

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

Form 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended September 30, 2021

OR

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

Commission file number: 001-11993



option care health®

OPTION CARE HEALTH, INC.

(Exact name of registrant as specified in its charter)

Delaware

(State of incorporation)

3000 Lakeside Dr. Suite 300N, Bannockburn, IL

(Address of principal executive offices)

05-0489664

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

60015

(Zip Code)

Registrant's telephone number, including area code:

312-940-2443

Securities registered pursuant to Section 12(b) of the Act:

Title of each Class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock, \$0.0001 par value per share	OPCH	Nasdaq Global Select Market

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

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

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

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

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

On November 2, 2021, there were 179,875,193 shares of the registrant's Common Stock outstanding.

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PART I
FINANCIAL INFORMATION

Item 1. Financial Statements

OPTION CARE HEALTH, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
(IN THOUSANDS, EXCEPT SHARES AND PER SHARE AMOUNTS)

	(unaudited)	
	September 30, 2021	December 31, 2020
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 200,856	\$ 99,265
Accounts receivable, net	355,650	328,340
Inventories	189,830	158,601
Prepaid expenses and other current assets	64,848	70,806
Total current assets	<u>811,184</u>	<u>657,012</u>
NONCURRENT ASSETS:		
Property and equipment, net	106,788	121,149
Operating lease right-of-use asset	71,992	68,795
Intangible assets, net	343,764	351,052
Goodwill	1,428,610	1,428,610
Other noncurrent assets	23,806	20,821
Total noncurrent assets	<u>1,974,960</u>	<u>1,990,427</u>
TOTAL ASSETS	<u>\$ 2,786,144</u>	<u>\$ 2,647,439</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Accounts payable	\$ 318,561	\$ 282,913
Accrued compensation and employee benefits	64,676	58,899
Accrued expenses and other current liabilities	71,759	64,075
Current portion of operating lease liability	18,893	18,886
Current portion of long-term debt	11,775	9,250
Total current liabilities	<u>485,664</u>	<u>434,023</u>
NONCURRENT LIABILITIES:		
Long-term debt, net of discount, deferred financing costs and current portion	1,117,823	1,115,103
Operating lease liability, net of current portion	71,684	70,776
Deferred income taxes	4,519	3,339
Other noncurrent liabilities	8,974	8,474
Total noncurrent liabilities	<u>1,203,000</u>	<u>1,197,692</u>
Total liabilities	<u>1,688,664</u>	<u>1,631,715</u>
STOCKHOLDERS' EQUITY:		
Preferred stock; \$0.0001 par value; 12,500,000 shares authorized, no shares outstanding as of September 30, 2021 and December 31, 2020, respectively	—	—
Common stock; \$0.0001 par value; 250,000,000 shares authorized, 180,258,555 shares issued and 179,874,833 shares outstanding as of September 30, 2021; 180,178,308 shares issued and 179,794,586 shares outstanding as of December 31, 2020	18	18
Treasury stock; 383,722 shares outstanding, at cost, as of September 30, 2021 and December 31, 2020, respectively	(2,403)	(2,403)
Paid-in capital	1,135,465	1,129,312
Accumulated deficit	(35,600)	(100,031)
Accumulated other comprehensive loss	—	(11,172)
Total stockholders' equity	<u>1,097,480</u>	<u>1,015,724</u>
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	<u>\$ 2,786,144</u>	<u>\$ 2,647,439</u>

The notes to unaudited condensed consolidated financial statements are an integral part of these statements.

OPTION CARE HEALTH, INC.
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
(IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2021	2020	2021	2020
NET REVENUE	\$ 891,937	\$ 781,609	\$ 2,511,446	\$ 2,227,897
COST OF REVENUE	688,969	607,456	1,944,037	1,729,395
GROSS PROFIT	202,968	174,153	567,409	498,502
OPERATING COSTS AND EXPENSES:				
Selling, general and administrative expenses	134,633	123,000	388,930	377,198
Depreciation and amortization expense	15,452	16,597	48,410	54,892
Total operating expenses	150,085	139,597	437,340	432,090
OPERATING INCOME	52,883	34,556	130,069	66,412
OTHER INCOME (EXPENSE):				
Interest expense, net	(16,000)	(24,583)	(52,717)	(84,102)
Equity in earnings of joint ventures	1,676	790	4,567	2,364
Other, net	4	(8,344)	(12,392)	(8,322)
Total other expense	(14,320)	(32,137)	(60,542)	(90,060)
INCOME (LOSS) BEFORE INCOME TAXES	38,563	2,419	69,527	(23,648)
INCOME TAX EXPENSE	3,087	756	5,096	2,267
NET INCOME (LOSS)	\$ 35,476	\$ 1,663	\$ 64,431	\$ (25,915)
OTHER COMPREHENSIVE INCOME (LOSS), NET OF TAX:				
Change in unrealized gains (losses) on cash flow hedges, net of income tax expense (benefit) of \$0, \$0, \$0 and \$0, respectively	2,892	4,022	11,172	(8,034)
OTHER COMPREHENSIVE INCOME (LOSS)	2,892	4,022	11,172	(8,034)
NET COMPREHENSIVE INCOME (LOSS)	\$ 38,368	\$ 5,685	\$ 75,603	\$ (33,949)
EARNINGS (LOSS) PER COMMON SHARE:				
Earnings (loss) per share, basic	\$ 0.20	\$ 0.01	\$ 0.36	\$ (0.14)
Earnings (loss) per share, diluted	\$ 0.20	\$ 0.01	\$ 0.36	\$ (0.14)
Weighted average common shares outstanding, basic	179,872	184,232	179,841	179,220
Weighted average common shares outstanding, diluted	181,430	184,822	181,055	179,220

The notes to unaudited condensed consolidated financial statements are an integral part of these statements.

OPTION CARE HEALTH, INC.
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(IN THOUSANDS)

	Nine Months Ended September 30,	
	2021	2020
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income (loss)	\$ 64,431	\$ (25,915)
Adjustments to reconcile net income (loss) to net cash provided by operations:		
Depreciation and amortization expense	52,820	60,054
Non-cash operating lease costs	11,137	13,020
Paid-in-kind interest capitalized as principal	—	7,525
Deferred income taxes - net	1,180	897
Loss on extinguishment of debt	12,403	8,349
Amortization of deferred financing costs	3,821	4,153
Loss on interest rate swaps upon discontinuing hedge accounting	—	3,746
Equity in earnings of joint ventures	(4,567)	(2,364)
Stock-based incentive compensation expense	6,246	2,588
Other adjustments	2,622	1,589
Changes in operating assets and liabilities:		
Accounts receivable, net	(27,310)	3,496
Inventories	(31,472)	(39,602)
Prepaid expenses and other current assets	5,958	(8,724)
Accounts payable	35,648	66,508
Accrued compensation and employee benefits	5,777	5,461
Accrued expenses and other current liabilities	18,353	16,768
Operating lease liabilities	(14,620)	(11,976)
Other noncurrent assets and liabilities	832	(3,845)
Net cash provided by operating activities	<u>143,259</u>	<u>101,728</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Acquisition of property and equipment	(11,744)	(12,871)
Other investing cash flows	—	541
Business acquisitions, net of cash acquired	(18,852)	—
Net cash used in investing activities	<u>(30,596)</u>	<u>(12,330)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Exercise of stock options, vesting of restricted stock, and related tax withholdings	(93)	(904)
Proceeds from issuance of debt	355,200	—
Repayments of debt	(8,832)	(6,937)
Retirement of debt	(352,009)	(125,000)
Deferred financing costs	(2,880)	—
Net proceeds from issuance of common stock	—	118,934
Debt prepayment fees	(2,458)	—
Other financing cash flows	—	(2,500)
Net cash (used in) provided by financing activities	<u>(11,072)</u>	<u>(16,407)</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	101,591	72,991
Cash and cash equivalents - beginning of the period	99,265	67,056
CASH AND CASH EQUIVALENTS - END OF PERIOD	\$ 200,856	\$ 140,047
Supplemental disclosure of cash flow information:		
Cash paid for interest	\$ 52,002	\$ 73,224
Cash paid for income taxes	\$ 2,719	\$ 2,373
Cash paid for operating leases	\$ 19,631	\$ 19,941

The notes to unaudited condensed consolidated financial statements are an integral part of these statements.

OPTION CARE HEALTH, INC.
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(IN THOUSANDS)

	Preferred Stock	Common Stock	Treasury Stock	Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive (Loss) Income	Total Stockholders' Equity
Balance - December 31, 2019	\$ —	\$ 18	\$ (2,403)	\$ 1,008,362	\$ (91,955)	\$ (7,195)	\$ 906,827
Exercise of stock options, vesting of restricted stock and related tax withholdings	—	—	—	(549)	—	—	(549)
Stock-based incentive compensation	—	—	—	757	—	—	757
Net loss	—	—	—	—	(19,910)	—	(19,910)
Other comprehensive loss	—	—	—	—	—	(16,632)	(16,632)
Balance - March 31, 2020	\$ —	\$ 18	\$ (2,403)	\$ 1,008,570	\$ (111,865)	\$ (23,827)	\$ 870,493
Exercise of stock options, vesting of restricted stock and related tax withholdings	—	—	—	(96)	—	—	(96)
Stock-based incentive compensation	—	—	—	661	—	—	661
Net loss	—	—	—	—	(7,668)	—	(7,668)
Other comprehensive income	—	—	—	—	—	4,576	4,576
Balance - June 30, 2020	\$ —	\$ 18	\$ (2,403)	\$ 1,009,135	\$ (119,533)	\$ (19,251)	\$ 867,966
Exercise of stock options, vesting of restricted stock and related tax withholdings	—	—	—	(259)	—	—	(259)
Stock-based incentive compensation	—	—	—	1,170	—	—	1,170
Net proceeds from the issuance of common stock	—	1	—	118,933	—	—	118,934
Net income	—	—	—	—	1,663	—	1,663
Other comprehensive income	—	—	—	—	—	4,022	4,022
Balance - September 30, 2020	—	19	(2,403)	1,128,979	(117,870)	(15,229)	993,496
Balance - December 31, 2020	\$ —	\$ 18	\$ (2,403)	\$ 1,129,312	\$ (100,031)	\$ (11,172)	\$ 1,015,724
Exercise of stock options, vesting of restricted stock, and related tax withholdings	—	—	—	(69)	—	—	(69)
Stock-based incentive compensation	—	—	—	1,205	—	—	1,205
Net loss	—	—	—	—	(2,861)	—	(2,861)
Other comprehensive income	—	—	—	—	—	4,081	4,081
Balance - March 31, 2021	\$ —	\$ 18	\$ (2,403)	\$ 1,130,448	\$ (102,892)	\$ (7,091)	\$ 1,018,080
Exercise of stock options, vesting of restricted stock, and related tax withholdings	—	—	—	(9)	—	—	(9)
Stock-based incentive compensation	—	—	—	2,525	—	—	2,525
Net income	—	—	—	—	31,816	—	31,816
Other comprehensive income	—	—	—	—	—	4,199	4,199
Balance - June 30, 2021	\$ —	\$ 18	\$ (2,403)	\$ 1,132,964	\$ (71,076)	\$ (2,892)	\$ 1,056,611
Exercise of stock options, vesting of restricted stock, and related tax withholdings	—	—	—	(15)	—	—	(15)
Stock-based incentive compensation	—	—	—	2,516	—	—	2,516
Net income	—	—	—	—	35,476	—	35,476
Other comprehensive income	—	—	—	—	—	2,892	2,892
Balance - September 30, 2021	—	18	(2,403)	1,135,465	(35,600)	—	1,097,480

The notes to unaudited condensed consolidated financial statements are an integral part of these statements.

OPTION CARE HEALTH, INC.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. NATURE OF OPERATIONS AND PRESENTATION OF FINANCIAL STATEMENTS

Corporate Organization and Business — HC Group Holdings II, Inc. (“HC II”) was incorporated under the laws of the State of Delaware on January 7, 2015, with its sole shareholder being HC Group Holdings I, LLC. (“HC I”). On April 7, 2015, HC I and HC II collectively acquired Walgreens Infusion Services, Inc. and its subsidiaries from Walgreen Co., and the business was rebranded as Option Care (“Option Care”).

On March 14, 2019, HC I and HC II entered into a definitive agreement (the “Merger Agreement”) to merge with and into a wholly-owned subsidiary of BioScrip, Inc. (“BioScrip”), a national provider of infusion and home care management solutions, along with certain other subsidiaries of BioScrip and HC II. The merger contemplated by the Merger Agreement (the “Merger”) was completed on August 6, 2019 (the “Merger Date”). The Merger was accounted for as a reverse merger under the acquisition method of accounting for business combinations with Option Care being considered the accounting acquirer and BioScrip being considered the legal acquirer. Following the close of the transaction, BioScrip was rebranded as Option Care Health, Inc. (“Option Care Health”, or the “Company”). The combined Company’s stock is listed on the Nasdaq Global Select Market as of September 30, 2021. See Note 15, *Stockholders’ Equity*, for further discussion of HC I’s ownership as of September 30, 2021.

Option Care Health, and its wholly-owned subsidiaries, provides infusion therapy and other ancillary health care services through a national network of 98 full service pharmacies. The Company contracts with managed care organizations, third-party payers, hospitals, physicians, and other referral sources to provide pharmaceuticals and complex compounded solutions to patients for intravenous delivery in the patients’ homes or other nonhospital settings. The Company operates in one segment, infusion services.

Basis of Presentation — The accompanying unaudited condensed consolidated financial statements have been prepared in conformity with generally accepted accounting principles (“GAAP”) in the United States and contain all adjustments, including normal recurring adjustments, necessary to present fairly the Company’s financial position, results of operations and cash flows for interim financial reporting. The results of operations for the interim periods presented are not necessarily indicative of the results of operations for the entire year. These unaudited condensed consolidated financial statements do not include all of the information and notes to the financial statements required by GAAP for complete financial statements and should be read in conjunction with the 2020 audited consolidated financial statements, including the notes thereto, as presented in the Annual Report on Form 10-K filed with the Securities and Exchange Commission on March 11, 2021.

Principles of Consolidation — The Company’s unaudited condensed consolidated financial statements include the accounts of Option Care Health, Inc. and its subsidiaries. All intercompany transactions and balances are eliminated in consolidation.

The Company has investments in companies that are 50% owned and are accounted for as equity-method investments. The Company’s share of earnings from equity-method investments is included in the line entitled “Equity in earnings of joint ventures” in the unaudited condensed consolidated statements of comprehensive income (loss). See Equity-Method Investments within Note 2, *Summary of Significant Accounting Policies*, for further discussion of the Company’s equity-method investments.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Cash and Cash Equivalents — The Company considers all highly liquid investments with original maturities of three months or less to be cash equivalents.

In April 2020, the Company received \$11.7 million in Coronavirus Aid, Relief, and Economic Security Act (“CARES Act”) grant funds from the federal government, which was reflected in the second quarter 2020 as a cash inflow from financing activities within other financing cash flows in the unaudited condensed consolidated statements of cash flows. During the third quarter 2020, the Company returned the funds as unused to the federal government, which was reflected as a cash outflow from financing activities within other financing cash flows in the unaudited condensed consolidated statements of cash flows.

Prepaid expenses and other current assets — Included in prepaid expenses and other current assets are rebates receivable from pharmaceutical and medical supply manufacturers of \$36.9 million and \$35.2 million as of September 30, 2021 and December 31, 2020, respectively. There were no other items included in prepaid expenses and other current assets that comprised 5% or more of total current assets.

Equity Method Investments — The Company’s investments in certain unconsolidated entities are accounted for under the equity method. The balance of these investments is included in other noncurrent assets in the accompanying condensed consolidated balance sheets. As of September 30, 2021 and December 31, 2020, the balance of the investments were \$20.3 million and \$17.0 million, respectively. The investments are increased to reflect the Company’s capital contributions and equity in earnings of the investees. The investments are decreased to reflect the Company’s equity in losses of the investees and for distributions received that are not in excess of the carrying amount of the investments. The Company’s proportionate share of earnings or losses of the investees are recorded in equity in earnings of joint ventures in the accompanying unaudited condensed consolidated statements of comprehensive income (loss). The Company’s proportionate share of earnings was \$1.7 million and \$4.6 million for the three and nine months ended September 30, 2021. The Company’s proportionate share of earnings was \$0.8 million and \$2.4 million for the three and nine months ended September 30, 2020. Distributions from the investees are treated as cash inflows from operating activities within other adjustments in the unaudited condensed consolidated statements of cash flows. During the three and nine months ended September 30, 2021, the Company received distributions from the investees of \$1.3 million and \$1.3 million, respectively. During the three and nine months ended September 30, 2020, the Company received distributions from the investees of \$2.3 million and \$2.8 million, respectively. See Footnote 16, *Related-Party Transactions*, for discussion of related-party transactions with these investees.

Immaterial Error Correction — During the three months ended June 30, 2021, the Company identified prior period misstatements related to the net revenue earned by category of payer for the periods ended September 30, 2020, December 31, 2020, March 31, 2021, and June 30, 2021. Certain individual payers were improperly classified as direct government and instead should have been classified as commercial payers. This error over-stated the Company’s government revenues and under-stated the Company’s commercial revenues in those periods. The Company assessed the materiality of these misstatements both quantitatively and qualitatively and determined the correction of these errors to be immaterial to the prior consolidated financial statements taken as a whole. As a result, the Company has corrected the misstatements as disclosed in the following tables:

	Three Months ended September 30, 2020			Nine Months ended September 30, 2020			Three Months ended December 31, 2020			Twelve Months ended December 31, 2020		
	Amount	% of Revenue		Amount	% of Revenue		Amount	% of Revenue		Amount	% of Revenue	
Commercial:												
As Previously Reported	\$ 644,385	82.4 %		\$ 1,893,105	85.0 %		\$ 649,880	80.8 %		\$ 2,542,985	83.9 %	
Adjustment	34,321	4.4 %		34,321	1.5 %		40,806	5.1 %		75,127	2.5 %	
As Revised	678,706	86.8 %		1,927,426	86.5 %		690,686	85.9 %		2,618,112	86.4 %	
Government:												
As Previously Reported	127,435	16.3 %		308,830	13.9 %		141,237	17.6 %		450,067	14.8 %	
Adjustment	(34,321)	(4.4) %		(34,321)	(1.5) %		(40,806)	(5.1) %		(75,127)	(2.5) %	
As Revised	93,114	11.9 %		274,509	12.4 %		100,431	12.5 %		374,940	12.3 %	

	Three Months ended March 31, 2021			Three Months ended June 30, 2021			Six Months ended June 30, 2021		
	Amount	% of Revenue		Amount	% of Revenue		Amount	% of Revenue	
Commercial:									
As Previously Reported	\$ 611,434	80.5 %		\$ 703,429	81.8 %		\$ 1,314,862	81.2 %	
Adjustment	37,073	4.9 %		43,218	5.0 %		80,292	4.9 %	
As Revised	648,507	85.4 %		746,647	86.8 %		1,395,154	86.1 %	
Government:									
As Previously Reported	134,914	17.8 %		145,799	16.9 %		280,714	17.3 %	
Adjustment	(37,073)	(4.9) %		(43,218)	(5.0) %		(80,292)	(4.9) %	
As Revised	97,841	12.9 %		102,581	11.9 %		200,422	12.4 %	

There was no impact to the Company's consolidated balance sheets, consolidated statements of comprehensive income (loss) or the consolidated statements of cash flows for any of these periods.

Concentrations of Business Risk — The Company generates revenue from managed care contracts and other agreements with commercial third-party payers. Revenue related to the Company's largest payer was approximately 16% and 16% for the three and nine months ended September 30, 2021. Revenue related to the Company's largest payer was approximately 16% and 15% for the three and nine months ended September 30, 2020, respectively. In December 2019, the Company renewed and expanded its multi-year contract with this payer. The contract renewal was effective in February 2020 for a two-year term and auto-renews annually thereafter unless notice is provided. There were no other managed care contracts that represent greater than 10% of revenue for the periods presented.

For the three and nine months ended September 30, 2021, approximately 12% and 12%, respectively, of the Company's revenue was reimbursable through direct government healthcare programs, such as Medicare and Medicaid. For the three and nine months ended September 30, 2020, approximately 12% and 12%, respectively, of the Company's revenue was reimbursable through direct government healthcare programs, such as Medicare and Medicaid. As of September 30, 2021 and December 31, 2020, respectively, approximately 11% and 15%, respectively, of the Company's accounts receivable was related to these programs. Governmental programs pay for services based on fee schedules and rates that are determined by the related governmental agency. Laws and regulations pertaining to government programs are complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change in the near term.

The Company does not require its patients nor other payers to carry collateral for any amounts owed for goods or services provided. Other than as discussed above, concentration of credit risk relating to trade accounts receivable is limited due to the Company's diversity of patients and payers. Further, the Company generally does not provide charity care, however, Option Care Health offers a financial assistance program for patients that meet certain defined hardship criteria.

For the three and nine months ended September 30, 2021, approximately 65% and 65%, respectively, of the Company's pharmaceutical and medical supply purchases were from three vendors. For the three and nine months ended September 30, 2020, approximately 71% and 72%, respectively, of the Company's pharmaceutical and medical supply purchases were from three vendors. Although there are a limited number of suppliers, the Company believes that other vendors could provide similar products on comparable terms. However, a change in suppliers could cause delays in service delivery and possible losses in revenue, which could adversely affect the Company's financial condition or operating results. Although there remains some uncertainty regarding the COVID-19 pandemic, as of September 30, 2021 the Company has been able to maintain adequate levels of supplies and pharmaceuticals to support its operations.

3. BUSINESS COMBINATIONS AND ASSET ACQUISITIONS

BioCure Asset Acquisition — In April 2021, pursuant to the Asset Purchase Agreement dated April 7, 2021, the Company completed the acquisition of certain assets of BioCure, LLC (“BioCure”) for a purchase price of \$18.9 million.

The allocation of the purchase price of BioCure was accounted for as an asset acquisition in accordance with ASC Topic 805, *Business Combinations*, with the total purchase price being allocated to the assets acquired based on the relative fair value of each asset. The purchase price was allocated to the assets acquired as follows:

	Amount
Inventories	\$ 601
Intangible assets, net	18,251
Total consideration transferred	<u>\$ 18,852</u>

Intangibles assets, net consists of referral sources which were assigned a useful life of 15 years, amortized on a straight-line basis.

4. REVENUE

The following table sets forth the net revenue earned by category of payer for the three and nine months ended September 30, 2021 and 2020 (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2021	2020	2021	2020
Commercial payers	\$ 769,524	\$ 678,706	\$ 2,164,678	\$ 1,927,426
Government payers	106,645	93,114	307,067	274,509
Patients	15,768	9,789	39,701	25,962
Net revenue	\$ 891,937	\$ 781,609	\$ 2,511,446	\$ 2,227,897

5. INCOME TAXES

During the three and nine months ended September 30, 2021, the Company recorded tax expense of \$3.1 million and \$5.1 million, respectively, which represents an effective tax rate of 8.0% and 7.3%, respectively. During the three and nine months ended September 30, 2020 the Company recorded a tax expense of \$0.8 million and \$2.3 million, respectively, which represents an effective tax rate of 31.3% and (9.6)%, respectively.

The Company maintains a full valuation allowance of \$97.3 million against all of its net U.S. federal and state deferred tax assets with the exception of \$0.3 million of estimated state net operating losses (“NOL”). In assessing the realizability of deferred tax assets, the Company considers whether it is more likely than not that some or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets depends on the generation of future taxable income during the periods in which those temporary differences are deductible. The Company considers the scheduled reversal of deferred tax liabilities, including the effect in available carryback and carryforward periods, projected taxable income and tax-planning strategies, in making this assessment. On a quarterly basis, the Company evaluates all positive and negative evidence in determining if the valuation allowance is fairly stated.

Based on the Company’s full valuation allowance, as noted above, the Company’s tax expense for the three and nine months ended September 30, 2021 of \$3.1 million and \$5.1 million consists of quarterly tax liabilities attributable to specific state taxing authorities as well as recognized deferred tax expense.

The Company has accumulated U.S. federal net operating loss carryovers that are subject to one or more Section 382 limitations. This may limit the Company’s ability to utilize its U.S. federal net operating losses.

The Company recorded no income tax expense or benefit for the three or nine months ended September 30, 2021 and 2020 associated with the tax provisions of the CARES Act.

6. EARNINGS (LOSS) PER SHARE

The Company presents basic and diluted earnings (loss) per share for its common stock. Basic earnings (loss) per share is calculated by dividing the net income (loss) of the Company by the weighted average number of shares of common stock outstanding during the period. Diluted earnings (loss) per share is determined by adjusting the profit or loss and the weighted average number of shares of common stock outstanding for the effects of all potentially dilutive securities.

The earnings (loss) is used as the basis of determining whether the inclusion of common stock equivalents would be anti-dilutive. The computation of diluted shares for the three and nine months ended September 30, 2021 includes the effect of shares that would be issued in connection with warrants, stock options and restricted stock awards, as these common stock equivalents are dilutive to the earnings per share recorded in those periods. The computation of diluted shares for the nine months ended September 30, 2020 excludes the effect of these common stock equivalents as their inclusion would be anti-dilutive to the loss per share recorded in the period. For the three months ended September 30, 2021 there were 457,754 warrants, 496,929 stock option awards, and 38,536 restricted stock awards outstanding that were excluded from the calculation of earnings per share as they would be anti-dilutive. For the nine months ended September 30, 2021 there were 915,507 warrants, 387,656 stock option awards, and 272,540 restricted stock awards outstanding that were excluded from the calculation of earnings per share as they would be anti-dilutive. For the three months ended September 30, 2020, there were 915,507 warrants, 296,876 stock options and 312,984 restricted stock awards outstanding that were excluded from the calculation of earnings per share as they would be anti-dilutive. For the nine months ended September 30, 2020, there were 2,328,120 warrants, 424,878 stock options and 600,483 restricted stock awards outstanding that were excluded from the calculation of loss per share as they would be anti-dilutive.

The following table presents the Company's basic earnings (loss) per share and shares outstanding (in thousands, except per share data):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2021	2020	2021	2020
Numerator:				
Net income (loss)	\$ 35,476	\$ 1,663	\$ 64,431	\$ (25,915)
Denominator:				
Weighted average number of common shares outstanding	179,872	184,232	179,841	179,220
Earnings (loss) per common share:				
Earnings (loss) per common share, basic	\$ 0.20	\$ 0.01	\$ 0.36	\$ (0.14)

The following table presents the Company's diluted earnings (loss) per share and shares outstanding (in thousands, except per share data):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2021	2020	2021	2020
Numerator:				
Net income (loss)	\$ 35,476	\$ 1,663	\$ 64,431	\$ (25,915)
Denominator:				
Weighted average number of common shares outstanding	179,872	184,232	179,841	179,220
Effect of dilutive securities	1,558	590	1,214	—
Weighted average number of common shares outstanding, diluted	181,430	184,822	181,055	179,220
Earnings (loss) per common share:				
Earnings (loss) per common share, diluted	\$ 0.20	\$ 0.01	\$ 0.36	\$ (0.14)

7. LEASES

During the three and nine months ended September 30, 2021, the Company incurred operating lease expenses of \$7.8 million and \$22.3 million, respectively, including short-term lease expense, which were included as a component of selling, general and administrative expense in the unaudited condensed consolidated statements of comprehensive income (loss). During the three and nine months ended September 30, 2020, the Company incurred operating lease expense of \$7.6 million and \$23.0 million, respectively, including short-term lease expenses, which were included as a component of selling, general and administrative expenses in the unaudited condensed consolidated statements of comprehensive income (loss). As of September 30, 2021, the weighted-average remaining lease term was 6.44 and the weighted-average discount rate was 5.09%.

Operating leases mature as follows (in thousands):

<u>Fiscal Year Ending December 31,</u>	<u>Minimum Payments</u>
2021	\$ 8,379
2022	22,679
2023	19,324
2024	13,757
2025	11,053
Thereafter	32,682
Total lease payments	\$ 107,874
Less: Interest	17,297
Present value of lease liabilities	\$ 90,577

During the three and nine months ended September 30, 2021, the Company commenced new leases, extensions and amendments, resulting in non-cash investing and financing activities in the unaudited condensed consolidated statements of cash flow of \$14.5 million related to increases in the operating lease right-of-use asset and operating lease liabilities, respectively. During the three and nine months ended September 30, 2020, the Company commenced new leases, extensions and amendments, resulting in non-cash investing and financing activities in the unaudited condensed consolidated statements of cash flow of \$20.1 million related to increases in the operating lease right-of-use asset and operating lease liabilities, respectively. As of September 30, 2021, the Company did not have any significant operating or financing leases that had not yet commenced.

8. PROPERTY AND EQUIPMENT

Property and equipment was as follows as of September 30, 2021 and December 31, 2020 (in thousands):

	September 30, 2021		December 31, 2020	
Infusion pumps	\$	34,249	\$	31,678
Equipment, furniture and other		53,770		47,886
Leasehold improvements		91,789		87,483
Computer software, purchased and internally developed		29,804		27,799
Assets under development		7,894		10,793
		217,506		205,639
Less: accumulated depreciation		110,718		84,490
Property and equipment, net	\$	106,788	\$	121,149

Depreciation expense is recorded within cost of revenue and operating expenses within the unaudited condensed consolidated statements of comprehensive income (loss), depending on the nature of the underlying fixed assets. The depreciation expense included in cost of revenue relates to revenue-generating assets, such as infusion pumps. The depreciation expense included in operating expenses is related to infrastructure items, such as furniture, computer and office equipment, and leasehold improvements. The following table presents the amount of depreciation expense recorded in cost of revenue and operating expenses for the three and nine months ended September 30, 2021 and 2020 (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2021	2020	2021	2020
Depreciation expense in cost of revenue	\$ 1,664	\$ 1,643	\$ 4,410	\$ 5,161
Depreciation expense in operating expenses	7,476	7,814	22,670	28,546
Total depreciation expense	\$ 9,140	\$ 9,457	\$ 27,080	\$ 33,707

9. GOODWILL AND OTHER INTANGIBLE ASSETS

There was no change in the carrying amount of goodwill for the three or nine months ended September 30, 2021.

Changes in the carrying amount of goodwill consists of the following activity for the three and nine months ended September 30, 2020 (in thousands):

Balance at December 31, 2019	\$	1,425,542
Merger purchase accounting adjustments		2,341
Balance at March 31, 2020	\$	1,427,883
Merger purchase accounting adjustments		727
Balance at June 30, 2020	\$	1,428,610
Changes		—
Balance at September 30, 2020	\$	1,428,610

The carrying amount and accumulated amortization of intangible assets consists of the following as of September 30, 2021 and December 31, 2020 (in thousands):

	<u>September 30, 2021</u>	<u>December 31, 2020</u>
Gross intangible assets:		
Referral sources	\$ 456,372	\$ 438,121
Trademarks/names	44,536	44,536
Other amortizable intangible assets	402	402
Total gross intangible assets	501,310	483,059
Accumulated amortization:		
Referral sources	(130,758)	(110,498)
Trademarks/names	(26,403)	(21,146)
Other amortizable intangible assets	(385)	(363)
Total accumulated amortization	(157,546)	(132,007)
Total intangible assets, net	\$ 343,764	\$ 351,052

Amortization expense for intangible assets was \$7.9 million and \$25.5 million for the three and nine months ended September 30, 2021, respectively. Amortization expense for intangible assets was \$8.8 million and \$26.3 million for the three and nine months ended September 30, 2020, respectively.

10. INDEBTEDNESS

Long-term debt consisted of the following as of September 30, 2021 (in thousands):

	Principal Amount	Discount	Debt Issuance Costs	Net Balance
Asset-based-lending (“ABL”) facility	\$ —	\$ —	\$ —	\$ —
First lien term loan	1,156,919	(8,731)	(18,590)	1,129,598
Second lien notes	—	—	—	—
	<u>\$ 1,156,919</u>	<u>\$ (8,731)</u>	<u>\$ (18,590)</u>	<u>1,129,598</u>
Less: current portion				(11,775)
Total long-term debt				<u>\$ 1,117,823</u>

Long-term debt consisted of the following as of December 31, 2020 (in thousands):

	Principal Amount	Discount	Debt Issuance Costs	Net Balance
ABL facility	\$ —	\$ —	\$ —	\$ —
First lien term loan	915,750	(7,253)	(19,710)	888,787
Second lien notes	245,781	(6,102)	(4,113)	235,566
	<u>\$ 1,161,531</u>	<u>\$ (13,355)</u>	<u>\$ (23,823)</u>	<u>1,124,353</u>
Less: current portion				(9,250)
Total long-term debt				<u>\$ 1,115,103</u>

In January 2021, the Company entered into an amendment on the First Lien Term Loan (the “First Lien Credit Agreement Amendment”). The First Lien Credit Agreement Amendment resulted in an additional \$250.0 million of incremental First Lien Term Loan indebtedness being issued and reduced the interest rate on all outstanding First Lien Term Loan indebtedness from LIBOR plus 4.25% to LIBOR plus 3.75%. The proceeds of the \$250.0 million incremental First Lien Term Loan indebtedness were used to prepay the remaining \$245.8 million outstanding balance of the Second Lien Notes. Following the First Lien Credit Agreement Amendment, the First Lien Term Loan is repayable in quarterly installments of \$2.9 million plus interest, with a final payment of all remaining outstanding principal due on August 6, 2026.

The Company assessed whether the repayment of the Second Lien Notes by issuing incremental First Lien Term Loan indebtedness resulted in an insubstantial modification or an extinguishment of the existing debt for each loan in the syndication by grouping lenders as follows: (i) Lenders participating in both the First Lien Term Loan and Second Lien Notes; (ii) previous lenders that exited; and (iii) new lenders. The Company determined that \$161.2 million of the First Lien Term Loan was extinguished and \$122.9 million of the Second Lien Term Loan was extinguished, which is disclosed as an outflow from financing activities in the condensed consolidated statements of cash flows. The First Lien Term Loan and Second Lien Notes had insubstantial modifications for lenders that participated in both debt instruments, which resulted in a cash outflow from financing activities of \$352.0 million in the condensed consolidated statements of cash flows. The Company determined that \$356.2 million of new debt was issued related to the First Lien Term Loan, which is disclosed as an inflow from financing activities in the condensed consolidated statements of cash flows. In connection with the prepayment of the Second Lien Notes and incremental First Lien Term Loan indebtedness, the Company incurred \$7.2 million in debt issuance costs and third-party fees, of which \$3.7 million was capitalized, \$0.9 million was expensed as a component of other expense and \$2.6 million was expensed as a loss on extinguishment as a component of other expense in the condensed consolidated statements of comprehensive income (loss) for the nine months ended September 30, 2021. Further, \$1.0 million of the total fees incurred of \$7.2 million was netted against the \$356.2 million of proceeds from debt as a component of the cash flows from financing activities, \$2.9 million was presented as deferred financing costs as a component of cash flows from financing activities, \$2.4 million was presented as debt prepayment fees as a component of cash flows from financing activities, and the remaining \$0.9 million was included in cash flows from operating activities in the condensed consolidated statements of cash flows.

The Company recognized a loss on extinguishment of debt of \$12.4 million included in the line entitled “Other, net” in the unaudited condensed consolidated statements of comprehensive income (loss) for the nine months ended September 30, 2021, of which \$2.6 million related to debt issue costs incurred with the incremental First Lien Term Loan indebtedness and prepayment of the Second Lien Notes, as discussed above, and \$9.8 million related to existing deferred financing fees that were written off upon extinguishment. All remaining deferred financing fees that existed prior to the First Lien Credit Agreement

Amendment were attributed to modified loans, and were capitalized and amortized over the remaining term of the First Lien Term Loan.

The interest rate on the First Lien Term Loan was 3.83% and 4.40% as of September 30, 2021 and December 31, 2020, respectively. The weighted average interest rate incurred on the First Lien Term Loan was 3.84% and 5.87% for the three and nine months ended September 30, 2021. The weighted average interest rate incurred on the previous First Lien Term Loan was 4.67% and 5.29% for the three and nine months ended September 30, 2020, respectively. The interest rate on the Second Lien Notes was 8.98% as of December 31, 2020. The weighted average interest rate incurred on the Second Lien Notes was 8.98% for the period January 1, 2021 through January 20, 2021, prior to the repayment of the outstanding balance. The weighted average interest rate incurred on the Second Lien Notes was 9.51% and 10.17% for the three and nine months ended September 30, 2020.

Long-term debt matures as follows (in thousands):

<u>Year Ending December 31,</u>	<u>Minimum Payments</u>
2021	\$ 2,944
2022	11,775
2023	11,775
2024	11,775
2025	11,775
Thereafter	1,106,875
Total	\$ 1,156,919

In October 2021, the Company entered into an amendment on the First Lien Term Loan, to provide \$600 million of refinanced borrowings. In October 2021, the Company also issued \$500 million in aggregate principal amount of senior notes. See Note 17, *Subsequent Events*, for further discussion.

During the three and nine months ended September 30, 2021 and 2020, the Company engaged in hedging activities to limit its exposure to changes in interest rates. See Note 11, *Derivative Instruments*, for further discussion.

The following table presents the estimated fair values of the Company's debt obligations as of September 30, 2021 (in thousands):

<u>Financial Instrument</u>	<u>Carrying Value as of September 30, 2021</u>	<u>Markets for Identical Item (Level 1)</u>	<u>Significant Other Observable Inputs (Level 2)</u>	<u>Significant Unobservable Inputs (Level 3)</u>
First lien term loan	\$ 1,129,598	\$ —	\$ 1,156,919	\$ —
Second lien notes	—	—	—	—
Total debt instruments	\$ 1,129,598	\$ —	\$ 1,156,919	\$ —

The following table sets forth the changes in Level 3 measurements for the three months ended March 31, 2021 (in thousands). As the Second Lien Notes were prepaid in Q1, there was no change in the fair value thereafter.

	<u>Level 3 Measurements</u>
Second lien notes fair value as of January 1, 2021	\$ 266,438
Principal prepayment	(245,781)
Change in fair value	(20,657)
Second lien notes fair value as of March 31, 2021	<u>\$ —</u>

See Note 12, *Fair Value Measurements*, for further discussion.

11. DERIVATIVE INSTRUMENTS

The Company uses derivative financial instruments for hedging and non-trading purposes to limit the Company's exposure to increases in interest rates related to its variable interest rate debt. Use of derivative financial instruments in hedging programs subjects the Company to certain risks, such as market and credit risks. Market risk represents the possibility that the value of the derivative financial instrument will change. In a hedging relationship, the change in the value of the derivative financial instrument is offset to a great extent by the change in the value of the underlying hedged item. Credit risk related to a derivative financial instrument represents the possibility that the counterparty will not fulfill the terms of the contract. The notional, or contractual, amount of the Company's derivative financial instruments is used to measure interest to be paid or received and does not represent the Company's exposure due to credit risk. Credit risk is monitored through established approval procedures, including reviewing credit ratings when appropriate.

In August 2019, the Company entered into interest rate swap agreements that reduce the variability in the interest rates on the newly-issued debt obligations following the Merger with BioScrip. The first interest rate swap for \$925.0 million notional was effective in August 2019 with \$911.1 million designated as a cash flow hedge against the underlying interest rate on the first lien term loan interest payments indexed to one-month London Interbank Offered Rate ("LIBOR") through August 2021. In accordance with ASU 2017-12, Targeted Improvements to Accounting for Hedges, the Company has determined that the \$911.1 million designated cash flow hedge is perfectly effective. The remaining \$13.9 million notional amount of the interest rate swap is not designated as a hedging instrument. The first interest rate swap expired in August 2021. The second interest rate swap of \$400.0 million notional was effective in November 2019 and was designated as a cash flow hedge against the underlying interest rate on the second lien notes interest payments indexed to three-month LIBOR through November 2020.

In May 2020, the Company elected to pay-in-kind ("PIK") the second lien note's quarterly interest payment due in August 2020. Upon making the PIK election, the Company determined that the hedged interest payment would no longer occur, resulting in an ineffective hedge, so the Company discontinued hedge accounting on its \$400.0 million notional interest rate swap. As a result, the Company reclassified accumulated comprehensive loss of \$3.7 million to interest expense, net in the unaudited condensed consolidated statements of comprehensive income (loss). The gains and losses associated with the \$400.0 million notional swap were recognized in net income (loss) through interest expense until the swap expired in November 2020.

The following table summarizes the amount and location of the Company's derivative instruments in the condensed consolidated balance sheets (in thousands):

Derivative	Balance Sheet Caption	Fair value - Derivatives in liability position	
		September 30, 2021	December 31, 2020
Interest rate swaps designated as cash flow hedges	Accrued expenses and other current liabilities	\$ —	\$ 11,172
Interest rate swaps not designated as cash flow hedges	Accrued expenses and other current liabilities	—	170
Total derivatives		\$ —	\$ 11,342

The gain and loss associated with the changes in the fair value of the effective portion of the hedging instrument are recorded into other comprehensive (loss) income. The gain and loss associated with the changes in the fair value of the \$13.9 million notional amount not designated as a hedging instrument is recognized in net income (loss) through interest expense. The following table presents the pre-tax gains (losses) from derivative instruments recognized in other comprehensive (loss) income in the Company's unaudited condensed consolidated statements of comprehensive income (loss) (in thousands):

Derivative	Three Months Ended September 30,		Nine Months Ended September 30,	
	2021	2020	2021	2020
Interest rate swaps designated as cash flow hedges	\$ 2,892	\$ 4,022	\$ 11,172	\$ (11,780)
Interest rate swaps that discontinued hedge accounting	—	—	—	3,746
	<u>\$ 2,892</u>	<u>\$ 4,022</u>	<u>\$ 11,172</u>	<u>\$ (8,034)</u>

The following table presents the amount and location of pre-tax income (loss) recognized in the Company's unaudited condensed consolidated statement of comprehensive income (loss) related to the Company's derivative instruments (in thousands):

Derivative	Income Statement Caption	Three Months Ended September 30,		Nine Months Ended September 30,	
		2021	2020	2021	2020
Interest rate swaps designated as cash flow hedges	Interest expense	\$ (2,903)	\$ (4,152)	\$ (11,298)	\$ (8,604)
Interest rate swaps not designated as hedges	Interest expense	—	(41)	(2)	(32)
Interest rate swaps that discontinued hedge accounting	Interest expense	—	—	—	(3,746)
		<u>\$ (2,903)</u>	<u>\$ (4,193)</u>	<u>\$ (11,300)</u>	<u>\$ (12,382)</u>

12. FAIR VALUE MEASUREMENTS

Fair value measurements are determined by maximizing the use of observable inputs and minimizing the use of unobservable inputs. The hierarchy places the highest priority on unadjusted quoted market prices in active markets for identical assets or liabilities (Level 1 measurements) and gives the lowest priority to unobservable inputs (Level 3 measurements). The categories within the valuation hierarchy are described as follows:

- Level 1 — Inputs to the fair value measurement are quoted prices in active markets for identical assets or liabilities.
- Level 2 — Inputs to the fair value measurement include quoted prices in active markets for similar assets or liabilities, quoted prices for identical or similar assets or liabilities in markets that are not active, and inputs other than quoted prices that are observable for the asset or liability, either directly or indirectly.
- Level 3 — Inputs to the fair value measurement are unobservable inputs or valuation techniques.

While the Company believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

First lien term loan: The fair value of the first lien term loan is derived from a broker quote on the loans in the syndication (Level 2 inputs). See Note 10, *Indebtedness*, for further discussion of the carrying amount and fair value of the first lien term loan.

Second lien notes: Prior to the January 2021 debt refinancing, the fair value of the second lien notes was derived from a cash flow model that discounted the cash flows based on market interest rates (Level 3 inputs). See Note 10, *Indebtedness*, for further discussion of the carrying amount and fair value of the second lien notes.

Interest rate swaps: The fair values of interest rate swaps are derived from the interest rates prevalent in the market and future expectations of those interest rates (Level 2 inputs). The Company determines the fair value of the investments based on quoted prices from third-party brokers. See Note 11, *Derivative Instruments*, for further discussion of the fair value of interest rate swaps.

There were no other assets or liabilities measured at fair value at September 30, 2021 and December 31, 2020.

13. COMMITMENTS AND CONTINGENCIES

The Company is involved in legal proceedings and is subject to investigations, inspections, audits, inquiries, and similar actions by governmental authorities, arising in the normal course of the Company's business. Some of these suits may purport or may be determined to be class actions and/or involve parties seeking large and/or indeterminate amounts, including punitive or exemplary damages, and may remain unresolved for several years. From time to time, the Company may also be involved in legal proceedings as a plaintiff involving antitrust, tax, contract, intellectual property, and other matters. Gain contingencies, if any, are recognized when they are realized. The results of legal proceedings are often uncertain and difficult to predict, and the costs incurred in litigation can be substantial, regardless of the outcome. The Company believes that its defenses and assertions in pending legal proceedings have merit and does not believe that any of these pending matters, after consideration of applicable reserves and rights to indemnification, will have a material adverse effect on the Company's condensed consolidated balance sheets. However, substantial unanticipated verdicts, fines, and rulings may occur. As a result, the Company may from time to time incur judgments, enter into settlements, or revise expectations regarding the outcome of certain matters, and such developments could have a material adverse effect on its results of operations in the period in which the amounts are accrued and/or its cash flows in the period in which the amounts are paid.

14. STOCK-BASED INCENTIVE COMPENSATION

Equity Incentive Plans — Under the Company’s 2018 Equity Incentive Plan (the “2018 Plan”), approved at the annual meeting by the BioScrip stockholders on May 3, 2018, the Company may issue, among other things, incentive stock options, non-qualified stock options, stock appreciation rights, restricted stock units, stock grants, and performance units to key employees and directors. The 2018 plan is administered by the Company’s Compensation Committee, a standing committee of the Board of Directors. A total of 9,101,734 shares of common stock are authorized for issuance. The Company had stock options, restricted stock and performance stock units outstanding related to the 2018 Plan as of September 30, 2021. As of September 30, 2021, the Company also had incentive units outstanding related to the HC I equity incentive plan, which was implemented in October 2015, for certain officers and employees of the Company. During the three and nine months ended September 30, 2021, total stock-based incentive compensation expense recognized by the Company related to these plans was \$2.5 million and \$6.2 million, respectively. During the three and nine months ended September 30, 2020, total stock-based incentive compensation expense recognized by the Company related to these plans was \$1.2 million and \$2.6 million, respectively.

15. STOCKHOLDERS’ EQUITY

During the three and nine months ended September 30, 2021, HC I completed secondary offerings of 29,900,000 and 76,400,000 shares of common stock, respectively. Following these offerings, HC I holds approximately 21.1% of the common stock of the Company.

2017 Warrants — During the three and nine months ended September 30, 2021, warrant holders did not elect to exercise any warrants to purchase shares of common stock. During the three and nine months ended September 30, 2020, warrant holders did not elect to exercise any warrants to purchase shares of common stock. As of September 30, 2021 and December 31, 2020, the remaining warrant holders are entitled to purchase 1.4 million shares of common stock, respectively.

2015 Warrants — During the three and nine months ended September 30, 2021, warrant holders did not elect to exercise any warrants to purchase shares of common stock. During the three and nine months ended September 30, 2020, warrant holders did not elect to exercise any warrants to purchase shares of common stock. As of September 30, 2021 and December 31, 2020, warrant holders are entitled to purchase 0.9 million shares of common stock, respectively.

16. RELATED-PARTY TRANSACTIONS

Transactions with Equity-Method Investees — The Company provides management services to its joint ventures such as accounting, invoicing and collections in addition to day-to-day managerial support of the operations of the businesses. The Company recorded management fee income of \$0.9 million and \$2.6 million for the three and nine months ended September 30, 2021, respectively. The Company recorded management fee income of \$0.8 million and \$2.1 million for the three and nine months ended September 30, 2020, respectively. Management fees are recorded in net revenues in the accompanying unaudited condensed consolidated statements of comprehensive income (loss).

The Company had amounts due to its joint ventures of \$2.9 million as of September 30, 2021. This payable was included in accrued expenses and other current liabilities in the accompanying condensed consolidated balance sheets. The Company also had amounts due from its joint ventures of \$2.4 million as of December 31, 2020. These receivables were included in prepaid expenses and other current assets in the accompanying condensed consolidated balance sheets. These balances primarily relate to cash collections received by the Company on behalf of the joint ventures, offset by certain pharmaceutical inventories and other expenses paid for by the Company on behalf of the joint ventures.

17. SUBSEQUENT EVENTS

The Company has evaluated whether any subsequent events occurred since September 30, 2021, and noted the following subsequent events:

On October 1, 2021 the Company acquired Infinity Infusion Nursing, LLC (“Infinity”) for \$50 million in an all-cash transaction. Infinity is a leader in home infusion services that provide therapy management for patients with acute, chronic and rare disorders through a national network of highly-skilled, specialty nurses.

In October 2021, the Company refinanced its \$1,157 million outstanding existing loan due 2026. The Company amended the existing First Lien Term Loan, to provide \$600 million of refinanced borrowings (the “New First Lien Term Loan Facility”) which modified certain terms and extended its maturity to 2028. In conjunction with the refinancing, the Company also issued \$500 million in aggregate principal of unsecured senior notes due 2029 (collectively, the “Transactions”). In connection with

the Transactions, the Company incurred third party fees of \$9.4 million and original issue discount of \$1.5 million. The Company also utilized \$69.9 million of cash on hand for the Transactions. In conjunction with the Transactions, the Company also entered into an interest rate cap hedge with a notional amount of \$300 million for a 5-year term beginning November 30, 2021. The hedge partially offsets risk associated with the New First Lien Term Loan Facility's variable interest rate.

Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations

Unless the context requires otherwise, references in this report to "Option Care Health," the "Company," "we," "us" and "our" refer to Option Care Health, Inc. and its consolidated subsidiaries. The following discussion and analysis of the financial condition and results of operations of Option Care Health, Inc. ("Option Care Health", or the "Company") should be read in conjunction with the audited consolidated financial statements and related notes, as presented in the Annual Report on Form 10-K filed with the Securities and Exchange Commission on March 11, 2021, as well as the Company's unaudited condensed consolidated financial statements and the related notes thereto included elsewhere in this report.

Forward-Looking Statements

This Quarterly Report on Form 10-Q (this "Quarterly Report") contains statements not purely historical and which may be considered forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended (the "Securities Act"), and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), including statements regarding our expectations, beliefs, future plans and strategies, anticipated events or trends concerning matters that are not historical facts or that necessarily depend upon future events. In some cases, you can identify forward-looking statements by terms such as "may," "will," "should," "could," "would," "expect," "plan," "anticipate," "believe," "estimate," "project," "predict," "potential," and similar expressions. Such forward-looking statements include, but are not limited to, the effect of the novel coronavirus ("COVID-19") on our business, financial condition and results of operations. This Quarterly Report contains, among others, forward-looking statements based upon current expectations that involve numerous risks and uncertainties, including those described in Item 1A "Risk Factors".

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

Do not place undue reliance on such forward-looking statements as they speak only as of the date they are made. Except as required by law, the Company assumes no obligation to publicly update or revise any forward-looking statement even if experience or future changes make it clear that any projected results expressed or implied therein will not be realized.

Business Overview

Option Care Health, and its wholly-owned subsidiaries, provides infusion therapy and other ancillary health care services through a national network of 146 locations around the United States. The Company contracts with managed care organizations, third-party payers, hospitals, physicians, and other referral sources to provide pharmaceuticals and complex compounded solutions to patients for intravenous delivery in the patients' homes or other nonhospital settings. Our services are provided in coordination with, and under the direction of, the patient's physician. Our multidisciplinary team of clinicians, including pharmacists, nurses, dietitians and respiratory therapists, work with the physician to develop a plan of care suited to each patient's specific needs. We provide home infusion services consisting of anti-infectives, nutrition support, bleeding disorder therapies, immunoglobulin therapy, and other therapies for chronic and acute conditions.

HC Group Holdings II, Inc. ("HC II") was incorporated under the laws of the State of Delaware on January 7, 2015, with its sole shareholder being HC Group Holdings I, LLC. ("HC I"). On April 7, 2015, HC I and HC II collectively acquired Walgreens Infusion Services, Inc. and its subsidiaries from Walgreen Co., and the business was rebranded as Option Care, Inc. ("Option Care").

Update on the Impact of the COVID-19 Pandemic

The primary operations of the Company focus on providing infusion therapy services and based on the recent impact of the pandemic across the healthcare ecosystem, the Company began experiencing a related impact across a number of facets beginning in March 2020.

The Company relies upon patient referrals from multiple sources, including but not limited to patients discharged from acute care settings (e.g., hospitals) and patients requiring treatment for chronic conditions from specialty physicians. As expected, the pandemic has negatively affected new patient referrals for both acute and chronic conditions; however, the Company did experience an increase in patient transfers from hospital and outpatient settings which positively affected revenues. For the three and nine months ended September 30, 2021, the revenue results reflect acute revenue that had mid-single digit growth, while chronic revenue grew in the mid-teens relative to the prior year. Option Care Health continues to collaborate with payers and health systems to transition patients into the home or one of our alternate treatment sites to receive vital infusion therapy.

The Company continued to experience cost inefficiencies during the three and nine months ended September 30, 2021 with respect to clinical labor and other staffing challenges. Integration-related initiatives that were accelerated during the year ended December 31, 2020 continue to offset the negative impacts resulting from the COVID-19 pandemic. Further, to date, the Company has experienced no material deceleration in cash collections and collaboration with payers continues to be productive. The Company anticipates that the pandemic could affect its operations for an extended period; however, at this time cannot confidently forecast the duration nor the ultimate financial impact on its operations. See Item 1A. “Risk Factors” under the caption “The COVID-19 pandemic could adversely impact our business, results of operations, cash flows and financial position” included in our Annual Report on Form 10-K for the year ended December 31, 2020 for further discussion of risks.

Composition of Results of Operations

The following results of operations include the accounts of Option Care Health and our subsidiaries for the three and nine months ended September 30, 2021 and 2020.

Gross Profit

Gross profit represents our net revenue less cost of revenue.

Net Revenue. Infusion and related health care services revenue is reported at the estimated net realizable amounts from third-party payers and patients for goods sold and services rendered. When pharmaceuticals are provided to a patient, revenue is recognized upon delivery of the goods. When nursing services are provided, revenue is recognized when the services are rendered.

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

Cost of Revenue. Cost of revenue consists of the actual cost of pharmaceuticals and other medical supplies dispensed to patients. In addition to product costs, cost of revenue includes warehousing costs, purchasing costs, depreciation expense relating to revenue-generating assets, such as infusion pumps, shipping and handling costs, and wages and related costs for the pharmacists, nurses, and all other employees and contracted workers directly involved in providing service to the patient.

The Company receives volume-based rebates and prompt payment discounts from some of its pharmaceutical and medical supplies vendors. These payments are recorded as a reduction of inventory and are accounted for as a reduction of cost of revenue when the related inventory is sold.

Operating Costs and Expenses

Selling, General and Administrative Expenses. Selling, general and administrative expenses consist principally of salaries for administrative employees that directly and indirectly support the operations, occupancy costs, marketing expenditures, insurance, and professional fees.

Depreciation and Amortization Expense. Depreciation within this caption includes infrastructure items such as computer hardware and software, office equipment and leasehold improvements. Depreciation of revenue-generating assets, such as infusion pumps, is included in cost of revenue.

Other Income (Expense)

Interest Expense, Net. Interest expense consists principally of interest payments on the Company's outstanding borrowings under the ABL Facility, the first lien term loan and second lien notes, amortization of discount and deferred financing fees, changes in derivatives not designated as hedging instruments related to the interest rate swaps, and reclassification from accumulated other comprehensive income to interest expense upon discontinuing hedge accounting. Refer to the "Liquidity and Capital Resources" section below for further discussion of these outstanding borrowings.

Equity in Earnings of Joint Ventures. Equity in earnings of joint ventures consists of our proportionate share of equity earnings or losses from equity investments in two infusion joint ventures with health systems.

Other, Net. Other income (expense) primarily includes loss on extinguishment of debt incurred in connection with the 2021 debt refinancing and miscellaneous non-operating expenses.

Income Tax Expense. The Company is subject to taxation in the United States and various states. The Company's income tax expense is reflective of the current federal and state tax rates.

Change in unrealized gains (losses) on cash flow hedges, net of income tax expense (benefit). Change in unrealized gains (losses) on cash flow hedges, net of income taxes, consists of the gains and losses associated with the changes in the fair value of derivatives designated as hedging instruments related to the interest rate caps and interest rate swaps, net of income taxes.

Results of Operations

The following table presents Option Care Health's consolidated results of operations for the three and nine months ended September 30, 2021 and 2020 (in thousands):

	Three Months Ended September 30,				Nine Months Ended September 30,			
	2021 (unaudited)		2020 (unaudited)		2021 (unaudited)		2020 (unaudited)	
	Amount	% of Revenue	Amount	% of Revenue	Amount	% of Revenue	Amount	% of Revenue
NET REVENUE	\$ 891,937	100.0 %	\$ 781,609	100.0 %	\$ 2,511,446	100.0 %	\$ 2,227,897	100.0 %
COST OF REVENUE	688,969	77.2 %	607,456	77.7 %	1,944,037	77.4 %	1,729,395	77.6 %
GROSS PROFIT	202,968	22.8 %	174,153	22.3 %	567,409	22.6 %	498,502	22.4 %
OPERATING COSTS AND EXPENSES:								
Selling, general and administrative expenses	134,633	15.1 %	123,000	15.7 %	388,930	15.5 %	377,198	16.9 %
Depreciation and amortization expense	15,452	1.7 %	16,597	2.1 %	48,410	1.9 %	54,892	2.5 %
Total operating expenses	150,085	16.8 %	139,597	17.9 %	437,340	17.4 %	432,090	19.4 %
OPERATING INCOME	52,883	5.9 %	34,556	4.4 %	130,069	5.2 %	66,412	3.0 %
OTHER INCOME (EXPENSE):								
Interest expense, net	(16,000)	(1.8)%	(24,583)	(3.1)%	(52,717)	(2.1)%	(84,102)	(3.8)%
Equity in earnings of joint ventures	1,676	0.2 %	790	0.1 %	4,567	0.2 %	2,364	0.1 %
Other, net	4	— %	(8,344)	(1.1)%	(12,392)	(0.5)%	(8,322)	(0.4)%
Total other expense	(14,320)	(1.6)%	(32,137)	(4.1)%	(60,542)	(2.4)%	(90,060)	(4.0)%
INCOME (LOSS) BEFORE INCOME TAXES	38,563	4.3 %	2,419	0.3 %	69,527	2.8 %	(23,648)	(1.1)%
INCOME TAX EXPENSE	3,087	0.3 %	756	0.1 %	5,096	0.2 %	2,267	0.1 %
NET INCOME (LOSS)	\$ 35,476	4.0 %	\$ 1,663	0.2 %	\$ 64,431	2.6 %	\$ (25,915)	(1.2)%
OTHER COMPREHENSIVE INCOME (LOSS), NET OF TAX:								
Change in unrealized gains (losses) on cash flow hedges, net of income tax expense (benefit) of \$0, \$0, \$0 and \$0, respectively	2,892	0.3 %	4,022	0.5 %	11,172	0.4 %	(8,034)	(0.4)%
OTHER COMPREHENSIVE INCOME (LOSS)	2,892	0.3 %	4,022	0.5 %	11,172	0.4 %	(8,034)	(0.4)%
NET COMPREHENSIVE INCOME (LOSS)	\$ 38,368	4.3 %	\$ 5,685	0.7 %	\$ 75,603	3.0 %	\$ (33,949)	(1.5)%

Three Months Ended September 30, 2021 Compared to Three Months Ended September 30, 2020

The following tables present selected consolidated comparative results of operations from Option Care Health's unaudited condensed consolidated financial statements for the three month periods ended September 30, 2021 and September 30, 2020.

Gross Profit

	Three Months Ended September 30,			
	2021	2020	Variance	
	(unaudited)	(unaudited)		
	(in thousands, except for percentages)			
Net revenue	\$ 891,937	\$ 781,609	\$ 110,328	14.1 %
Cost of revenue	688,969	607,456	81,513	13.4 %
Gross profit	<u>\$ 202,968</u>	<u>\$ 174,153</u>	<u>\$ 28,815</u>	<u>16.5 %</u>
Gross profit margin	22.8 %	22.3 %		

The increase in net revenue was primarily driven by organic growth in the Company's portfolio of therapies, consisting of acute revenue that had mid single digit growth relative to the prior year while chronic revenue grew in the mid-teens. The increase in cost of revenue was driven by the growth in revenue. The increase in gross profit was primarily related to contribution margin from the increase in net revenue. The slight increase in gross profit margin was driven by mix shift toward higher profit therapies.

Operating Expenses

	Three Months Ended September 30,			
	2021	2020	Variance	
	(unaudited)	(unaudited)		
	(in thousands, except for percentages)			
Selling, general and administrative expenses	\$ 134,633	\$ 123,000	\$ 11,633	9.5 %
Depreciation and amortization expense	15,452	16,597	(1,145)	(6.9)%
Total operating expenses	<u>\$ 150,085</u>	<u>\$ 139,597</u>	<u>\$ 10,488</u>	<u>7.5 %</u>

The increase in Selling, general and administrative expenses is primarily due to salaries and benefits, but has decreased as a percentage of revenue to 15.1% for the three months ended September 30, 2021 as compared to 15.7% for the three months ended September 30, 2020, as our revenue has grown at a faster pace than our selling, general and administrative expenses.

The decrease in depreciation and amortization was primarily related to a reduction in capital expenditures corresponding with the stabilization of capital expenditures through completion of Merger integration activities during the year ended December 31, 2020.

Other Income (Expense)

	Three Months Ended September 30,			
	2021	2020		Variance
	(unaudited)	(unaudited)		
(in thousands, except for percentages)				
Interest expense, net	\$ (16,000)	\$ (24,583)	\$ 8,583	(34.9)%
Equity in earnings of joint ventures	1,676	790	886	112.2 %
Other, net	4	(8,344)	8,348	(100.0)%
Total other expense	<u>\$ (14,320)</u>	<u>\$ (32,137)</u>	<u>\$ 17,817</u>	(55.4)%

The decrease in interest expense was primarily attributable to the debt refinancing of the first lien term loan and prepayment of the second lien notes in January 2021, as well as the reduction in the outstanding debt balance due to retirement of debt obligations which were completed during 2020. See Note 10, *Indebtedness*, of the unaudited condensed consolidated financial statements.

The increase in equity in earnings of joint ventures was primarily attributable to organic growth in both the acute and chronic portfolio of therapies.

The change in other, net is primarily attributable to the loss on extinguishment of debt of \$8.3 million incurred in the third quarter of 2020 in conjunction with the \$125.0 million repayment of principal on the second lien notes.

Income Tax Expense

	Three Months Ended September 30,			
	2021	2020		Variance
	(unaudited)	(unaudited)		
(in thousands, except for percentages)				
Income tax expense	\$ 3,087	\$ 756	\$ 2,331	308.3 %

The Company maintains a full valuation allowance, established at the time of Merger, against all of its net U.S. federal and state deferred tax assets with the exception of approximately \$0.3 million of estimated state net operating losses (“NOL”). Because of the Company’s full valuation allowance, the Company’s tax expense for the three months ended September 30, 2021 only consists of quarterly tax liabilities attributable to separate company state tax returns as well as recognized deferred tax expense. These tax expense items resulted in an effective tax rate of 8.0% during the three months ended September 30, 2021. During the three months ended September 30, 2020, the effective tax rate was 31.3%. The variance in the year-over-year effective tax rates is primarily attributable to changes in the valuation allowance combined with year-over-year variances in income (loss) before income taxes for the Company. The quarterly tax rates of both periods differ from the Company’s 21% federal statutory rate primarily due to changes in valuation allowance, certain state and local taxes, non-deductible costs and resolution of certain tax matters.

Net Income and Other Comprehensive Income

	Three Months Ended September 30,			
	2021	2020		Variance
	(unaudited)	(unaudited)		
	(in thousands, except for percentages)			
Net income	\$ 35,476	\$ 1,663	\$ 33,813	2,033.3 %
Other comprehensive income, net of tax:				
Changes in unrealized gains on cash flow hedges, net of income taxes	2,892	4,022	(1,130)	(28.1)%
Other comprehensive income	2,892	4,022	(1,130)	(28.1)%
Net comprehensive income	<u>\$ 38,368</u>	<u>\$ 5,685</u>	<u>\$ 32,683</u>	574.9 %

The increase in net income was primarily attributed to contribution margin from additional revenue related to organic growth and realization of Merger-related integration savings that resulted in total operating expenses decreasing as a percentage of revenue.

The decrease in changes in unrealized gains on cash flow hedges, net of income taxes, primarily related to the \$925.0 million notional swap as the swap expired in August 2021.

Net comprehensive income increased to \$38.4 million for the three months ended September 30, 2021, compared to net comprehensive income of \$5.7 million for the three months ended September 30, 2020, primarily as a result of the changes in net income, discussed above.

Nine Months Ended September 30, 2021 Compared to Nine Months Ended September 30, 2020

The following tables present selected consolidated comparative results of operations from the Company's unaudited condensed consolidated financial statements for the nine month periods ended September 30, 2021 and September 30, 2020.

Gross Profit

	Nine Months Ended September 30,			
	2021 (unaudited)	2020 (unaudited)	Variance	
	(in thousands, except for percentages)			
Net revenue	\$ 2,511,446	\$ 2,227,897	\$ 283,549	12.7 %
Cost of revenue	1,944,037	1,729,395	\$ 214,642	12.4 %
Gross profit	567,409	498,502	\$ 68,907	13.8 %
Gross profit margin	22.6 %	22.4 %		

The increase in net revenue was primarily driven by organic growth in the Company's portfolio of therapies. The increase in cost of revenue was driven by the growth in revenue. The increase in gross profit was primarily related to contribution margin from the increase in net revenue. The slight increase in gross profit margin was driven by mix shift toward higher profit therapies.

Operating Expenses

	Nine Months Ended September 30,			
	2021 (unaudited)	2020 (unaudited)	Variance	
	(in thousands, except for percentages)			
Selling, general and administrative expenses	\$ 388,930	\$ 377,198	\$ 11,732	3.1 %
Depreciation and amortization expense	48,410	54,892	(6,482)	(11.8)%
Total operating expenses	\$ 437,340	\$ 432,090	\$ 5,250	1.2 %

Selling, general and administrative expenses increased for the nine months ended September 30, 2021 primarily due to salaries and benefits, but has decreased as a percentage of revenue to 15.5% for the nine months ended September 30, 2021 as compared to 16.9% for the nine months ended September 30, 2020 due to Merger synergy realization.

The decrease in depreciation and amortization was primarily related to a reduction in capital expenditures corresponding with the completion of Merger integration activities during the year ended December 31, 2020.

Other Income (Expense)

	Nine Months Ended September 30,			
	2021	2020	Variance	
	(unaudited)	(unaudited)		
	(in thousands, except for percentages)			
Interest expense, net	\$ (52,717)	\$ (84,102)	\$ 31,385	(37.3)%
Equity in earnings of joint ventures	4,567	2,364	2,203	93.2 %
Other, net	(12,392)	(8,322)	(4,070)	48.9 %
Total other expense	\$ (60,542)	\$ (90,060)	\$ 29,518	(32.8)%

The decrease in interest expense was primarily attributable to the debt refinancing of the first lien term loan and prepayment of the second lien notes in January 2021, as well as the reduction in the outstanding debt balance due to retirement of debt obligations which were completed during 2020. See Note 10, *Indebtedness*, of the unaudited condensed consolidated financial statements.

The increase in equity in earnings of joint ventures was primarily attributable to organic growth in both the acute and chronic portfolio of therapies.

The increase in other, net relates to the loss on extinguishment of debt of \$12.4 million incurred in the first quarter of 2021 in conjunction with the refinancing of the first lien term loan and prepayment of all outstanding principal of the second lien notes.

Income Tax Expense

	Nine Months Ended September 30,			
	2021	2020	Variance	
	(unaudited)	(unaudited)		
	(in thousands, except for percentages)			
Income tax expense	\$ 5,096	\$ 2,267	\$ 2,829	124.8 %

The Company maintains a full valuation allowance, established at the time of Merger, against all of its net U.S. federal and state deferred tax assets with the exception of approximately \$0.3 million of estimated state net operating losses ("NOL"). Because of the Company's full valuation allowance, the Company's tax expense for the nine months ended September 30, 2021 only consists of quarterly tax liabilities attributable to separate company state taxing authorities as well as recognized deferred tax expense. These tax expense items created an effective tax rate of 7.3% during the nine months ended September 30, 2021. During the nine months ended September 30, 2020, the effective tax rate was negative 9.6%. The variance in the year-over-year effective tax rates is primarily attributable to changes in the valuation allowance combined with year-over-year variances in income (loss) before income taxes for the Company. The effective tax rates of both periods differ from the Company's 21% federal statutory rate primarily due to changes in valuation allowance, certain state and local taxes, non-deductible costs and resolution of certain tax matters.

Net Income (Loss) and Other Comprehensive Income (Loss)

	Nine Months Ended September 30,			
	2021	2020	Variance	
	(unaudited)	(unaudited)		
	(in thousands, except for percentages)			
Net income (loss)	\$ 64,431	\$ (25,915)	\$ 90,346	(348.6)%
Other comprehensive income (loss), net of tax:				
Changes in unrealized gains (losses) on cash flow hedges, net of income taxes	11,172	(8,034)	19,206	(239.1)%
Other comprehensive income (loss)	11,172	(8,034)	19,206	(239.1)%
Net comprehensive income (loss)	<u>\$ 75,603</u>	<u>\$ (33,949)</u>	<u>\$ 109,552</u>	<u>(322.7)%</u>

The change in net income (loss) was primarily attributed to contribution margin from additional revenue related to organic growth and realizing Merger-related integration savings that resulted in total operating expenses decreasing as a percentage of revenue.

The change in unrealized gains (losses) on cash flow hedges, net of income taxes, primarily related to the increase in fair value on the \$925.0 million notional swap as the swap expired in August 2021. The change in unrealized loss for the nine months ended September 30, 2020 related to the decrease in the variable interest rates during 2020, partially offset by the \$3.7 million reclassification from accumulated other comprehensive income to interest expense upon discontinuing hedge accounting on the \$400.0 million notional interest rate swap.

The change in net comprehensive income (loss) was the result of the change in net income (loss), described above, further increased by the impact of the fair value of the interest rate swaps.

Liquidity and Capital Resources

For the nine months ended September 30, 2021 and the twelve months ended December 31, 2020, the Company's primary sources of liquidity were cash on hand of \$200.9 million and \$99.3 million, respectively, as well as the \$165.4 million of borrowings available under its credit facilities (net of \$9.6 million undrawn letters of credit issued and outstanding). During the nine months ended September 30, 2021 and the year ended December 31, 2020, the Company's positive cash flows from operations enabled investments in pharmacy and information technology infrastructure to support growth and create additional capacity in the future, as well as pursue acquisitions.

The Company's primary uses of cash include supporting our ongoing business activities and investing in various acquisitions and our infrastructure to support additional business volumes. Ongoing operating cash outflows are primarily associated with procuring and dispensing prescription drugs, personnel and other costs associated with servicing patients, as well as paying cash interest on the outstanding debt. Ongoing investing cash flows are primarily associated with capital projects related to business acquisitions, the improvement and maintenance of our pharmacy facilities and investment in our information technology systems. Ongoing financing cash flows are primarily associated with the quarterly principal payments on our outstanding debt.

Our business strategy includes the selective acquisition of additional infusion pharmacies and other related healthcare businesses. We continue to evaluate acquisition opportunities and view acquisitions as a key part of our growth strategy. The Company historically has funded its acquisitions with cash with the exception of the Merger. The Company may require additional capital in excess of current availability in order to complete future acquisitions. It is impossible to predict the amount of capital that may be required for acquisitions, and there is no assurance that sufficient financing for these activities will be available on acceptable terms.

Short-Term and Long-Term Liquidity Requirements

The Company's ability to make principal and interest payments on any borrowings under our credit facilities and our ability to fund planned capital expenditures will depend on our ability to generate cash in the future, which, to a certain extent, is subject to general economic, financial, competitive, regulatory and other conditions. Based on our current level of operations and planned capital expenditures, we believe that our existing cash balances and expected cash flows generated from operations will be sufficient to meet our operating requirements for at least the next 12 months. We may require additional borrowings under our credit facilities and alternative forms of financings or investments to achieve our longer-term strategic plans.

Credit Facilities

The Company's ABL revolving credit facility provides for borrowings up to \$175.0 million, which matures on August 6, 2024. The ABL facility bears interest at a per annum rate that is determined by the Company's periodic selection of rate type, either the Base Rate or the Eurocurrency Rate. The Base Rate is charged between 1.25% and 1.75% and the Eurocurrency Rate is charged between 2.25% and 2.75% based on the historical excess availability as a percentage of the Line Cap, as defined in the ABL facility credit agreement. The revolving credit facility contains commitment fees payable on the unused portion of the ABL facility ranging from 0.25% to 0.375%, depending on various factors including the Company's leverage ratio, type of loan and rate type, and letter of credit fees of 2.5%. The Company had no outstanding borrowings under the ABL facility at September 30, 2021. The Company had \$9.6 million of undrawn letters of credit issued and outstanding, resulting in net borrowing availability under the ABL facility of \$165.4 million as of September 30, 2021.

The principal balance of the first lien term loan was initially repayable in quarterly installments of \$2.3 million plus interest, with a final payment of all remaining outstanding principal due on August 6, 2026. The quarterly principal payments commenced in March of 2020. Interest on the first lien term loan was initially payable monthly on Base Rate loans at Base Rate, as defined, plus 3.25% to 3.50%, depending on the Company's leverage ratio. Interest was initially charged on Eurocurrency Rate loans at the Eurocurrency Rate, as defined, plus 4.25% to 4.50%, depending on the Company's leverage ratio. The interest rate on the first lien term loan was 3.83% as of September 30, 2021.

The second lien notes initially matured on August 6, 2027. Interest on the second lien notes was initially payable quarterly at London Interbank Offered Rate ("LIBOR"), plus 8.75%. The Company paid the second and third quarterly interest payments, due in February 2020 and May 2020. The Company elected to pay-in-kind the quarterly interest payment due in August 2020, which resulted in the Company capitalizing the interest payment to the principal balance on the interest payment date. In August 2020, the Company prepaid \$125.0 million of the outstanding principal balance. In December 2020, the Company utilized available cash on hand to prepay an additional \$49.0 million of the outstanding principal balance, reducing the outstanding principal balance to \$245.8 million as of December 31, 2020.

During the three months ended March 31, 2021, the Company entered into an amendment on the first lien term loan (the "First Lien Credit Agreement Amendment"). The First Lien Credit Agreement Amendment resulted in an additional \$250.0 million of incremental first lien term loan indebtedness being issued and reduced the interest rate on all outstanding first lien term loan indebtedness from LIBOR plus 4.25% to LIBOR plus 3.75%. The proceeds of the \$250.0 million incremental first lien term loan indebtedness were used to prepay the remaining \$245.8 million outstanding balance of the second lien notes. Following the First Lien Credit Agreement Amendment, the first lien term loan is repayable in quarterly installments of \$2.9 million plus interest, with a final payment of all outstanding principal due on August 6, 2026. See Note 10, *Indebtedness*, of the unaudited condensed consolidated financial statements included in Item 1 of this report for further discussion. The interest rate on the first lien term loan was 3.83% as of September 30, 2021.

In October 2021, the Company entered into an amendment on the First Lien Term Loan, to provide \$600 million of refinanced borrowings. In October 2021, the Company also issued \$500 million in aggregate principal amount of senior notes. See Note 17, *Subsequent Events*, for further discussion.

Cash Flows**Nine Months Ended September 30, 2021 Compared to Nine Months Ended September 30, 2020**

The following table presents selected data from Option Care Health's unaudited condensed consolidated statements of cash flows:

	Nine Months Ended September 30,		
	2021	2020	Variance
	(unaudited)	(unaudited)	
	(in thousands)		
Net cash provided by operating activities	\$ 143,259	\$ 101,728	\$ 41,531
Net cash used in investing activities	(30,596)	(12,330)	(18,266)
Net cash used in financing activities	(11,072)	(16,407)	5,335
Net increase in cash and cash equivalents	101,591	72,991	28,600
Cash and cash equivalents - beginning of period	99,265	67,056	32,209
Cash and cash equivalents - end of period	<u>\$ 200,856</u>	<u>\$ 140,047</u>	<u>\$ 60,809</u>

Cash Flows from Operating Activities

The increase in cash flows provided by operating activities is primarily due to higher net income, decrease in interest expense due to the January 2021 debt refinancing, and timing of vendor payments during the nine months ended September 30, 2021 as compared to the nine months ended September 30, 2020.

Cash Flows from Investing Activities

The increase in cash flows used in investing activities is primarily due to the BioCure asset acquisition in the current year.

Cash Flows from Financing Activities

The increase in cash used in financing activities is related to the current year debt refinancing, which resulted in proceeds of debt of \$355.2 million, retirement of debt obligations of \$352.0 million (as compared to \$125.0 million for the nine months ended September 30, 2020), deferred financing costs of \$2.9 million and debt prepayment penalties of 2.5 million. The remaining change in financing activities was related to net proceeds from issuance of common stock in the nine months ended September 30, 2020 with no comparable activity in the nine months ended September 30, 2021.

Commitments and Contractual Obligations

The following table presents Option Care Health's commitments and contractual obligations as of September 30, 2021, as well as its long-term obligations that changed materially from the Company's annual report on form 10-K (in thousands):

	Payments Due by Period				
	Total	Less than 1 year	1 - 3 years	3 - 5 years	More than 5 years
	(in thousands)				
Long-term debt obligations ⁽¹⁾	\$ 1,156,919	8,831	26,494	1,121,594	—
Interest payments on long-term debt obligations ⁽²⁾	212,126	44,770	88,166	79,190	—
Total	\$ 1,369,045	53,601	114,660	1,200,784	—

(1) Includes aggregate principal payment from the first lien term loan.

(2) Interest payments calculated based on LIBOR rate as of September 30, 2021. Actual payments are based on changes in LIBOR. Calculated interest payments exclude interest rate swap agreements the Company entered into in connection with the long-term debt obligations.

The contractual commitment amounts in the table above are associated with agreements that are enforceable and legally binding.

Off-Balance Sheet Arrangements

As of September 30, 2021, Option Care Health did not have any off-balance sheet arrangements, as defined in Item 303(a)(4)(ii) of Regulation S-K.

Critical Accounting Policies and Estimates

The Company prepares its unaudited condensed consolidated financial statements in accordance with United States generally accepted accounting principles ("GAAP"), which requires the Company to make estimates and assumptions. The Company evaluates its estimates and judgments on an ongoing basis. Estimates and judgments are based on historical experience and on various other factors that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses for the period presented. The Company's actual results may differ from these estimates, and different assumptions or conditions may yield different estimates.

The company's critical accounting policies and estimates as presented in our Annual report on 10-K for the year ended December 31, 2020 are hereby incorporated by reference.

In addition, the following critical accounting policy should be considered:

Income Taxes

The Company accounts for income taxes using the asset and liability method. Deferred tax assets and liabilities are reported for book-tax basis differences and are measured based on currently enacted tax laws using rates expected to apply to taxable income in the years in which the differences are expected to reverse. The effect of a change in tax rate on deferred taxes is recognized in income tax expense in the period that includes the enactment date of the change.

In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. Valuation allowances are established when necessary to reduce deferred tax assets to the amounts more likely than not to be realized. The ultimate realization of deferred tax assets depends on the generation of future taxable income during the periods in which those temporary differences are deductible. The Company considers the scheduled reversal of deferred tax liabilities, including the effect in available carryback and carryforward periods, projected taxable income and tax-planning strategies, in making this assessment. Changes in projected future earnings could affect the recorded valuation allowance in the future. On a quarterly basis, the Company evaluates all positive and negative evidence in determining if the valuation allowance is fairly stated.

The Company recognizes income tax positions that are more likely than not to be sustained on their technical merits. The Company measures recognized income tax positions at the maximum benefit that is more likely than not, based on cumulative

probability, realizable upon final settlement of the position. Interest and penalties related to unrecognized tax benefits are reported in income tax expense.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

There have been no material changes to our exposure to market risk from those included in our Annual Report on Form 10-K for the year ended December 31, 2020, hereby incorporated by reference.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

The Company maintains disclosure controls and procedures (as such term is defined under Rule 13a-15(e) promulgated under the Exchange Act) that are designed to ensure that information required to be disclosed by the Company in the reports we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to the Company's management, including its Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure. Under the supervision and with the participation of the Company's management, including its Chief Executive Officer and Chief Financial Officer, management evaluated the effectiveness of the Company's disclosure controls and procedures as of September 30, 2021. Based on that evaluation, the Company's Chief Executive Officer and its Chief Financial Officer concluded that our disclosure controls and procedures were effective as of September 30, 2021.

Changes in Internal Controls over Financial Reporting

There were no changes in our internal control over financial reporting during the three months ended September 30, 2021 that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

**PART II
OTHER INFORMATION**

Item 1. Legal Proceedings

For a summary of legal proceedings, refer to Note 13, *Commitments and Contingencies*, of the unaudited condensed consolidated financial statements included in Item 1 of this report.

Item 1A. Risk Factors

There have been no material changes to the risk factors affecting our business, financial condition or results of operations from those set forth in Part I, Item 1A. “Risk Factors” in our Annual Report on form 10-K for the Year ended December 31, 2020, except as modified by the information in the following risk factor, which was modified. Additional risks and uncertainties not currently known to us that we currently deem to be immaterial may also materially adversely affect our business, financial condition and/or operating results.

As of September 30, 2021, Madison Dearborn Partners is our largest stockholder and has the ability to exercise significant influence over decisions requiring our stockholders’ approval.

As of September 30, 2021, Madison Dearborn Partners controls 21.1% of our common stock through its control of HC Group Holding I, LLC (“HC Group”). As a result, Madison Dearborn Partners has the ability to exercise significant influence over decisions requiring approval of our stockholders including the election of directors, amendments to our certificate of incorporation and approval of significant corporate transactions, such as a merger or other sale of us or our assets. This concentration of ownership may have the effect of delaying, preventing or deterring a change in control of us and may negatively affect the market price of our common stock. Also, Madison Dearborn Partners is in the business of making investments in companies and may from time to time acquire and hold interests in businesses that compete with us. Madison Dearborn Partners or its affiliates may also pursue acquisition opportunities that are complementary to our business and, as a result, those acquisition opportunities may not be available to us. Based on information received from Madison Dearborn Partners, Walgreens is also an equityholder of HC Group and currently maintains its approximately 21% indirect financial interest in us through HC Group.

Item 6. Exhibits

(a) Exhibits.

Exhibit Number	Description
31.1	Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of Chief Executive Officer pursuant to 18 U.S. C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification of Chief Financial Officer pursuant to 18 U.S. C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	XBRL Taxonomy Extension Labels Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document
104	XBRL Formatted Cover Page

SIGNATURES

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

OPTION CARE HEALTH, IN

Date: November 4, 2021

/s/ Michael Shapi

Michael Shapi

Chief Financial Officer (Principal Financial Officer and Duly Authorized Officer)

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

I, John Rademacher, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Option Care Health, 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: November 4, 2021

/s/ John Rademacher
John Rademacher
President, Chief Executive Officer and Principal Executive Officer

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

I, Michael Shapiro, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Option Care Health, 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: November 4, 2021

/s/ Michael Shapiro
Michael Shapiro
Chief Financial Officer and Principal Financial Officer

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

In connection with the Quarterly Report of Option Care Health, Inc. (the "Company") on Form 10-Q for the quarter ended September 30, 2021, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, John Rademacher, 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: November 4, 2021

/s/ John Rademacher
John Rademacher
President, Chief Executive Officer and Principal Executive Officer

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

In connection with the Quarterly Report of Option Care Health, Inc. (the "Company") on Form 10-Q for the quarter ended September 30, 2021, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Michael Shapiro, 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: November 4, 2021

/s/ Michael Shapiro
Michael Shapiro
Chief Financial Officer and Principal Financial Officer