidation of certain finance and information technology (IT) functions. The Company's two Rhode Island offices, which included finance and IT functions, have been closed as a result of these consolidations. These functions were fully transitioned to the Company's Minnesota offices as of December 31, 2005. Accordingly, there have been severance and closure costs associated with the consolidation.

In connection with the consolidation of the finance and IT departments as described above, on March 4, 2005 the Company notified 67 associates that their employment with the Company would be involuntarily terminated. All of these terminations were the result of the purchase of Chronimed and were expensed in the Specialty Services segment. All associates were terminated by December 31, 2005. Estimated severance costs in connection with this restructuring were recorded in accordance with SFAS No. 146, *Accounting for Costs Associated with Exit or Disposal Activities* ("SFAS 146"), with the expense being allocated over the estimated retention period of employees. Severance costs of $2.3 million were recorded in SG&A expenses for associate separation costs in 2005, in connection with the termination of these associates. In September and December of 2005 the two Rhode Island offices were closed, resulting in $0.4 million of expense recorded in SG&A. All of these costs have been recorded in the Specialty Services segment.

We do not anticipate any further restructuring costs associated with the merger of Chronimed.

**2005 Restructuring Costs**
**(In thousands)**

| | | |
|---|---|---|
| Payments to date | $ | (1,073) |
| Provisions to date | | 2,172 |
| Ending liability at December 31, 2005 | $ | 1,297 |

**NOTE 6 — GOODWILL AND INTANGIBLES**

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

**BIOSCRIP, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

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

| | Specialty Services | PBM Services | Total |
|---|---|---|---|
| Balance as of December 31, 2003 | $ 42,456 | $ 18,629 | $ 61,085 |
| Goodwill acquired (Natural Living, Inc) | 13,789 | — | 13,789 |
| Balance as of December 31, 2004 | 56,245 | 18,629 | 74,874 |
| Goodwill acquired (Chronimed, Northland) | 47,924 | — | 47,924 |
| Purchase price adjustment (Natural Living, Inc) | 99 | — | 99 |
| Goodwill impairment | | (18,629) | (18,629) |
| Balance as of December 31, 2005 | $ 104,268 | $ — | $ 104,268 |

The Company recorded $18.6 million of goodwill impairment in the fourth quarter of 2005 due primarily to the loss of Centene and other PBM Services contracts. The loss of these contracts has a significant negative impact on the long term financial outlook for the PBM Services segment.

Portions of goodwill assigned to the Specialty Services segment are expected to be deductible for income tax purposes.

The following table details the acquired intangible assets and their accumulated amortization as of December 31, 2005 (in thousands):

| | Weighted Average Life (in months) | As of December 31, 2005 | | As of December 31, 2004 | |
|---|---|---|---|---|---|
| | | Gross Carrying Amount | Accumulated Amortization | Gross Carrying Amount | Accumulated Amortization |
| Amortized intangible assets: | | | | | |
| Non compete agreements | 21.1 | $ 4,130 | $ (1,873) | $ 3,834 | $ (732) |
| Customer relationships and other(1) | 41.5 | 20,200 | (7,744) | 14,288 | (5,896) |
| Tradename(2) | 0.6 | 360 | (360) | 2,000 | (611) |
| Total | | $ 24,690 | $ (9,977) | $ 20,122 | $ (7,239) |
| Unamortized intangible assets: | | | | | |
| Tradename(2) | | $ — | | $ 4,700 | |

(1) Certain intangible assets associated with customer lists totaling $0.8 million were written off in the fourth quarter of 2005.

(2) The Company has completed the process of rebranding to a single name, BioScrip, in 2005; as a result, all legacy trade names were written off in the second quarter of 2005; this writeoff totaled $5.8 million. A tradename acquired with the Chronimed purchase was valued at $0.4 million and completely amortized in 2005.

**BIOSCRIP, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

The amortization expense for the years ended December 31, 2005, 2004 and 2003 was $6.4 million, $3.0 million and $2.0, million respectively. The estimated amortization expense for the next five years is as follows (in thousands):

| For the year ending December 31, | |
|---|---|
| 2006 | $6,455 |
| 2007 | $2,813 |
| 2008 | $1,855 |
| 2009 | $1,292 |
| 2010 | $1,150 |

The Company's net intangible assets as of December 31, 2005 are composed of customer relationships and non compete agreements associated with the acquired businesses. The adjusted expected amortizable life of these assets ranges from two to ten years.

**NOTE 7 — RELATED PARTY TRANSACTIONS**

The Company leased one of its facilities from Alchemie Properties, LLC ("Alchemie") pursuant to a ten-year agreement. Alchemie is controlled by Mr. E. David Corvese, a stockholder and former officer and director of the Company (the "Founder"). Rent expense was approximately $0.1 million for each of the years ended December 31, 2005, 2004, and 2003. With the relocation of the Company's business headquarters to Eden Prairie, Minnesota, a lease buy-out was effected at December 29, 2005 for approximately $0.2 million.

The Company had a consulting arrangement with one of its board members which, in addition to customary board fees, the board member's company received a monthly fee to perform consulting work predominantly related to the TennCare® program. Consulting fees under this contract were $0.8 million for the year ended December 31, 2003. The contract was terminated June 30, 2003.

One of the Company's former board members, who resigned in February 2006, was an employee of the Company's primary outside legal services firm. Fees were paid to that legal firm of $2.1 million, $1.1 million, and $0.6 million for the years ended December 31, 2005, 2004 and 2003, respectively.

**NOTE 8 — PROPERTY AND EQUIPMENT**

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

| | 2005 | 2004 |
|---|---|---|
| Computer and office equipment, including equipment acquired under capital leases | $ 21,804 | $ 20,585 |
| Furniture and fixtures | 2,486 | 1,789 |
| Leasehold improvements | 4,442 | 1,888 |
| | 28,732 | 24,262 |
| Less: Accumulated depreciation | (19,500) | (19,962) |
| Property and equipment, net | $ 9,232 | $ 4,300 |

Depreciation expense for the years ended December 31, 2005, 2004 and 2003 was $3.5 million, $2.0 million and $2.0 million, respectively.

**BIOSCRIP, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

## NOTE 9 — LINE OF CREDIT

On November 1, 2000 the Company entered into a $45 million revolving credit facility (the "Facility") with an affiliate of Healthcare Finance Group, Inc. ("HFG"). The Facility had a three-year term, was secured by the Company's receivables with interest paid monthly, and provided for borrowing up to $45,000 at the London Inter-Bank Offered Rate (LIBOR) plus 2.1%. The facility contained various covenants that, among other things, required the Company to maintain certain financial ratios, as defined in the agreements governing the Facility.

Effective June 30, 2003, the Company extended the Facility with HFG through November 1, 2006 at LIBOR plus 2.4%. The contract governing the Facility provides for automatic one year extensions unless either party gives notice not less than 90 days prior to the expiration of the initial term or any renewal term of its intention not to renew the Facility. The Facility, as extended, permits the company to request an increase in the amount available for borrowing to up to $100,000, as well as converting a portion of any outstanding borrowings from a Revolving Loan into a Term Loan. On March 1, 2006, the Facility was increased from $45 million to $65 million. The borrowing base utilizes receivables balances, among other things, as collateral. Daily borrowings during 2005 were $744.4 million of which $744.3 was repaid during 2005, resulting in an outstanding line of credit balance of $7.4 million as of December 31, 2005. The line of credit balance did not exceed $14.0 million at the end of any given month during 2005. The Company received a waiver from HFG on a certain financial ratio — debt to earnings before interest, taxes, depreciation and amortization — that it was not in compliance with as of December 31, 2005, due to the goodwill and intangible asset impairment and accounts receivable reserve charges incurred in fourth quarter 2005.

## NOTE 10 — TREASURY STOCK

On February 27, 2003, the Executive Committee of the Board of Directors approved a stock repurchase program authorizing the Company to repurchase up to an aggregate of $10.0 million of its Common Stock in open market or private transactions. Through December 31, 2005, the Company has repurchased 799,893 shares of its Common Stock in the open market at an aggregate purchase price of $5.1 million, pursuant to this plan.

## NOTE 11 — COMMITMENTS AND CONTINGENCIES

***Legal Proceedings***

Robert Unger, a shareholder of Chronimed, Inc., filed a purported class action lawsuit in the state court of Minnesota, Hennepin County, on August 16, 2004, naming Chronimed Inc, and certain of its officers and directors as defendants. He amended his complaint on December 10, 2004, to add an additional plaintiff and BioScrip, Inc, (under the name MIM Corporation) as an additional defendant. The amended complaint asserts claims against the Chronimed officer and director defendants, who are represented by other law firms, for alleged breach of their fiduciary duties in connection with the merger agreement by which the Company acquired Chronimed in March 2005 and alleges that the Company aided those alleged breaches. The amended complaint seeks rescission of the merger and other relief. The amended complaint was never served on the Company, which has not responded to the pleading, appeared in the lawsuit, or been involved in any proceedings in the case. The court dismissed the amended complaint as against the Chronimed officer and director defendants and denied the plaintiffs' motion to reinstate it.

On February 14, 2005, a complaint was filed in the Alabama Circuit Court for Barbour County, captioned Eufaula Drugs, Inc. v. ScriptSolutions [sic]. On April 8, an amended complaint was filed against ScripSolutions, a subsidiary of the Company. The plaintiff alleges breach of contract and related claims on behalf of a putative nationwide class of pharmacies alleging insufficient reimbursement for prescriptions dispensed, principally on the theory that ScripSolutions, one of the Company's subsidiaries, was obligated to

update its prescription pricing files on a daily, rather than weekly, basis. ScripSolutions removed the case to the United States Federal District Court for the Middle District of Alabama in April 2005. The plaintiff moved to remand the action to state court, which ScripSolutions opposed. ScripSolutions also moved in May 2005 to dismiss the complaint on jurisdictional grounds or to transfer the matter to a federal court in New York or Rhode Island which the plaintiff opposed. On October 6, 2005, the District Court granted Plaintiff's motion to remand the case to the state court and did not decide ScripSolutions' motion to dismiss or transfer. The district court did not rule on the Company's motion to dismiss or transfer the action and remanded the action to the Alabama State court. ScripSolutions appealed that decision to the Eleventh Circuit Court of Appeals. The U.S. Court of Appeals for the Eleventh Circuit has declined to review the district court's remand discussion and denied the Company's motion for rehearing of the decision. The Company's time to seek further appellate review has not yet expired. ScripSolutions has not filed an answer to the complaint and no other proceedings have occurred. ScripSolutions intends to deny the plaintiff's allegations and defend the claims vigorously. The action is one of approximately 14 substantially identical actions commenced in Alabama courts against Pharmacy Benefit Management companies.

The U.S. Attorney's Office in Boston and the Department of Justice have informed the Company that its subsidiary, BioScrip Pharmacy, is a defendant in a Qui Tam lawsuit under the federal False Claims Act filed by a whistleblower against Serono, Inc., and several other defendants. The government has settled the Qui Tam claims in the lawsuit with Serono, Inc., and has not yet made a decision to intervene in the suit against remaining defendants. No complaint has been served on the Company and it has had only limited opportunity to review it as it is filed under seal in the United States District Court for the District of Massachusetts. The government however has invited BioScrip to explore settlement. For purposes of settlement discussions, the government's estimate of damages is close to $10.0 million, which allegedly resulted from claims for government reimbursement made by StatScript during 1997 through 2000 for the sale of Serono's drug Serostim. The government alleges that these claims are tainted by data sharing and preferred provider agreements between Serono and BioScrip Pharmacy. According to a government attorney, as part of its settlement, Serono agreed to pay 50% of damages allegedly resulting from its relationships with pharmacies, which should include 50% of the amount attributed to the StatScript sales. American Prescription Providers (APP) also is reported to be a defendant in the same lawsuit. The Company's Chronimed, Inc. subsidiary purchased several pharmacies from APP in February 2001, after the time period at issue in the Qui Tam case. Currently, the government is separately discussing directly with APP settlement of the alleged APP damages of approximately $7,500,000. It is not known at this time whether APP or the government will take the position that the Company is liable for the alleged APP damages.

The Eufaula litigation and Serono investigation are in the early stages of their proceedings and, as such, the Company is currently unable to assess the probable outcomes of these proceedings or their respective financial impact. If either or both of these matters were resolved adversely to the Company, either could have a material adverse effect on the Company.

***Government Regulation***

Various Federal and state laws and regulations affecting the healthcare industry do or may impact the Company's current and planned operations, including, without limitation, Federal and state laws prohibiting kickbacks in government health programs Federal and state antitrust and drug distribution laws, and a wide variety of consumer protection, insurance and other state laws and regulations. While management believes that the Company is in substantial compliance with all existing laws and regulations material to the operation of its business, such laws and regulations are subject to rapid change and often are uncertain in their application. As controversies continue to arise in the healthcare industry (for example, regarding the efforts of Plan Sponsors and pharmacy benefit managers to limit formularies, alter drug choice and establish limited networks of participating pharmacies), Federal and state regulation and enforcement priorities in this area can be expected to increase, the impact of which on the Company cannot be predicted. There can be no assurance

that the Company will not be subject to scrutiny or challenge under one or more of these laws or that any such challenge would not be successful. Any such challenge, whether or not successful, could have a material adverse effect upon the Company's financial position, results of operations and cash flows. Violation of the Federal anti-kickback statute, for example, may result in substantial criminal penalties, as well as suspension or exclusion from the Medicare and Medicaid programs. Further, there can be no assurance that the Company will be able to obtain or maintain any of the regulatory approvals that may be required to operate its business, and the failure to do so could have a material adverse effect on the Company's financial position, results of operations and cash flows.

The Company entered into a corporate integrity agreement ("CIA") with the Office of Inspector General (the "OIG") within the Department of Health and Human Services ("HHS") in connection with the Global Settlement Agreement entered into with the OIG and the State of Tennessee in June 2000. In order to assist the Company in maintaining compliance with laws and regulations and the CIA the Company implemented its corporate compliance program in August of 2000. This program includes educational training for all employees on compliance with laws and regulations relevant to the Company's business and operations and a formal program of reporting and resolution of possible violations of laws or regulations, as well as increased oversight by the OIG. Should the oversight procedures reveal credible evidence of any violation of Federal law, the Company is required to report such potential violations to the OIG and the Department of Justice ("DOJ"). The Company is therefore subject to increased regulatory scrutiny and, if the Company commits legal or regulatory violations, they may be subject to an increased risk of sanctions or penalties, including suspension or exclusion from participation in the Medicare or Medicaid programs. The CIA expired by its term June 30, 2005 as evidenced by a letter from the OIG confirming the expiration of the CIA.

***Operating Leases***

The Company leases its facilities and certain equipment under various operating leases with third parties. Facility lease terms are generally five years, the majority containing options to extend for periods ranging from one to five years. Approximately 45% of these leases contain escalation clauses that increase base rent payments based upon either the Consumer Price Index or an agreed upon schedule. New or renegotiated leases may contain periods of free rent, or rent holidays, ranging from one to six months. Equipment leases are generally for periods of three to five years. The future minimum lease payments under these operating leases at December 31 are as follows (in thousands):

| | | |
|---|---|---|
| 2006 | $ | 3,689 |
| 2007 | | 2,885 |
| 2008 | | 2,593 |
| 2009 | | 2,053 |
| 2010 | | 1,359 |
| Thereafter | | 210 |
| Total | $ | 12,789 |

Rent expense for non-related party leased facilities and equipment was approximately $4.3 million, $1.5 million and $1.6 million for the years ended December 31, 2005, 2004 and 2003, respectively. Rent expense for related party leased facilities was approximately $0.1 million for each of the years ended December 31, 2005, 2004 and 2003. All related party leases have been terminated as of January 31, 2006.

***Capital Leases***

At December 31, 2005 the Company had no facilities or equipment under capital leases.

**NOTE 12 — INCOME TAXES**

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

| | For the Years Ended December 31, | | |
|---|---|---|---|
| | 2005 | 2004 | 2003 |
| Current | | | |
| Federal | $ 341 | $ 1,686 | $ 2,620 |
| State | (57) | 183 | 951 |
| Total Current | 284 | 1,869 | 3,571 |
| Deferred | | | |
| Federal | (4,862) | 2,512 | 2,141 |
| State | (1,170) | 72 | 375 |
| Total Deferred | (6,032) | 2,584 | 2,516 |
| Total (Benefit from) Provision for Income Taxes | $ (5,748) | $ 4,453 | $ 6,087 |

The effect of temporary differences that give rise to a significant portion of deferred taxes is as follows as of December 31 (in thousands):

| | For the Years Ended December 31, | |
|---|---|---|
| | 2005 | 2004 |
| Deferred tax assets: | | |
| Reserves not currently deductible | $ 7,701 | $ 1,666 |
| Net operating loss carryforwards | 5,457 | 6,074 |
| Accrued expenses | 1,448 | — |
| Payor audit accrual | 884 | — |
| Capital loss carryover | 915 | 798 |
| Property basis differences | 148 | 141 |
| Other | 139 | — |
| Subtotal | 16,692 | 8,679 |
| Deferred tax liabilities: | | |
| Goodwill and intangibles | (5,444) | (2,935) |
| Subtotal | 11,248 | (5,744) |
| Less: valuation allowance | (898) | (1,248) |
| Net deferred tax asset | $ 10,350 | $ 4,496 |

As of December 31, 2005 and December 31, 2004 the Company has recorded a net deferred tax asset of $10.4 million and $4.5 million, respectively. This primarily consists of reserve balances which are not currently deductible for tax purposes and net operating loss carryforwards ("NOLs").

The valuation allowance of $0.9 million relates to a capital loss carryover which is not expected to be realized for tax purposes. In 2004, $0.6 million of the balance in the valuation allowance represented state NOLs which were not expected to be realized for tax purposes. However, due to a change in tax structure and

a result of the merger, these amounts are now expected to be realized. Therefore, the valuation allowances relating to NOLs have been removed in 2005.

At December 31, 2005, the Company had Federal and state NOLs remaining of approximately $14.0 million, the majority of which will begin expiring in 2017. At December 31, 2005 the capital loss carryforward of $2.3 million was not expected to be utilized before expiring in 2006. Due to the uncertainty of utilizing this item, a valuation allowance has been established for the full amount.

As of December 31, 2005, the NOLs described above are subject to limitation and may be utilized in a future year upon release of the limitation. If the NOLs are not utilized in the year they are available they may be utilized in a future year to the extent they have not expired.

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

| | 2005 | 2004 | 2003 |
|---|---|---|---|
| Tax (benefit) provision at statutory rate | $ (10,062) | $ 3,905 | $ 5,174 |
| State tax (benefit) provision , net of Federal taxes | (576) | 259 | 1,071 |
| Non-deductible goodwill | 5,926 | — | — |
| Merger related expenses | 223 | — | — |
| Change in tax contingencies | (744) | — | — |
| Rate change on deferred items | (463) | — | — |
| Other | (52) | 289 | (158) |
| Provision for income taxes | $ (5,748) | $ 4,453 | $ 6,087 |

## NOTE 13 — STOCKHOLDERS' EQUITY

***Stock Options***

The 1996 Incentive Stock Plan (the "1996 Plan") provided for the granting of incentive stock options ("ISOs") and non-qualified stock options ("NQSOs") to employees, directors and consultants of the Company. Under the 1996 Plan there were 5,200,450 shares authorized for issuance. In 2001, the stockholders approved the Company's 2001 Incentive Stock Plan (the "2001 Plan," collectively with the 1996 Plan, the "Plans"). Under the 2001 Plan an additional 5,750,000 shares are authorized for issuance. As of December 31, 2005, there remain 2,974,630 shares available for grant under the Plans.

On March 12, 2005 the Company assumed all the option plans from Chronimed, Inc. as part of the acquisition. The plans assumed were the 1994 Stock Option Plan, the 1997 Stock Plan, the 1999 Stock Plan, the 2001 Incentive Stock Plan and the 1994 Stock Option Plan for Directors. Previously granted Chronimed options assumed by the Company in 2005 totaled 2,612,146. As of December 31, 2005, there remain 193,342 shares available for grant under these Plans. Vesting on the Chronimed options was accelerated to be fully vested at the date of acquisition.

Options granted under the Plans vest over a three-year period and, in certain limited instances, fully vest upon a change in control of the Company. In addition, such options are generally exercisable for 10 years after the date of grant, subject to earlier termination in certain circumstances. The exercise price of ISOs granted under the Plans will not be less than 100% of the fair market value on the date of grant (110% for ISOs granted to more than a 10% stockholder).

The 1996 Directors Stock Incentive Plan, (the "Directors Plan") was adopted to attract and retain qualified individuals to serve as non-employee directors of the Company ("Outside Directors"), to provide incentives and rewards to such directors and to align more closely the interests of such directors with those of

**BIOSCRIP, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

the Company's stockholders. As amended, the Directors Plan has 500,000 shares authorized, and allows for 5,000 shares per year to be automatically granted to each Outside Director, and 20,000 NQSOs to be automatically granted to Outside Directors upon his or her initial appointment or election to the Board. The exercise price of such options is equal to the fair market value of the Common Stock on the date of grant. Options granted under the Directors Plan vest over three years. As of December 31, 2005, options to purchase 320,000 shares are outstanding at an average exercise price of $6.69 and 195,000 shares under the Directors Plan were exercisable with 180,000 shares available for grant.

In July, 2005, the Company granted options to purchase 1,620,950 shares at $6.00 to key employees, subject to meeting certain financial and qualitative performance criteria for 2005. In March, 2006, upon final review of 2005 performance, a total of 1,511,010 options were canceled against the original grant as a result of the Company not achieving certain performance criteria, leaving a final grant of 109,940 options. These remaining options vest over three years starting March 2006.

As of December 31, 2005 and 2004, the exercisable portion of outstanding options was 4,669,207 shares and 2,365,492 shares, respectively. Stock option activity under the Plans through December 31, 2005 is as follows:

| | Options | Weighted Average Price |
|---|---|---|
| Balance, December 31, 2002 | 3,023,596 | $ 8.42 |
| Granted, $5.20 — $7.95 Range | 1,235,000 | 6.74 |
| Canceled | (262,664) | 9.91 |
| Exercised | (136,396) | 4.56 |
| Balance, December 31, 2003 | 3,859,536 | 7.92 |
| Granted, $7.03 — $7.95 Range | 420,000 | 7.49 |
| Canceled | (157,215) | 7.63 |
| Exercised | (224,831) | 4.32 |
| Balance, December 31, 2004 | 3,897,490 | 8.09 |
| Granted, $5.29 — $8.92 Range | 2,061,950 | 6.11 |
| Assumed in Chronimed acquisition, $3.87 — $13.06 Range | 2,612,146 | 7.15 |
| Canceled | (2,296,908) | 7.06 |
| Exercised | (381,872) | 4.44 |
| Balance, December 31, 2005 | 5,892,806 | $ 7.62 |

**BIOSCRIP, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

The maximum term of stock options under these plans is ten years. Options outstanding as of December 31, 2005 expire on various dates ranging from May 2006 through December 2015. The following table outlines our outstanding and exercisable stock options as of December 31, 2005:

| | December 31, 2005 | | | | |
|---|---|---|---|---|---|
| | Options Outstanding | | | Options Exercisable | |
| Range of Option Exercise Price | Options Outstanding | Weighted Average Exercise Price | Weighted Average Remaining Contractual Life | Options Exercisable | Weighted Average Exercise Price |
| $ 0.00 - $ 5.2 | 0 1,609,685 | $ 3.65 | 5.4 Years | 1,403,686 | $ 3.93 |
| $ 5.57 - $ 7.0 | 3 1,635,153 | $ 6.35 | 7.2 Years | 929,214 | $ 6.34 |
| $ 7.26 - $ 9.5 | 6 1,546,192 | $ 8.55 | 7.4 Years | 1,234,531 | $ 8.70 |
| $ 9.60 - $13.06 | 724,109 | $ 12.00 | 4.2 Years | 724,109 | $ 12.00 |
| $15.13 - $20.25 | 377,667 | $ 17.75 | 6.1 Years | 377,667 | $ 17.75 |
| | 5,892,806 | $ 7.62 | 6.3 Years | 4,669,207 | $ 8.04 |

***Performance Shares***

Under the Plans, the Company's Board of Directors may grant stock to key employees. The Board of Directors may make the issuance of common stock subject to the satisfaction of one or more employment, performance, purchase or other conditions. As of December 31, 2005, the Company has 136,000 restricted stock grants (the "Performance Shares") that vest and become exercisable 8 years from the date of grant. The Company has recorded cumulative compensation expense of $0.7 million related to these Performance Shares through December 31, 2005 based on the fair market value at the date of grant. Based on outstanding number of shares, the deferred compensation expense at December 31, 2005 is $0.1 million. The total expense recorded for 2005, 2004 and 2003 was $0.1 million, $0.1 million and $0.2 million, respectively.

***Performance Units***

Under the Plans, the Company's Board of Directors may grant performance units to key employees. The Company's Board of Directors establishes the terms and conditions of the performance units including the performance goals, the performance period and the value for each performance unit. If the performance goals are satisfied, the Company shall pay the key employee an amount in cash equal to the value of each performance unit at the time of payment. In no event shall a key employee receive an amount in excess of $1.0 million in respect of performance units for any given year. There were no performance units granted for any period presented. As of December 31, 2005, there were no performance units outstanding.

**BIOSCRIP, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

## NOTE 14 — CONCENTRATION OF CREDIT RISK

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

| | Plan Sponsor | |
|---|---|---|
| | A | B |
| Year ended December 31, 2003 | | |
| % of total revenue | 16% | * |
| % of total accounts receivable at period end | * | * |
| Year ended December 31, 2004 | | |
| % of total revenue | 16% | 19% |
| % of total accounts receivable at period end | * | 18% |
| Year ended December 31, 2005 | | |
| % of total revenue | 12% | 13% |
| % of total accounts receivable at period end | * | 16% |

* Less than 10%.

Plan Sponsor (A) is in the PBM Services segment

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

## NOTE 15 — DEFINED CONTRIBUTION PLAN

The Company maintains a deferred compensation plan under Section 401(k) of the Internal Revenue Code. Under the plan, employees may elect to defer up to 50% of their salary, subject to Internal Revenue Service limits. The Company may make a discretionary matching contribution. The Company recorded matching contributions in selling, general and administrative expenses of $0.2 million in each of the years ended December 31, 2005, 2004, and 2003, respectively.

## NOTE 16 — TENNCARE® SEVERANCE AND EXIT COSTS

During 2003, in association with a cost structure review related to the loss of the TennCare® PBM business the Company notified 55 employees in the PBM Services segment that their employment with the Company would be involuntarily terminated. As a result the Company recorded $1.5 million of selling, general and administrative expenses for employee separation costs, primarily severance and contract related termination payments, in 2003. All the employees left active payroll by October 31, 2003.

**BIOSCRIP, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

## NOTE 17 — SELECTED QUARTERLY FINANCIAL DATA (UNAUDITED)

A summary of quarterly financial information for fiscal 2005 and 2004 is as follows (in thousands):

| | First Quarter | Second Quarter | Third Quarter | Fourth Quarter |
|---|---|---|---|---|
| **2005:** | | | | |
| Revenue(1) | $ 188,398 | $ 286,617 | $ 293,976 | $ 304,244 |
| Gross profit | $ 20,447 | $ 30,513 | $ 31,719 | $ 33,588 |
| Net income (2,3,4) | $ 1,667 | $ (3,540) | $ 641 | $ (22,615) |
| Basic earnings (loss) per share | $ 0.07 | $ (0.10) | $ 0.02 | $ (0.61) |
| Diluted earnings (loss) per share | $ 0.06 | $ (0.10) | $ 0.02 | $ (0.61) |
| **2004:** | | | | |
| Revenue(5) | $ 148,052 | $ 154,125 | $ 161,498 | $ 166,840 |
| Gross profit | $ 16,964 | $ 16,850 | $ 16,734 | $ 17,608 |
| Net income(6) | $ 2,180 | $ 1,946 | $ 1,722 | $ 1,190 |
| Basic earnings per share | $ 0.10 | $ 0.09 | $ 0.08 | $ 0.05 |
| Diluted earnings per share | $ 0.10 | $ 0.09 | $ 0.08 | $ 0.05 |

(1) The Company acquired Chronimed in March 2005, and Northland in October 2005.

(2) The Company recorded $0.2 million, $0.5 million, $0.6 million, and $1.5 million of charges, net of tax, related to the Chronimed acquisition and merger, in each of the first, second, third and fourth quarters of 2005, respectively.

(3) In the second quarter of 2005, the Company recorded a $3.5 million charge, net of tax, for the write-off of trade name intangibles relating to its re-branding strategy. In the fourth quarter of 2005, the Company recorded $18.2 million, net of tax, in goodwill and intangible impairment charges.

(4) The Company recorded a $4.3 million charge, net of tax, in the fourth quarter of 2005 to reflect an increase in the allowance for doubtful accounts receivable created by lower than expected collections during the Chronimed integration of the Company's accounting and IT functions.

(5) The Company acquired Natural Living, Inc. dba Fair Pharmacy in February, 2004.

(6) In the fourth quarter of 2004, the Company recorded $0.5 million, net of tax, for a settlement with Value Options of Texas, Inc., a client in the PBM Services segment.

**BioScrip, Inc.**

**Schedule II — Valuation and Qualifying Accounts**
**For the Years Ended December 31, 2005, 2004 and 2003**
**(In thousands)**

| | Balance at Beginning of Period | Write-Off of Receivables | Charged to Costs and Expenses | Other Charges | Balance at End of Period |
|---|---|---|---|---|---|
| Year ended December 31, 2003 | | | | | |
| Accounts receivable | $ 3,126 | $ (1,325) | $ 1,713 | $ — | $ 3,513 |
| Accounts receivable, TennCare® | $ 357 | $ — | $ — | $ — | $ 357 |
| Year ended December 31, 2004 | | | | | |
| Accounts receivable | $ 3,513 | $ (2,538) | $ 1,908 | $ — | $ 2,883 |
| Accounts receivable, TennCare® | $ 357 | $ — | $ — | $ — | $ 357 |
| Year ended December 31, 2005 | | | | | |
| Accounts receivable | $ 2,883 | $ (6,797) | $ 12,814 | $ — | $ 8,900 |
| Accounts receivable, TennCare® | $ 357 | $ (357) | $ — | $ — | $ — |

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

None.

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

**Evaluation of Disclosure Controls and Procedures**

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

The evaluation of our disclosure controls included a review of the controls objectives and design, our implementation of the controls and the effect of the controls on the information generated for use in this Annual Report. Based upon the controls evaluation, our CEO and CFO have concluded that as a result of the matters discussed below with respect to our internal control over financial reporting, our disclosure controls as of December 31, 2005 were not effective.

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

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

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

Management assessed our internal control over financial reporting as of December 31, 2005, the end of our fiscal year. Management based its assessment on criteria established in Internal Control — Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission, or "COSO". Management's assessment included an evaluation of such elements as the design and operating effectiveness of key financial reporting controls, process documentation, accounting policies, and our overall control environment.

An internal control material weakness (as such term is defined under Public Company Accounting Oversight Board Standard No. 2) is a deficiency or combination of deficiencies that results in more than a remote likelihood that a material misstatement of the annual or interim financial statements will not be prevented or detected.

Based on management's assessment of internal control over financial reporting as of December 31, 2005, we have identified and reported to our Audit Committee the following material weaknesses in internal control over financial reporting.

In the area of information technology, we identified the following ineffective controls which we believe constitute a material weakness in the aggregate:

- Inadequate control over segregation of duties, and restriction of employee access to application modules within the Company's financial and operating systems, including our general ledger system;
- Lack of monitoring controls over personnel in the information technology function with access to the production databases supporting the general ledger financial data; and
- Ineffective controls over the documentation, approval, testing and migration of system changes to production environments.

This material weakness affects the processing of information related to all significant accounts in the financial statements and could potentially result in a material misstatement of the financial statements.

In the area of revenue recognition, we identified an ineffective control which we believe constitutes a material weakness:

- Inadequate system and manual controls to prevent the potential overstatement of revenue for cancelled orders and other non-standard transactions in our community pharmacies. Controls failed to detect necessary revenue adjustments that were more than inconsequential but not material. Furthermore, the failure of our controls could potentially result in revenue adjustments of a material amount.

In the area of accounts receivable, we identified the following ineffective controls which we believe constitute a material weakness in the aggregate:

- Ineffective processes and controls to ensure timely collection efforts on past due outstanding accounts receivable;
- Ineffective processes and controls to ensure timely application of customer payments to customer accounts receivable; and
- The need for an improved process to quantify and document the Company's estimates for uncollectible accounts receivable.

This material weakness affects the ability to monitor collections of accounts receivable, develop appropriate estimates of uncollectible amounts and to report accounts receivable in the financial statements at net realizable value and resulted in a material adjustment in the fourth quarter.

As a result of the material weaknesses described in the preceding paragraphs, our management believes that as of December 31, 2005, our internal control over financial reporting was not effective based on the COSO criteria.

Our independent registered public accounting firm, Ernst & Young LLP, has issued an attestation report on management's assessment of the Company's internal control over financial reporting which is included herein.

**Management Remediation Plan**

Given the material weaknesses, management performed additional analysis and procedures to ensure that our consolidated financial statements are presented fairly in conformity with generally accepted accounting principles. Accordingly, management believes that the consolidated financial statements and schedules included in this Form 10-K herein fairly present in all material respects our financial position, results of

operations and cash flows for the periods presented. We have created and commenced implementing a remediation plan to address the aforementioned material weaknesses.

Management believes that the aforementioned material weaknesses result primarily from issues associated with the integration of the information technology, accounting, collections and cash posting functions into a single location in Minnesota following the acquisition of Chronimed in March 2005. The integration has required a significant amount of new hiring, training, knowledge transfer, process redesign and policy implementation that has impacted the control environment as of December 31, 2005. In addition, the Company has made a number of acquisitions in recent years that resulted in the Company operating and maintaining a number of different information systems.

With respect to our remediation plans, we believe that the actions noted below in information technology and finance will remedy our material weaknesses.

***Information Technology***

We are in the process of consolidating our pharmacy operating systems, and have already consolidated to one general ledger system. Through consolidation we continue to focus on IT controls. We are addressing the following items to improve our information technology controls:

- Segregation of duties — We are in the process of examining each of our operating and financial systems, including the general ledger system, and will restrict access of those modules and fields to employees requiring access in order to perform their jobs with appropriate internal control. We have identified the necessary segregation of duties changes and intend to implement them in second quarter 2006. We will be implementing other changes across our pharmacy operating systems during 2006.
- General ledger data base monitoring controls — We have engaged a general ledger software consultant to create a control that will identify any changes made by any IT employee that would have access to the general ledger production data base. We expect the control to be implemented in second quarter 2006. Access to the general ledger data base is already restricted to two individuals in the IT department.
- Changes to system software — Our information technology function has implemented a new system that identifies all changes to our production software systems. This will allow us to immediately detect such changes and therefore be certain that we have the appropriate management, user and IT approvals as we install enhancements to the production environment. In addition, we have restricted the ability to make changes to our production software systems to a limited number of individuals in the IT function.

***Revenue Recognition***

We have revised the system and manual controls in our community pharmacies to provide greater assurance that cancelled orders and other non-standard prescription transactions do not result in overstatement of revenue. We have expanded our system control reporting to identify and screen any such exception transactions coming from our pharmacy systems, and have re-trained personnel that are responsible for performing the manual controls necessary to assure that these exception transactions do not result in the misstatement of revenue. We will monitor adherence to these system and manual controls.

As of December 31, 2005, we had multiple community pharmacy systems — each with a unique pharmacy dispensing, revenue transaction and receivables process. In 2006, we intend to consolidate to one community pharmacy platform. We believe that the consolidation of systems in our community pharmacies will improve our control environment and reduce the likelihood of revenue adjustments.

***Accounts Receivable***

We consolidated the majority of our collections and cash posting functions in fourth quarter 2005 into one location in Minnesota. We hired new resources, experienced employee turnover, transferred knowledge from

former employees, and created new processes. The transaction volume exceeded our human resource capacity. To remedy the material weaknesses in accounts receivable:

- We have appointed a full time project executive to drive improvements in receivables performance.
- We have added resources to prevent delays in cash posting. We assigned new leadership to manage the cash posting process. We have already implemented new processes to improve timeliness and accountability. We are expanding our use of automated tools to post cash, improving both speed and accuracy.
- We are adding personnel to increase our cash collection rates on both old and new accounts, and to resolve customer overpayments on a more timely basis. Also, we are developing an automated workflow and collection tool which we intend to implement in the second quarter for both our community and mail pharmacies that will focus our collectors' efforts and better measure performance.
- We implemented an improved process to quantify and document our estimates for uncollectible accounts in the fourth quarter of 2005. We will continue to refine our methodology in 2006.

**Inherent Limitations on Control Systems**

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

**Changes in Internal Control over Financial Reporting**

Except as noted above, there have been no changes in our internal control over financial reporting identified in connection with the evaluation required by paragraph (d) of Exchange Act Rules 13a-15 or 15d-15 that occurred during our fourth fiscal quarter that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting. The discussion above under "Management Remediation Plan" describes a number of changes we have initiated since December 31, 2005, as well as other changes that we plan to implement in 2006, that we believe will significantly improve our internal control over financial reporting.

**Report of Independent Registered Public Accounting Firm**

**The Board of Directors and Stockholders of BioScrip, Inc.**

We have audited management's assessment, included in the accompanying Management Report on Internal Control Over Financial Reporting, that BioScrip, Inc. did not maintain effective internal control over financial reporting as of December 31, 2005, because of the effect of: (i) ineffective information technology controls, (ii) ineffective controls over revenue recognition, and (iii) ineffective controls over collecting and reserving for uncollectible accounts receivable, based on criteria established in Internal Control — Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express an opinion on management's assessment and an opinion on the effectiveness of the Company's internal control over financial reporting based on our audit.

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

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

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

A material weakness is a control deficiency, or combination of control deficiencies, that results in more than a remote likelihood that a material misstatement of the annual or interim financial statements will not be prevented or detected. The following material weaknesses have been identified and described in management's assessment:

(1) In the area of information technology, the Company identified the following ineffective controls which it believes constitute a material weakness in the aggregate:

a. Inadequate control over segregation of duties, and restriction of employee access to application modules within the Company's financial and operating systems, including its general ledger system.

b. Lack of monitoring controls over personnel in the information technology function with access to the production databases supporting the general ledger financial data.

c. Ineffective controls over the documentation, approval, testing and migration of system changes to production environments.

This material weakness affects the processing of information related to all significant accounts in the financial statements and could potentially result in a material misstatement to the financial statements.

(2) In the area of revenue recognition, the Company identified ineffective controls which it believes constitute a material weakness:

a. Inadequate system and manual controls to prevent the overstatement of revenue for cancelled orders and other non-standard transactions in its community pharmacies. Controls failed to detect necessary revenue adjustments that were more than inconsequential but not material. Furthermore, the failure of its controls could potentially result in revenue adjustments of a material amount.

(3) In the area of accounts receivable, the Company identified the following ineffective controls which it believes constitute a material weakness in the aggregate:

a. Ineffective processes and controls to ensure timely application of customer payments to customer accounts receivable.

b. Ineffective processes and controls to ensure timely collection efforts on past due outstanding accounts receivable.

c. The lack of a thorough and objective process to quantify and document the Company's estimates for uncollectible accounts receivable.

This material weakness affects the ability to monitor collections of accounts receivable, develop appropriate estimates of uncollectible amounts, and to report accounts receivable in the financial statements at net realizable value and resulted in a material adjustment in the fourth quarter.

These material weaknesses were considered in determining the nature, timing, and extent of audit tests applied in our audit of the 2005 financial statements, and this report does not affect our report dated March 27, 2006 on those financial statements.

In our opinion, management's assessment that BioScrip, Inc. did not maintain effective internal control over financial reporting as of December 31, 2005, is fairly stated, in all material respects, based on the COSO criteria. Also, in our opinion, because of the effect of the material weaknesses described above on the achievement of the objectives of the control criteria, BioScrip, Inc. has not maintained effective internal control over financial reporting as of December 31, 2005, based on the COSO criteria.

/s/ Ernst & Young LLP

Minneapolis, Minnesota
March 27, 2006

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

None.

## PART III

**Item 10.** ***Directors and Executive Officers of the Registrant***

The information required by this item is incorporated by reference from the information contained in our definitive proxy statement to be filed with the SEC on or before April 30, 2006 in connection with our 2006 Annual Meeting of Stockholders.

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

The information required by this item is incorporated by reference from the information contained in our definitive proxy statement to be filed with the SEC on or before April 30, 2006 in connection with our 2006 Annual Meeting of Stockholders.

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

The information required by this item is incorporated by reference from the information contained in our definitive proxy statement to be filed with the SEC on or before April 30, 2006 in connection with our 2006 Annual Meeting of Stockholders.

**Item 13.** ***Certain Relationships and Related Transactions***

The information required by this item is incorporated by reference from the information contained in our definitive proxy statement to be filed with the SEC on or before April 30, 2006 in connection with our 2006 Annual Meeting of Stockholders.

## PART IV

**Item 15.** ***Exhibits, Financial Statement Schedules, and Reports on Form 8-K***

(A) Documents Filed as a Part of this Report



All other schedules not listed above have been omitted since they are not applicable or are not required, or because the required information is included in the Consolidated Financial Statements or Notes thereto.

3. Exhibits:

| Exhibit Number | Description | Location |
|---|---|---|
| 2.0 | Agreement and Plan of Merger by and Among MIM Corporation, CMP Acquisition Corp., Continental Managed Pharmacy Services, Inc. and Principal Shareholders dated as of January 27, 1998 | (1)(Exhibit 2.1) |
| 2.1 | Agreement and Plan of Merger, dated as of August 9, 2004, among MIM Corporation, Chronimed Acquisition Corp. and Chronimed Inc. | (2) (Exhibit 99.1) |
| 2.2 | Amendment No. 1 dated January 3, 2005 to Agreement and Plan of Merger dated August 9, 2004 by and among MIM Corporation, Chronimed Acquisition Corp. and Chronimed Inc. | (3) (Exhibit 10.1) |
| 3.1 | Second Amended and Restated Certificate of Incorporation of MIM Corporation | (4) (Exhibit 4.1) |
| 3.2 | Amended and Restated By-Laws of MIM Corporation | (5) |
| 4.1 | Specimen Common Stock Certificate | * |
| 10.1 | Indemnity letter from MIM Holdings, LLC dated August 5, 1996 | (6) (Exhibit 10.36) |
| 10.2 | Employment Agreement between MIM Corporation and Richard H. Friedman dated as of December 1, 1998 | (7) (Exhibit 10.14) |
| 10.3 | Employment Agreement between MIM Corporation and Barry A. Posner dated as of March 1, 1999 | (7) (Exhibit 10.17) |
| 10.4 | Registration Rights Agreement-IV between MIM Corporation and John H. Klein, Richard H. Friedman, Leslie B. Daniels, E. David Corvese and MIM Holdings, LLC dated July 31, 1996 | (4) (Exhibit 10.34) |
| 10.5 | Registration Rights Agreement-V between MIM Corporation and Richard H. Friedman and Leslie B. Daniels dated July 31, 1996 | (4) (Exhibit 10.35) |
| 10.6 | Amendment No. 1 dated August 12, 1996 to Registration Rights Agreement-IV between MIM Corporation and John H. Klein, Richard H. Friedman, Leslie B. Daniels, E. David Corvese and MIM Holdings, LLC dated July 31, 1996 | (8) (Exhibit 10.29) |
| 10.7 | Amendment No 2 dated June 16, 1998 to Registration Rights Agreement-IV between MIM Corporation and John H. Klein, Richard H. Friedman, Leslie B. Daniels, E. David Corvese and MIM Holdings, LLC dated July 31, 1996 | (7) (Exibit 10.31) |
| 10.8 | Lease between Alchemie Properties, LLC and Pro-Mark Holdings, Inc., dated as of December 1, 1994 | (4) (Exhibit 10.27) |
| 10.9 | Lease Agreement between Mutual Properties Stonedale L.P. and MIM Corporation dated April 23, 1997 | (9) (Exhibit 10.41) |
| 10.10 | Agreement between Mutual Properties Stonedale L.P. and MIM Corporation dated as of April 23, 1997 | (9) (Exhibit 10.42) |
| 10.11 | Lease Amendment and Extension Agreement between Mutual Properties Stonedale L.P. and MIM Corporation dated December 10, 1997 | (9) (Exhibit 10.43) |
| 10.12 | Lease Amendment and Extension Agreement-II between Mutual Properties Stonedale L.P. and MIM Corporation dated March 27, 1998 | (9) (Exhibit 10.44) |
| 10.13 | Lease Agreement between Mutual Properties Stonedale L.P. and Pro-Mark Holdings, Inc., dated December 23, 1997 | (9) (Exhibit 10.45) |
| 10.14 | Amendment No. 1 to Employment Agreement, dated as of October 11, 1999 between MIM Corporation and Richard H. Friedman | (10) (Exhibit 10.60) |
| 10.15 | Form of Performance Shares Agreement | (10) (Exhibit 10.61) |
| 10.16 | Form of Performance Units Agreement | (10) (Exhibit 10.62) |
| 10.17 | Form of Non-Qualified Stock Option Agreement | (10) (Exhibit 10.63) |

| Exhibit Number | Description | Location |
|---|---|---|
| 10.18 | Corporate Integrity Agreement between the Office of the Inspector General of the Department of Health and Human Services and MIM Corporation, dated as of June 15, 2000 | (11) (Exhibit 10.2) |
| 10.19 | Loan and Security Agreement, dated November 1, 2000, between MIM Funding LLC and HFG Healthco-4 LLC | (12) (Exhibit 10.1) |
| 10.20 | Receivables Purchase and Transfer Agreement, dated as of November 1, 2000, among MIM Health Plans, Inc., Continental Pharmacy, Inc., American Disease Management Associates LLC and MIM Funding LLC | (12) (Exhibit 10.2) |
| 10.21 | Lease Agreement, dated as of February 24, 2000, by and between American Duke-Weeks Realty Limited Partnership and Continental Managed Pharmacy Services, Inc. | (13) (Exhibit 10.68) |
| 10.22 | First Lease Amendment, dated as of February 24, 2000, by and between Duke-Weeks Realty Limited Partnership and Continental Managed Pharmacy Services, Inc. | (13) (Exhibit 10.69) |
| 10.23 | Lease Agreement, dated as of July 22, 1996, by and between American Disease Management Associates, LLC (“ADIMA”) and Regent Park Associates | (13) (Exhibit 10.70) |
| 10.24 | First Amendment of Agreement of Lease, dated as of June 15, 1999, by and between ADIMA and Five Regent Park Associates | (13) (Exhibit 10.71) |
| 10.25 | Second Amendment of Agreement of Lease, dated as of February 11, 2000, by and between ADIMA and Five Regent Park Associates | (13) (Exhibit 10.72) |
| 10.26 | Asset Purchase Agreement, dated April 4, 2001 among Continental Managed Pharmacy Services Inc., Community Prescription Service, Inc., and its Stockholders | (14) (Exhibit 10.74) |
| 10.27 | Purchase Agreement among American Disease Management Associates, L.L.C., its Members and Certain Related Partners, MIM Health Plans, Inc. and the Registrant, dated as of August 3, 2000 (incorporated by reference to Exhibit 2.1 to the Registrant’s Current Report on Form 8-K filed August 10, 2000) | (15) (Exhibit 4.2) |
| 10.28 | Registration Rights Agreement between the Registrant and Livingston Group LLC dated as of August 3, 2000 (incorporated by reference to Exhibit 4.1 to the Registrant’s Current Report on Form 8-K filed August 10, 2000) | (15) (Exhibit 4.3) |
| 10.29 | Employment letter, dated as of June 19, 2001, between MIM Health Plans, Inc and Michael Sicilian | (16) (Exhibit 10.77) |
| 10.30 | Purchase Agreement, dated as of January 9, 2002, among Vitality Home Infusion Services, Inc., Marc Wiener, Barbara Kammerer and MIM Corporation | (17) (Exhibit 2.1) |
| 10.31 | Lease Agreement, dated as of January 31, 2002, between Bar-Marc Realty, LLC, as landlord, and Vitality Home Infusion Services, Inc., as Tenant | (18) (Exhibit 10.49) |
| 10.32 | Guaranty of Lease Agreement, dated January 31, 2002, made by the Company in favor of Bar-Marc Realty, LLC | (18) (Exhibit 10.50) |
| 10.33 | Employment Letter, dated October 15, 2001, between the Company and Russell J. Corvese | (18) (Exhibit 10.51) |
| 10.34 | Amendment to Employment Agreement entered into as of September 18, 2002 by and between the Company and Barry A. Posner | (19) (Exhibit 10.50) |
| 10.35 | Amendment to Employment Agreement effective as of December 31, 2001 by and between the Company and Richard H. Friedman | (19) (Exhibit 10.51) |

| Exhibit Number | Description | Location |
|---|---|---|
| 10.36 | Employment Letter, dated October 1, 2002, between the Company and James S. Lusk | (19) (Exhibit 10.52) |
| 10.37 | Third Amendment of Agreement of Lease, dated June 24, 2002, between Five Regent Park Associates and American Disease Management Associates | (19) (Exhibit 10.53) |
| 10.38 | Second Amendment and Consent, dated as of January 31, 2002, to the Receivable Purchase and Transfer Agreement, dated as of November 1, 2000 | (19) (Exhibit 10.54) |
| 10.39 | Amendment No. 3, dated as of November 25, 2002, to the Receivables Purchase and Transfer Agreement, dated as of November 1, 2000, each of the parties named on Schedule I thereto, MIM Funding LLC and HFG Healthco-4 LLC | (19) (Exhibit 10.55) |
| 10.40 | Amended and Restated 2001 Incentive Stock Plan | (20) |
| 10.41 | Amended and Restated 1996 Non-Employee Director's Stock Incentive Plan (effective April 17, 2002) | (21) |
| 10.42 | Amended and Restated Rights Agreement, dated as of December 3, 2002 between MIM Corporation and American Stock Transfer and Trust Company | (22) |
| 10.43 | Extension Agreement, dated as of June 30, 2003, to the Receivables Purchase and Transfer Agreement dated as of November 1, 2000, among Scrip Solutions, Inc., each of the parties named on Schedule I to the Original RPTA and MIM Funding LLC and consented to by HFG Healthco-4 LLC | (23) (Exhibit 10.1) |
| 10.44 | Extension Agreement, dated as of June 30, 2003, to the Loan and Security Agreement dated as of November 1, 2000, between MIM Funding LLC and HFG Healthco-4 LLC | (23) (Exhibit 10.2) |
| 10.45 | Amendment, dated January 28, 2004, to Employment Agreement, dated as of March 1, 1999, as amended to date, by and between MIM Corporation and Barry A. Posner | (24) (Exhibit 10.44) |
| 10.46 | Amendment, dated October 13, 2003, to Employment Letter Agreement entered into as of June 19, 2001, by and between Scrip Solutions, Inc. and Michael J. Sicilian | (24) (Exhibit 10.45) |
| 10.47 | Amendment, dated September 19, 2003, to Employment Letter Agreement entered into as of October 15, 2001, by and between Scrip Solutions, Inc. and Russel J. Corvese | (24) (Exhibit 10.46) |
| 10.48 | Lease Amendment and Extension Agreement, dated August 31, 2003, by and between Scrip Solutions, Inc. and Mutual Properties Stonedale LLC | (24) (Exhibit 10.47) |
| 10.49 | Letter Agreement, dated January 28, 2004, between the Company and Alfred Carfora | (25) (Exhibit 10.1) |
| 10.50 | Amendment No. 3 to Employment Agreement, dated as of August 9, 2004, between MIM Corporation and Richard H. Friedman | (26) (Exhibit 10.1) |
| 10.51 | Amendment, dated October 28, 2004, to Employment Agreement for Barry A. Posner | (27) (Exhibit 10.2) |
| 10.52 | Amendment, dated December 1, 2004, to Employment Letter Agreement for Russel J. Corvese | (28) (Exhibit 10.1) |
| 10.53 | Lease Agreement by and between Alchemie Properties, LLC and Scrip Solutions, LLC | (29) (Exhibit 10.53) |
| 10.54 | Employment Offer Letter, dated July 18, 2005 from the Company to Gregory H. Keane | (30) (Exhibit 10.1) |

| Exhibit Number | Description | Location |
|---|---|---|
| 10.55 | Employment Offer Letter, dated July 18, 2005 from the Company to Anthony J. Zappa | (30) (Exhibit 10.2) |
| 10.56 | Amendment No. 2, dated July 18, 2005, to Change of Control Severance Agreement of Anthony J. Zappa | (30) (Exhibit 10.3) |
| 10.57 | Letter Agreement, dated May 31, 2005, between BioScrip, Inc. and Alfred Carfora | (31) (Exhibit 10.1) |
| 10.58 | Second Amendment, dated as of March 1, 2006, to Loan and Security Agreement, dated as of November 1, 2000, between MIM Funding LLC and HFG Healthco-4 LLC | (32) (Exhibit 99.1) |
| 10.59 | Separation Agreement between the Company and Henry F. Blissenbach | (33) (Exhibit 99.1) |
| 10.60 | Letter Agreement between the Company and Barry A. Posner | (33) (Exhibit 99.3) |
| 10.61 | Employment offer letter, dated July 18, 2005, from the Company to Brian Reagan | * |
| 10.62 | Amendment to Change of Control Severance Agreement between the Company and Brian Reagan | * |
| 21 | List of Subsidiaries | * |
| 23.1 | Consent of Ernst and Young, LLP | * |
| 31.1 | Certification of Henry F. Blissenbach 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 Gregory H. Keane 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 Henry F. Blissenbach 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 Gregory H. Keane pursuant to 18 U.S. C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 | * |

(1) Incorporated by reference to the indicated exhibit to the Company's Registration Statement on Form S-4 (File No. 333-60647), as amended, which became effective on August 21, 1998.

(2) Incorporated by reference to the indicated exhibit to the Company's Current Report on Form 8-K filed on August 9, 2004

(3) Incorporated by reference to the indicated exhibit to the Company's Current Report on Form 8-K filed on January 5, 2005

(4) Incorporated by reference to the indicated exhibit to the Company's Current Report on Form 8-K filed on March 17, 2005

(5) Incorporated by reference to the indicated exhibit to the Company's Registration Statement on Form S-1 (File No. 333-05327), as amended, which became effective on August 14, 1996.

(6) Incorporated by reference to Exhibit 3.2 to the Company's Quarterly Report on Form 10-Q filed with the Commission on May 15, 2003.

(7) Incorporated by reference to the indicated exhibit to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 1998.

(8) Incorporated by reference to the indicated exhibit to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 1996.

(9) Incorporated by reference to the indicated exhibit to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 1997.

(10) Incorporated by reference to the indicated exhibit to the Company's Quarterly Report on Form 10-Q for the fiscal quarter ended September 30, 1999.

(11) Incorporated by reference to the indicated exhibit to the Company's Quarterly Report on Form 10-Q for the fiscal quarter ended June 30, 2000.
(12) Incorporated by reference to the indicated exhibit to the Company's Quarterly Report on Form 10-Q for the fiscal quarter ended September 30, 2000.
(13) Incorporated by reference to the indicated exhibit to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2000.
(14) Incorporated by reference to the indicated exhibit to the Company's Quarterly Report on Form 10-Q for the fiscal quarter ended March 31, 2001.
(15) Incorporated by reference to the indicated exhibit to the Company's Current Report on Form 8-K filed on August 10, 2000.
(16) Incorporated by reference to the indicated exhibit to the Company's Quarterly Report on Form 10-Q for the fiscal quarter ended June 30, 2001.
(17) Incorporated by reference to the indicated exhibit to the Company's Form 8-K filed on February 5, 2002.
(18) Incorporated by reference to the indicated exhibit to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2001.
(19) Incorporated by reference to the indicated exhibit to the Company's Annual Report Form 10-K for the year ended December 31, 2002.
(20) Incorporated by reference from the Company's definitive proxy statement for its 2002 annual meeting of stockholders filed with the Commission April 24, 2002.
(21) Incorporated by reference from the Company's definitive proxy statement for its 2003 annual meeting of stockholders filed with the Commission April 30, 2003.
(22) Incorporated by reference to Exhibit 4.1 to Post-Effective Amendment No. 3 to the Company's Form 8-A/ A dated December 4, 2002.
(23) Incorporated by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q filed with the Commission on August 13, 2003.
(24) Incorporated by reference to the indicated exhibit to the Company's Annual Report Form 10-K for the year ended December 31, 2003.
(25) Incorporated by reference to the indicated exhibit to the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2004
(26) Incorporated by reference to the indicated exhibit to the Company's Registration Statement on Form S-4, Registration No. 333-119098
(27) Incorporated by reference to the indicated exhibit to the Company's Current Report on Form 8-K filed on October 28, 2004
(28) Incorporated by reference to the indicated exhibit to the Company's Current Report on Form 8-K filed on December 1, 2004
(29) Incorporated by reference to the indicated exhibit to the Company's Annual Report on Form 10-K for the year ended December 31, 2004
(30) Incorporated by reference to the indicated exhibit to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2005
(31) Incorporated by reference to the indicated exhibit to the Company's Current Report on Form 8-K filed on June 6, 2005
(32) Incorporated by reference to the indicated exhibit to the Company's Current Report on Form 8-K filed on March 2, 2006
(33) Incorporated by reference to the indicated exhibit to the Company's Current Report on Form 8-K filed on March 1, 2006

* Filed with this Annual Report on Form 10-K

**SIGNATURES**

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, on March 31, 2006.

BIOSCRIP INC.

/s/ Gregory H. Keane

Gregory H. Keane
Chief Financial Officer

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

| Signature | Title(s) | Date |
|---|---|---|
| /s/ Richard H. Friedman<br>Richard H. Friedman | Executive Chairman of the Board | March 31, 2006 |
| /s/ Henry F. Blissenbach<br>Henry F. Blissenbach | Director and Chief Executive Officer (principal executive officer) | March 31, 2006 |
| /s/ Gregory H. Keane<br>Gregory H. Keane | Chief Financial Officer (principal financial officer) | March 31, 2006 |
| /s/ Charlotte W. Collins<br>Charlotte W. Collins | Director | March 31, 2006 |
| /s/ Louis T. DiFazio<br>Louis T. DiFazio, Ph.D. | Director | March 31, 2006 |
| /s/ Myron Z. Holubiak<br>Myron Z. Holubiak | Director | March 31, 2006 |
| /s/ David R. Hubers<br>David R. Hubers | Director | March 31, 2006 |
| /s/ Michael Kooper<br>Michael Kooper | Director | March 31, 2006 |
| /s/ Richard L. Robbins<br>Richard L. Robbins | Director | March 31, 2006 |
| /s/ Stuart A. Samuels<br>Stuart A. Samuels | Director | March 31, 2006 |

**EXHIBIT INDEX**

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

| | |
|---|---|
| 4.1 | Specimen Common Stock Certificate |
| 10.61 | Employment offer letter, dated July 18, 2005, from the Company to Brian Reagan |
| 10.62 | Amendment to Change of Control Severance Agreement between the Company and Brian Reagan |
| 21 | List of Subsidiaries |
| 23.1 | Consent of Ernst and Young LLP |
| 31.1 | Certification of Henry F. Blissenbach pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 |
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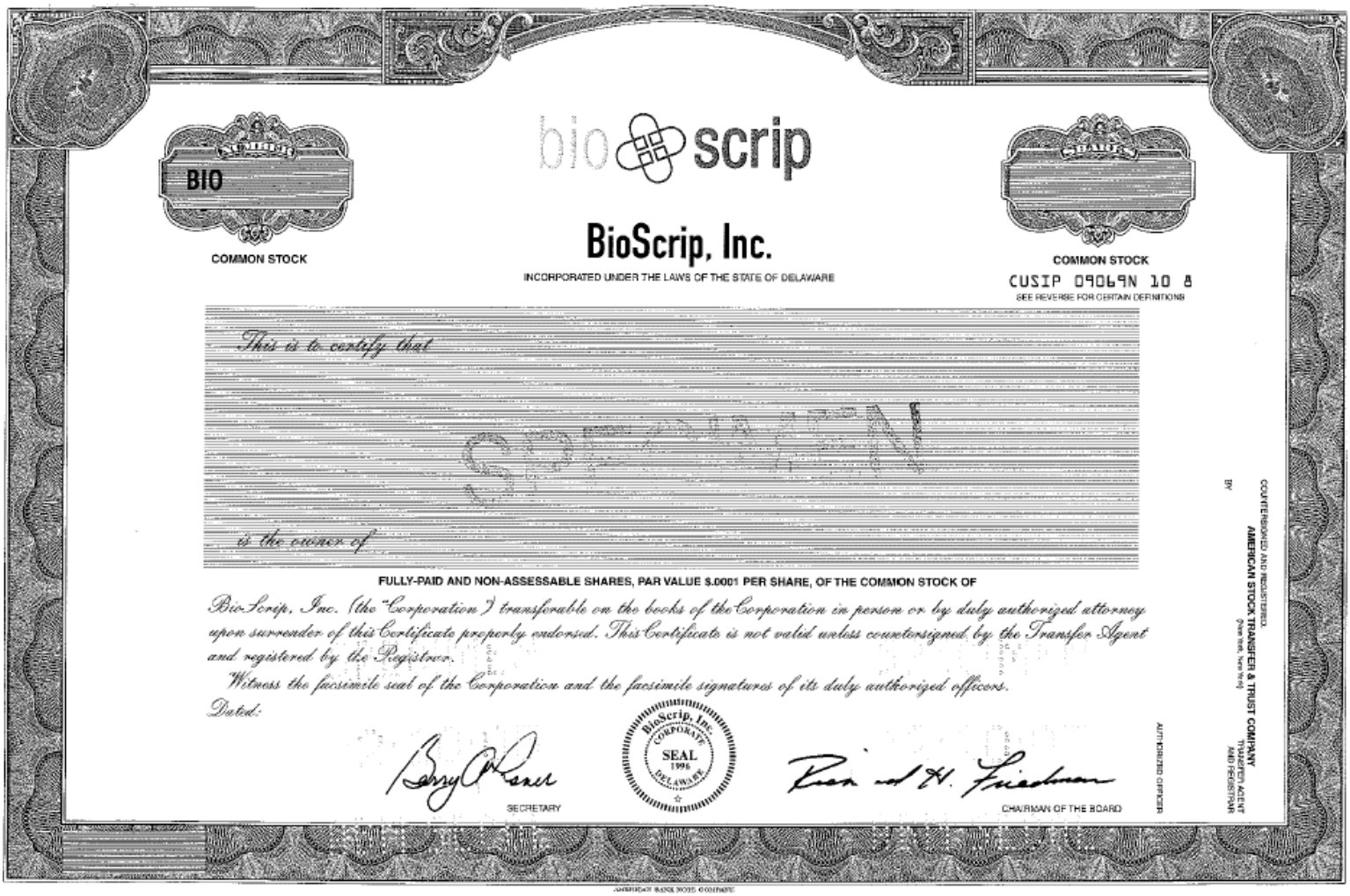
NUMBER
BIO
COMMON STOCK
bio scrip
BioScrip, Inc.
INCORPORATED UNDER THE LAWS OF THE STATE OF DELAWARE
SHARES
COMMON STOCK
CUSIP 09069N 10 8
SEE REVERSE FOR CERTAIN DEFINITIONS
This is to certify that
SPECIMEN
is the owner of
FULLY-PAID AND NON-ASSESSABLE SHARES, PAR VALUE $.0001 PER SHARE, OF THE COMMON STOCK OF
BioScrip, Inc. (the "Corporation") transferable on the books of the Corporation in person or by duly authorized attorney upon surrender of this Certificate properly endorsed. This Certificate is not valid unless countersigned by the Transfer Agent and registered by the Registrar.
Witness the facsimile seal of the Corporation and the facsimile signatures of its duly authorized officers.
Dated:
BioScrip, Inc. CORPORATE SEAL 1996 DELAWARE
SECRETARY
CHAIRMAN OF THE BOARD
AUTHORIZED OFFICER
COUNTERSIGNED AND REGISTERED:
AMERICAN STOCK TRANSFER & TRUST COMPANY
(New York, New York)
TRANSFER AGENT
AND REGISTRAR
BY

**BioScrip, Inc.**

THE CORPORATION WILL FURNISH WITHOUT CHARGE TO EACH STOCKHOLDER WHO SO REQUESTS A COPY OF THE POWERS, DESIGNATIONS, PREFERENCES AND RELATIVE, PARTICIPATING, OPTIONAL OR OTHER SPECIAL RIGHTS OF EACH CLASS OF STOCK OR SERIES THEREOF, WHICH THE CORPORATION IS AUTHORIZED TO ISSUE, AND THE QUALIFICATIONS, LIMITATIONS OR RESTRICTIONS OF SUCH PREFERENCES AND/OR RIGHTS. ANY SUCH REQUEST MAY BE MADE TO THE CORPORATION OR THE TRANSFER AGENT.

KEEP THIS CERTIFICATE IN A SAFE PLACE. IF IT IS LOST, STOLEN OR DESTROYED THE COMPANY WILL REQUIRE A BOND OF INDEMNITY AS A CONDITION TO THE ISSUANCE OF A REPLACEMENT CERTIFICATE.

The following abbreviations, when used in the inscription on the face of this certificate, shall be construed as though they were written out in full according to applicable laws or regulations:

| | | | | |
|---|---|---|---|---|
| TEN COM | — | as tenants in common | UNIF GIFT MIN ACT — _____ | Custodian _____ |
| TEN ENT | — | as tenants by the entireties | (Cust) | (Minor) |
| JTTEN | — | as joint tenants with right of survivorship and not as tenants in common | under Uniform Gifts to Minors Act _____ (State) | |

Additional abbreviations may also be used though not in the above list

*For value received,* _____ *hereby sell, assign and transfer write*

PLEASE INSERT SOCIAL SECURITY OR OTHER IDENTIFYING NUMBER OF ASSIGNEE

| |
|---|
| |

_____

(PLEASE PRINT OR TYPEWRITE NAME AND ADDRESS, INCLUDING ZIP CODE, OF ASSIGNEE)

_____

_____

_____ *shares*

*of the capital stock represented by the within Certificate, and do hereby irrevocably constitute and appoint*

_____ *Attorney*

*to transfer the said stock on the books of the within named Corporation with full power of substitution in the premises.*

*Dated* _____

**NOTICE:** _____

THE SIGNATURE TO THIS ASSIGNMENT MUST CORRESPOND WITH THE NAME AS WRITTEN UPON THE FACE OF THE CERTIFICATE IN EVERY PARTICULAR, WITHOUT ALTERATION OR ENLARGEMENT OR ANY CHANGE WHATEVER.

Signature(s) Guaranteed:

_____

THE SIGNATURE(S) MUST BE GUARANTEED BY AN ELIGIBLE GUARANTOR INSTITUTION (BANKS, STOCKBROKERS, SAVINGS AND LOAN ASSOCIATIONS AND CREDIT UNIONS WITH MEMBERSHIP IN AN APPROVED SIGNATURE GUARANTEE MEDALLION PROGRAM), PURSUANT TO S.E.C. RULE 17Ad-15.

This certificate also evidences and entitles the holder hereof to certain Rights as set forth in the Rights Agreement between the Corporation and American Stock Transfer & Trust Company dated as of November 24, 1998, as amended on December 14, 1998, May 20, 1999 and November 26, 2002 as it may be further amended from time to time (the “Rights Agreement”), the terms of which are hereby incorporated herein by reference and a copy of which is on file at the Corporation’s corporate headquarters. Under certain circumstances, as set forth in the Rights Agreement, such Rights will be evidenced by separate certificates and will no longer be evidenced by this certificate. The Corporation will mail to the holder of this certificate a copy of the Rights Agreement, as in effect on the date of mailing, without charge promptly after receipt of a written request therefor. Under certain circumstances set forth in the Rights Agreement, Rights issued to, or held by, any Person who is, was or becomes an Acquiring Person or an Adverse Person or any Affiliate or Associate thereof (as such terms are defined in the Rights Agreement), whether currently held by or on behalf of such Person or by any subsequent holder, may become null and void and nontransferable.

**Exhibit 10.61**

July 18, 2005

Brian Reagan
BioScrip

Dear Brian,

I am pleased that the BioScrip board of directors has approved the executive compensation arrangements. I want you to be part of the future success of the company and, accordingly, am pleased to formally extend to you this offer of continued employment with BioScrip. This offer of employment is in accordance with the June 14, 2004 Change of Control Severance Agreement between you and Chronimed, Inc (the "Agreement").

I believe this offer package is fair and competitive and provides substantial opportunity for you to share in the success of the integration process and the future growth of BioScrip. It is intended that the arrangements discussed here are privileged communications between you, the Compensation Committee, and myself and may not be disclosed or communicated without their consent.

**Job Title and Authority**
Your position would be Executive Vice President, Sales and Corporate Development. In that capacity, you would be responsible for carrying out your responsibilities as per the attached job description.

**Salary, Benefits and Annual Incentives**
Your total cash compensation opportunity is $368,000. It is derived as follows:

Your base salary would be $230,000 per year, payable on a bi-weekly basis. I have attached a summary of all employee benefit plans, programs and policies currently in effect and for which you are eligible to participate, with the exception of vacation. You would continue to be eligible to participate in those plans. You would receive four weeks of vacation time. These benefits will remain substantially similar until at least January 1, 2006 at which time we expect to merge former MIM and Chronimed employees into a single benefits program that would continue to be a valuable and competitive complement to the financial package described herein.

You are also eligible to participate in BioScrip's annual management bonus plan as long as you remain continuously employed with BioScrip through the last date of the fiscal year on which a bonus is based. Your BioScrip target bonus opportunity would be 40% of your base salary, or $92,000; with an upside opportunity of up to another 20% or $46,000. Keep in mind that your 2005 bonus opportunity will be pro-rated to reflect three quarters. The Plan is based on the achievement of corporate financial objectives as well as individual objectives; I will be distributing to you shortly the specifics of the bonus criteria and thresholds determining bonus entitlement.

**Long-Term Incentive Compensation**
To facilitate your sharing in the long-term success of BioScrip and to align your interests with those of BioScrip's shareholders, BioScrip's Compensation Committee has granted you 103,500 options to purchase BioScrip's common stock, at an exercise price of $6.00 per share. As we discussed, this number represents 150% of the base grant, is subject to forfeiture in the event that certain financial performance thresholds are not met, and shall be subject to the terms and conditions of a stock option agreement that you will receive shortly. For so long as you are

employed with BioScrip, you will be eligible to participate in BioScrip's Long Term Incentive Plan.

In future years, targets will be set at the beginning of each year and a performance-based grant will be made at the end of the year consistent with directives of the Compensation Committee. The Company reserves the right to modify, amend or terminate the terms and provisions, thresholds and/or benchmarks of any health or other company benefits, the bonus program, the long term incentive compensation program or any other benefit or program generally available to you from time to time and at any time; provided, that any such modification, amendment or termination will not affect your entitlement to amounts or benefits to be received thereunder and no such modifications, amendments or termination will adversely affect you for periods prior to the effective date thereof.

**Non Competition & Nondisclosure Agreement**
As a condition of continued employment, you will be required to review, complete, and sign the Restrictive Covenants attached to this offer letter. The job offer and benefits described herein, shall supersede all prior or current verbal or written arrangements you have with Chronimed Inc.

Please note that this letter does not constitute a guarantee of continued employment for any term. Under this offer, you will remain an "at will" employee, as you are currently, but of course, subject to the Agreement. Under the Agreement, if you accept this offer, then, during the one year period commencing on the date you begin performing services in accordance with this offer, if (i) BioScrip terminates your employment without cause, (ii) you terminate your employment for Good Reason, (iii) the Company delivers a notice of termination of the June 14, 2004 Change of Control Severance Agreement or (iv) fails to assign said agreement to a successor employer, then you shall be entitled to receive the severance benefit described in Section 4 of the Agreement.

Brian, I believe that BioScrip is in an excellent position to sustain and enhance its success and growth. I would like you to be a part of that effort. Please confirm your decision as soon as possible, but within 30 days, acknowledging your acceptance by signing, dating, and returning the original of this letter and the enclosed forms to me. A copy is enclosed for your records.

Sincerely,

/s/ Henry Blissenbach

Henry Blissenbach
Chief Executive Officer

Agreed and accepted:

/s/ Brian Reagan
Name

8/16/05
Date

Please return this letter to:

Colleen Haberman
Vice President, Human Resources
10900 Red Circle Drive
Minnetonka, MN 55343

**Exhibit 10.62**

April 8, 2005

Brian Reagan
1853 Orchard Hill
St. Paul, MN 55118

Re: Amendment to Change of Control Severance Agreement

Dear Brian:

Reference is made to that certain Form of Change of Control Severance Agreement, dated as of June 14, 2004 (the "Agreement"). Capitalized terms used herein and not otherwise defined herein shall have the meanings given to those terms in the Agreement.

This letter shall serve to amend the time in which the Company must provide you with the Offer or Termination Advice.

The phrase "thirty (30) days after the Change in Control" contained in the last sentence of the first paragraph of Section 1 of the agreement is hereby deleted, and substituted therefor shall be the phrase "fifteen (15) days following the approval of the Offer by the Company's Board of Directors or its Compensation Committee".

Except as modified hereby, the Agreement shall remain unmodified and in full force and effect.

Kindly signify your agreement to the foregoing by signing your name in the place indicated below.

Very truly yours,

/s/ Barry A. Posner

Barry A. Posner
Executive Vice President and General Counsel

Agreed to and Accepted By:

/s/ Brian Reagan

_____

Brian Reagan

**Exhibit 21**

**Subsidiaries of the Registrant**

BioScrip PBM Services, LLC, a Delaware limited liability company

BioScrip Infusion Services, LLC, a Delaware limited liability company

BioScrip Nursing Services, LLC, a New York limited liability company

BioScrip Pharmacy Services, Inc., an Ohio corporation

BioScrip Pharmacy (NY), Inc., a New York corporation

BioScrip Pharmacy, Inc., a Minnesota corporation

Chronimed, Inc, a Minnesota corporation

Chronimed Service Corporation, a Minnesota corporation

Chronimed Wholesale Inc., a Minnesota corporation

Intravenous Therapy Services, Inc., a California corporation

JPD, Inc., an Ohio corporation

Los Feliz Drugs Inc., a California corporation (inactive)

MEDgenesis Inc., a Minnesota corporation (inactive)

MIM Funding, LLC, a Delaware limited liability company

MIM IPA, Inc., a New York corporation

MIM Investment Corporation, a Delaware corporation

MIM Health Plans of Puerto Rico, Inc., a Puerto Rican corporation

Natural Living, Inc., a New York corporation

**Exhibit 23.1**

**Consent of Independent Registered Public Accounting Firm**

We consent to the incorporation by reference in the Registration Statements (Form S-8 File Nos. 333-107307, 333-107306, 333-123701 and 333-123704) of BioScrip, Inc. of our reports dated March 27, 2006, with respect to the consolidated financial statements and schedule of BioScrip, Inc., BioScrip, Inc. management's assessment of the effectiveness of internal control over financial reporting, and the effectiveness of internal control over financial reporting of BioScrip, Inc., included in this Annual Report (Form 10-K) for the year ended December 31, 2005.

/s/ Ernst & Young LLP

Minneapolis, Minnesota
March 27, 2006

**Exhibit 31.1**

**CERTIFICATION**

I, Henry F. Blissenbach, certify that:

1. I have reviewed this Annual Report on Form 10-K of BioScrip, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f))for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 31, 2006

/s/ Henry F. Blissenbach

Henry F. Blissenbach,
Chief Executive Officer

**Exhibit 31.2**

**CERTIFICATION**

I, Gregory H. Keane, certify that:

1. I have reviewed this Annual Report on Form 10-K of BioScrip, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f))for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 31, 2006

/s/ Gregory H. Keane

Gregory H. Keane,
Chief Financial Officer

**Exhibit 32.1**

**CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350**
**AS ADOPTED PURSUANT TO**
**SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Annual Report of BioScrip, Inc. (the "Company") on Form 10-K for the year ended December 31, 2005, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Henry F. Blissenbach, Chairman and Chief Executive Officer of the Company, do hereby certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: March 31, 2006

/s/ Henry F. Blissenbach

Henry F. Blissenbach

**Exhibit 32.2**

**CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350**
**AS ADOPTED PURSUANT TO**
**SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Annual Report of BioScrip, Inc. (the "Company") on Form 10-K for the year ended December 31, 2005, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Gregory H. Keane, 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: March 31, 2006

/s/ Gregory H. Keane

Gregory H. Keane