

Edgar Filing: CURATIVE HEALTH SERVICES INC - Form 10-Q

CURATIVE HEALTH SERVICES INC

Form 10-Q

May 15, 2003

=====

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

-----

FORM 10-Q

-----

(Mark One)

Quarterly report pursuant to Section 13 or 15(d) of the Securities  
----- Exchange Act of 1934

For the quarterly period ended March 31, 2003

OR

----- Transition report pursuant to Section 13 or 15 (d) of the Securities  
----- Exchange Act of 1934

Commission File Number: 000-19370

Curative Health Services, Inc.  
(Exact name of registrant as specified in its charter)

MINNESOTA  
(State or other jurisdiction of  
incorporation or organization)

41-1503914  
(I.R.S. Employer  
Identification Number)

150 Motor Parkway  
Hauppauge, New York 11788  
(631) 232-7000

(Address and phone number of principal executive offices)

-----

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 X No

Indicate by check mark whether the registrant is an accelerated filer (as  
defined in Rule 12b-2 of the Exchange Act): Yes X No

As of May 1, 2003, there were 12,342,687 shares of the Registrant's Common  
Stock, \$.01 par value, outstanding.

=====

Edgar Filing: CURATIVE HEALTH SERVICES INC - Form 10-Q

INDEX

| Part I  | Financial Information  | Page No. |
|---------|--|----------|
| -----   | -----  | -----    |
| Item 1  | Financial Statements:  |          |
|         | Condensed Consolidated Income Statements   |          |
|         | Three Months ended March 31, 2003 and 2002   | 3        |
|         | Condensed Consolidated Balance Sheets  |          |
|         | March 31, 2003 and December 31, 2002   | 4        |
|         | Condensed Consolidated Statements of Cash Flows  |          |
|         | Three Months ended March 31, 2003 and 2002   | 5        |
|         | Notes to Condensed Consolidated Financial Statements                                     | 6        |
| Item 2  | Management's Discussion and Analysis of Financial Condition<br>and Results of Operations | 11       |
| Item 3  | Quantitative and Qualitative Disclosures About Market Risk                               | 16       |
| Item 4  | Controls and Procedures  | 16       |
| <br>    |  |          |
| Part II | Other Information  | Page No. |
| -----   | -----  | -----    |
| Item 1  | Legal Proceedings  | 17       |
| Item 6  | Exhibits and Reports on Form 8-K   | 17       |
|         | Signatures   | 19       |
| <br>    |  |          |
| <br>    |  |          |
| Part I  | Financial Information  |          |
| -----   | -----  |          |
| Item 1  | Financial Statements   |          |

Curative Health Services, Inc. and Subsidiaries  
CONDENSED CONSOLIDATED INCOME STATEMENTS  
(In thousands, except per share data)  
(Unaudited)

|  |                                  |
|--|----------------------------------|
|  | Three Months Ended               |
|  | March 31,                        |
|  | 2003                      2002   |
|  | -----                      ----- |

Revenues:

Edgar Filing: CURATIVE HEALTH SERVICES INC - Form 10-Q

|   |           |           |
|---|-----------|-----------|
| Products                                | \$ 50,450 | \$ 13,869 |
| Services                                | 7,570     | 8,895     |
|   | -----     | -----     |
| Total revenues                          | 58,020    | 22,764    |
| Costs and operating expenses:           |           |           |
| Cost of product sales                   | 37,387    | 10,339    |
| Cost of services                        | 3,478     | 3,917     |
| Selling, general and administrative     | 11,058    | 4,924     |
|   | -----     | -----     |
| Total costs and operating expenses      | 51,923    | 19,180    |
|   | -----     | -----     |
| Income from operations                  | 6,097     | 3,584     |
| Interest income                         | 2         | 36        |
| Interest expense                        | (487)     | (137)     |
|   | -----     | -----     |
| Income before taxes                     | 5,612     | 3,483     |
| Income taxes                            | 2,217     | 1,433     |
|   | -----     | -----     |
| Net income                              | \$ 3,395  | \$ 2,050  |
|   | =====     | =====     |
| Net income per common share, basic      | \$ .28    | \$ .21    |
|   | =====     | =====     |
| Net income per common share, diluted    | \$ .25    | \$ .19    |
|   | =====     | =====     |
| Weighted average common shares, basic   | 12,206    | 9,653     |
|   | =====     | =====     |
| Weighted average common shares, diluted | 13,920    | 10,962    |
|   | =====     | =====     |

See accompanying notes

Curative Health Services, Inc. and Subsidiaries  
CONDENSED CONSOLIDATED BALANCE SHEETS  
(In thousands)

|                                  | (Unaudited)<br>March 31, 2003 | December 31, 2002 |
|----------------------------------|-------------------------------|-------------------|
|                                  | -----                         | -----             |
| ASSETS                           |                               |                   |
| Current assets:                  |                               |                   |
| Cash and cash equivalents        | \$ 1,998                      | \$ 2,643          |
| Accounts receivable, net         | 40,858                        | 36,438            |
| Inventories                      | 13,741                        | 12,766            |
| Prepays and other current assets | 1,570                         | 2,212             |
| Deferred tax assets              | 2,957                         | 2,957             |
|                                  | -----                         | -----             |

Edgar Filing: CURATIVE HEALTH SERVICES INC - Form 10-Q

|  |            |            |
|--|------------|------------|
| Total current assets                                 | 61,124     | 57,016     |
| Property and equipment, net                          | 4,666      | 3,284      |
| Intangibles subject to amortization, net             | 1,617      | 1,652      |
| Intangibles not subject to amortization (trade name) | 735        | 636        |
| Goodwill   | 127,121    | 122,877    |
| Other assets   | 1,087      | 979        |
|  | -----      | -----      |
| Total assets   | \$ 196,350 | \$ 186,444 |
|  | =====      | =====      |
| LIABILITIES AND STOCKHOLDERS' EQUITY                 |            |            |
| Current liabilities:                                 |            |            |
| Accounts payable                                     | \$ 30,816  | \$ 21,786  |
| Accrued expenses                                     | 9,852      | 11,579     |
| Current portion of long-term liabilities             | 7,046      | 6,102      |
|  | -----      | -----      |
| Total current liabilities                            | 47,714     | 39,467     |
| Long-term liabilities                                | 24,087     | 26,076     |
| Stockholders' equity:                                |            |            |
| Common stock   | 121        | 121        |
| Additional paid in capital                           | 106,073    | 106,124    |
| Retained earnings                                    | 20,438     | 17,043     |
| Notes receivable - stockholders                      | (2,083)    | (2,387)    |
|  | -----      | -----      |
| Total stockholders' equity                           | 124,549    | 120,901    |
|  | -----      | -----      |
| Total liabilities and stockholders' equity           | \$ 196,350 | \$ 186,444 |
|  | =====      | =====      |

See accompanying notes

Curative Health Services, Inc. and Subsidiaries  
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS  
(In thousands)  
(Unaudited)

|   | Three Months Ended |          |
|---|--------------------|----------|
|   | March 31,          |          |
|   | 2003               | 2002     |
|   | -----              | -----    |
| OPERATING ACTIVITIES:   |                    |          |
| Net income  | \$ 3,395           | \$ 2,050 |
| Adjustments to reconcile net income to net cash provided by (used in) operating activities: |                    |          |
| Depreciation and amortization   | 570                | 527      |
| Provision for doubtful accounts   | 1,025              | 163      |
| Equity in operations of investee  | -                  | (8)      |
| Changes in operating assets and liabilities:  |                    |          |
| Accounts receivable   | (3,928)            | (294)    |
| Prepaid and other current assets  | (196)              | (1,907)  |
| Accounts payable and accrued expenses   | 5,242              | (7,110)  |
|   | -----              | -----    |
| NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES   | 6,108              | (6,579)  |
| INVESTING ACTIVITIES:   |                    |          |

## Edgar Filing: CURATIVE HEALTH SERVICES INC - Form 10-Q

|   |          |          |
|---|----------|----------|
| Specialty Pharmacy acquisitions, net of cash acquired | (4,656)  | (20,418) |
| Purchases of property and equipment                   | (1,812)  | (33)     |
|   | -----    | -----    |
| NET CASH USED IN INVESTING ACTIVITIES                 | (6,468)  | (20,451) |
| FINANCING ACTIVITIES:                                 |          |          |
| Proceeds from private placement, net of fees          | -        | 16,923   |
| Stock repurchases                                     | (1,524)  | -        |
| Proceeds from exercise of stock options               | 1,777    | 3,361    |
| Repayment on credit facilities                        | (538)    | -        |
|   | -----    | -----    |
| NET CASH (USED IN) PROVIDED BY FINANCING ACTIVITIES   | (285)    | 20,284   |
|   | -----    | -----    |
| NET DECREASE IN CASH AND CASH EQUIVALENTS             | (645)    | (6,746)  |
| CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR        | 2,643    | 12,264   |
|   | -----    | -----    |
| CASH AND CASH EQUIVALENTS AT END OF YEAR              | \$ 1,998 | \$ 5,518 |
|   | =====    | =====    |
| SUPPLEMENTAL INFORMATION                              |          |          |
| Interest paid   | \$ 428   | \$ 7     |
|   | =====    | =====    |
| Income taxes paid                                     | \$ 115   | \$ -     |
|   | =====    | =====    |

See accompanying notes

Curative Health Services, Inc. and Subsidiaries

### NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

#### Note 1. Basis of Presentation

The condensed consolidated financial statements are unaudited and reflect all adjustments (consisting only of normal recurring adjustments) which are, in the opinion of management, necessary for a fair presentation of the financial position and operating results for the interim periods. The condensed consolidated financial statements should be read in conjunction with the consolidated financial statements for the year ended December 31, 2002 and notes thereto contained in the Company's Annual Report on Form 10-K filed with the Securities and Exchange Commission. The results of operations for the three months ended March 31, 2003 are not necessarily indicative of the results to be expected for the entire fiscal year ending December 31, 2003.

#### Stock Based Compensation Plans

In December 2002, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 148, "Accounting for Stock-Based Compensation - Transition and Disclosure." SFAS No. 148 amends SFAS No. 123, "Accounting for Stock-Based Compensation," to provide alternative methods of transition to SFAS No. 123's fair value method of accounting for stock-based employee compensation. SFAS No. 148 also amends the disclosure provisions of SFAS No. 123 and Accounting Principles Board ("APB") No. 28, "Interim Financial Reporting," to require disclosure in the summary of significant accounting policies of the effects of an entity's accounting policy with respect to stock-based employee compensation on reported net income and earnings per share in annual and interim financial statements. While SFAS No. 148 does not amend SFAS No. 123 to require companies to account for

## Edgar Filing: CURATIVE HEALTH SERVICES INC - Form 10-Q

employee stock options using the fair value method, the disclosure provisions of SFAS No. 148 are applicable to all companies with stock-based employee compensation, regardless of whether they account for that compensation using the fair value method of SFAS No. 123 or the intrinsic value method of APB No. 25, "Accounting for Stock Issued to Employees." The Company adopted SFAS No. 148 effective December 31, 2002.

The Company grants options for a fixed number of shares to employees, directors, consultants and advisors with an exercise price equal to the fair value of the shares at the date of grant. The Company accounts for stock option grants under the recognition and measurement principles of APB No. 25 and related Interpretations because the Company believes the alternate fair value accounting provided for under SFAS 123 requires the use of option valuation models that were not developed for use in valuing employee stock options. Under APB No. 25, because the exercise price of the Company's employee stock options equals the market price of the underlying stock on the date of grant, no compensation expense is recorded.

### Curative Health Services, Inc. and Subsidiaries

#### NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

#### Note 1. Basis of Presentation (continued)

The following table illustrates the effect on net income and earnings per share if the Company had applied the fair value recognition provisions of SFAS No. 123 to stock-based compensation for the three months ended March 31, 2003 and 2002 (in thousands, except per share data):

|   | Three Months Ended<br>March 31, |          |
|---|---------------------------------|----------|
|   | 2003                            | 2002     |
| Net income, as reported   | \$ 3,395                        | \$ 2,050 |
| Deduct: Total stock-based employee compensation<br>expense determined under fair value based method<br>for all awards, net of related tax effects | 1,132                           | 637      |
| Pro forma net income  | \$ 2,263                        | \$ 1,413 |
| <br>Earnings per share:   |                                 |          |
| Basic - as reported   | \$ .28                          | \$ .21   |
| Basic - pro forma   | .19                             | .15      |
| <br>Diluted - as reported   | \$ .25                          | \$ .19   |
| Diluted - pro forma   | .17                             | .13      |

#### Note 2. Reclassifications

Certain prior year amounts in the condensed consolidated financial statements have been reclassified to conform to the current year classifications.

#### Note 3. Net Income per Common Share

Net income per common share, basic, is computed by dividing the net income by the weighted average number of common shares outstanding. Net income per common

## Edgar Filing: CURATIVE HEALTH SERVICES INC - Form 10-Q

share, diluted, is computed by dividing adjusted net income (see below) by the weighted average number of shares outstanding plus dilutive common share equivalents. The following table sets forth the computation of weighted average shares, basic and diluted, used in determining basic and diluted earnings per share (in thousands):

|  | Three Months Ended<br>March 31, |        |
|--|---------------------------------|--------|
|  | 2003                            | 2002   |
| Weighted average shares, basic                         | 12,206                          | 9,653  |
| Effect of dilutive stock options and convertible notes | 1,714                           | 1,309  |
| Weighted average shares, diluted                       | 13,920                          | 10,962 |

### Curative Health Services, Inc. and Subsidiaries

#### NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

#### Note 3. Net Income per Common Share (continued)

Earnings per share, diluted, for the three months ended March 31, 2003 was computed as follows (in thousands):

|  |          |
|--|----------|
| Net income, as reported                                    | \$ 3,395 |
| Add back interest related to convertible notes, net of tax | 65       |
|  | -----    |
| Adjusted net income  | \$ 3,460 |
|  | =====    |

#### Note 4. Purchase of MedCare, Inc.

On February 3, 2003, the Company acquired MedCare, Inc. ("MedCare"), a specialty pharmacy with locations in Alabama, Mississippi, West Virginia and Florida. MedCare's primary product line is Synagis(R) for the prevention of respiratory syncytial virus, while other product lines include growth hormone and hemophilia clotting factor. The purchase price for MedCare was \$6.6 million, of which \$5.5 million was paid in cash, \$.6 million in cash was placed into escrow for purposes of providing for any indemnifications due to the Company and \$.5 million in cash which was withheld pending delivery of agreed-upon working capital. The Company acquired approximately \$1.8 million of MedCare's assets, including \$1.5 million in accounts receivable and \$.3 million in inventory. The Company also assumed \$1.6 million of MedCare's liabilities. The excess of the acquisition cost over the fair value of identifiable net assets acquired was approximately \$6.4 million, consisting of approximately \$.1 in covenants not to compete, which are being amortized over three years from the date of acquisition, and trade name and goodwill of approximately \$.1 million and \$6.2 million, respectively, which are not being amortized for book purposes per SFAS No. 142, "Goodwill and Other Intangible Assets." Fair market valuations have not yet been completed and, as such, the allocation of the purchase price is preliminary, pending receipt of a formal valuation from the Company's valuation consultants.

The acquisition of MedCare was consummated for purposes of expanding the

## Edgar Filing: CURATIVE HEALTH SERVICES INC - Form 10-Q

Company's Specialty Pharmacy business and was accounted for using the purchase method of accounting. The accounts of MedCare and related goodwill are included in the accompanying condensed consolidated balance sheets. The operating results of MedCare are included in the accompanying condensed consolidated statements of operations from the date of acquisition.

Unaudited pro forma amounts for the three months ended March 31, 2003 and 2002, assuming the acquisition had occurred on January 1, 2002, are as follows (in thousands, except per share data):

|                               | Three Months Ended<br>March 31, |           |
|-------------------------------|---------------------------------|-----------|
|                               | 2003                            | 2002      |
| Revenues                      | \$ 61,032                       | \$ 35,695 |
| Net income                    | \$ 3,604                        | \$ 3,056  |
| Net income per share, diluted | \$ .26                          | \$ .26    |

### Curative Health Services, Inc. and Subsidiaries

#### NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

##### Note 4. Purchase of MedCare, Inc. (continued)

The pro forma operating results shown above are not necessarily indicative of operations in the periods following the acquisition. The unaudited pro forma operating results include the results of Apex Therapeutic Care, Inc. ("Apex") as if the Apex acquisition, which occurred on January 27, 2002, had occurred on January 1, 2002.

##### Note 5. Segment Information

The Company adheres to the provisions of SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information." The Company has two reportable segments: Specialty Pharmacy Services and Specialty Healthcare Services. In its Specialty Pharmacy Services business unit, the Company contracts with insurance companies and other payors to provide direct to patient distribution of, and other support services, including the provision or coordination of injection or infusion services related to, biopharmaceutical and pharmaceutical products. In its Specialty Healthcare Services business unit, the Company contracts with hospitals to manage outpatient Wound Care Center(R) programs. The Company evaluates segment performance based on income from operations. For the three months ended March 31, 2003, management estimates that corporate general and administrative expenses allocated to the reportable segments are 53 percent for Specialty Pharmacy Services and 47 percent for Specialty Healthcare Services. Such allocations are not necessarily indicative of costs that would be absorbed or eliminated in the event of a sale of the Specialty Healthcare Services business which the Company is currently exploring. Intercompany transactions are eliminated to arrive at consolidated totals.

The following tables present the results of operations and total assets of the reportable segments of the Company for the three months ended March 31, 2003 and 2002 (in thousands):

At and for the three months ended March 31, 2003  
-----



Edgar Filing: CURATIVE HEALTH SERVICES INC - Form 10-Q

|                        | Specialty<br>Pharmacy | Specialty<br>Healthcare | Eliminating<br>Entries | Total      |
|------------------------|-----------------------|-------------------------|------------------------|------------|
|                        | -----                 | -----                   | -----                  | -----      |
| Revenues               | \$ 50,450             | \$ 7,570                | -                      | \$ 58,020  |
| Income from operations | \$ 5,580              | \$ 517                  | -                      | \$ 6,097   |
| Total assets           | \$ 160,967            | \$ 13,875               | \$ 21,508              | \$ 196,350 |

At and for the three months ended March 31, 2002

|                        | Specialty<br>Pharmacy | Specialty<br>Healthcare | Eliminating<br>Entries | Total      |
|------------------------|-----------------------|-------------------------|------------------------|------------|
|                        | -----                 | -----                   | -----                  | -----      |
| Revenues               | \$ 13,869             | \$ 8,895                | -                      | \$ 22,764  |
| Income from operations | \$ 1,380              | \$ 2,204                | -                      | \$ 3,584   |
| Total assets           | \$ 99,022             | \$ 46,511               | \$ (1,710)             | \$ 143,823 |

Curative Health Services, Inc. and Subsidiaries

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Note 6. Employee and Facility Termination Costs

In July 2002, the FASB issued SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities," which nullifies Emerging Issues Task Force Issue No. 94-3, "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring)." SFAS No. 146 addresses financial accounting and reporting for costs associated with exit or disposal activities initiated after December 31, 2002. SFAS No. 146 establishes fair value as the objective for initial measurement of liabilities related to exit or disposal activities and requires that such liabilities be recognized when incurred.

In the first quarter of 2003, the Company consolidated its pharmacy operations in California which resulted in the termination of a total of 25 employees and the vacating of a leased facility. The Company recorded a charge of \$1.6 million related to this activity.

The following provides a reconciliation of the related costs associated with the pharmacy consolidation, which are included in Selling, General and Administrative expenses on the accompanying condensed consolidated income statement for the three months ended March 31, 2003 (in thousands):

|                            | Beginning<br>Balance | Costs<br>Charged<br>to Expense | Costs Paid<br>or Otherwise<br>Settled | Ending<br>Balance |
|----------------------------|----------------------|--------------------------------|---------------------------------------|-------------------|
|                            | -----                | -----                          | -----                                 | -----             |
| Employee termination costs | \$ -                 | \$ 871                         | \$ 596                                | \$ 275            |
| Facility termination costs | -                    | 759                            | 68                                    | 691               |
|                            | -                    | -----                          | ----                                  | ----              |
|                            | \$ -                 | \$ 1,630                       | \$ 664                                | \$ 966            |
|                            |                      | =====                          | ====                                  | ====              |

Note 7. Changes in Capital Structure

During the first three months of 2003, the Company had the following significant

## Edgar Filing: CURATIVE HEALTH SERVICES INC - Form 10-Q

changes in capital structure:

Repurchase of Common Stock. On January 29, 2003, the selling shareholder of Hemophilia Access, Inc. ("HAI") exercised a put option right under the Stock Purchase Agreement of HAI, requiring the Company to repurchase shares issued to acquire HAI. The Company repurchased 97,070 of such shares of common stock for approximately \$1.5 million.

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

#### Overview

Curative Health Services, Inc. ("Curative" or the "Company") is a leading disease management company that operates in two business segments: Specialty Pharmacy Services and Specialty Healthcare Services. In its Specialty Pharmacy operations, the Company purchases various pharmaceutical products, including both biopharmaceuticals (biological products, e.g., hemophilia factor), as well as pharmaceuticals (i.e., drugs), from suppliers and then contracts with insurance companies and other payors to provide direct to patient distribution of such products and related education about, reimbursement and other support services (including the provision or coordination of injection or infusion services) related to these biopharmaceutical and pharmaceutical products. The Company's Specialty Pharmacy revenues are derived primarily from payments made by insurance companies, governmental and other payors for the purchase and distribution of these biopharmaceuticals and pharmaceuticals and for injection or infusion services provided. Further, as part of its Specialty Pharmacy operations, the Company provides biopharmaceutical and pharmaceutical product distribution and support services under contracts with retail pharmacies for which it receives product supply and related service fees. The biopharmaceutical and pharmaceutical products distributed and the injection or infusion therapies offered by the Company are used by patients with chronic conditions such as hemophilia, respiratory syncytial virus, immune system disorders, rheumatoid arthritis, hepatitis C, multiple sclerosis, post chemotherapy and growth hormone deficiency. The Specialty Pharmacy Services business unit contracts with 316 payors and 20 retail pharmacies.

The Specialty Healthcare Services business unit contracts with hospitals to manage outpatient Wound Care Center programs. These Wound Care Center programs offer a comprehensive range of services that enables the Company to provide patient specific wound care diagnosis and treatments on a cost-effective basis. Specialty Healthcare Services currently operates two types of Wound Care Center programs with hospitals: a management model and an "under arrangement" model.

In the management model, Specialty Healthcare Services provides management and support services for a chronic wound care facility owned or leased by the hospital and staffed by employees of the hospital, and generally receives a fixed monthly management fee or a combination of a fixed monthly management fee and a variable case management fee. In the "under arrangement" model, Specialty Healthcare Services provides management and support services, as well as the clinical and administrative staff, for a chronic wound care facility owned or leased by the hospital, and generally receives fees based on the services provided to each patient. In both models, physicians remain independent. Specialty Healthcare Services offers assistance in recruiting and provides training in wound care to the physicians and staff associated with the Wound Care Center programs. As of March 31, 2003, the Company had 80 management and eight "under arrangement" Wound Care Center programs.

## Edgar Filing: CURATIVE HEALTH SERVICES INC - Form 10-Q

### Critical Accounting Policies and Estimates

Management's Discussion and Analysis of Financial Condition and Results of Operations discusses the Company's condensed consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these condensed consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the condensed consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. On an on-going basis, management evaluates its estimates and judgments, including those related to revenue recognition, bad debts, inventories, income taxes and intangibles. Management bases its estimates and judgments 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 that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions. Management believes the following critical accounting policies, among others, affect its more significant judgments and estimates used in the preparation of its condensed consolidated financial statements:

Revenue recognition. Specialty Pharmacy Services' revenues are recognized, net of any contractual allowances, when the product is shipped to a patient, retail pharmacy or a physician's office. Specialty Healthcare Services' revenues are recognized after the management services are rendered and are billed monthly in arrears.

Trade receivables: Considerable judgment is required in assessing the ultimate realization of receivables, including the current financial condition of the customer, age of the receivable and the relationship with the customer. The Company estimates its allowances for doubtful accounts using these factors. If the financial condition of the Company's customers were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required. In circumstances where the Company is aware of a specific customer's inability to meet its financial obligations (e.g., bankruptcy filings), a specific reserve for bad debts is recorded against amounts due to reduce the receivable to the amount the Company reasonably believes will be collected. For all other customers, the Company has reserves for bad debt based upon the total accounts receivable balance. As of March 31, 2003, the Company's reserve for accounts receivable was approximately 7.7 percent of total receivables.

Inventories: Inventories are carried at the lower of cost or market on a first in, first out basis. Inventory consists of high cost biopharmaceutical and pharmaceutical products that, in many cases, require refrigeration or other special handling. As a result, inventories are subject to spoilage or shrinkage. On a quarterly basis, the Company performs a physical inventory and determines whether any shrinkage or spoilage adjustments are needed. Although the Company believes its inventory balances at March 31, 2003 are reasonably accurate, there can be no assurances that spoilage or shrinkage adjustments will not be needed in the future. The recording of any such reserve may have a negative impact on the Company's operating results.

Deferred tax assets: The Company has approximately \$3.0 million in deferred tax assets as of March 31, 2003 to record against future income. The Company does not have a valuation allowance against this asset as it believes it is more likely than not that the tax assets will be realized. The Company has considered future income expectations and prudent tax strategies in assessing the need for

## Edgar Filing: CURATIVE HEALTH SERVICES INC - Form 10-Q

a valuation allowance. In the event the Company determines in the future that it needs to record a valuation allowance, an adjustment to deferred tax assets would be charged against income in the period of determination.

**Goodwill and intangibles:** Goodwill represents the excess of purchase price over the fair value of net assets acquired. Intangibles consist of the separately identifiable intangibles, such as pharmacy and customer relationships, covenants not to compete and trademarks. Effective January 1, 2002, the Company adopted SFAS No. 142, "Goodwill and Other Intangible Assets," which requires that goodwill and intangible assets with indefinite lives no longer be amortized but rather be reviewed annually, or more frequently if impairment indicators arise, for impairment. Separable intangible assets that are not deemed to have an indefinite life will continue to be amortized over their useful lives. In assessing the recoverability of the Company's goodwill and intangibles, the Company must make assumptions regarding estimated future cash flows and other factors to determine the fair value of the respective assets. If these estimates or assumptions change in the future, the Company may need to record an impairment charge for these assets. An impairment charge would reduce operating income in the period it was determined that the charge was needed.

### Results of Operations

**Revenues.** The Company's revenues for the first quarter of 2003 increased 154 percent to \$58.0 million compared to \$22.8 million for the first quarter of the prior fiscal year.

Product revenues increased \$36.5 million, or 263 percent, to \$50.4 million in the first quarter of 2003 from \$13.9 million in the first quarter of 2002. The increase is primarily the result of growth of hemophilia patient related revenues and the inclusion of Synagis(R), IVIG and infusable revenues as the result of the Specialty Pharmacy acquisitions completed in the first quarter of 2003 and throughout 2002. For the first quarter of 2003, product revenues included \$28.5 million of hemophilia related products, \$16.8 million in Synagis(R) sales, \$4.0 million in IVIG and infusables sales and \$1.1 million of other injectable products. For the same period in 2002, product revenues included \$11.5 million of hemophilia related products and \$2.4 million of other injectable products. Synagis(R), a product used for the prevention of respiratory syncytial virus in infants, is a seasonal product used primarily in the months of October through April which corresponds with the Company's first and fourth quarters. As a result, Synagis(R) revenues will be insignificant in the Company's second and third quarters.

Service revenues, attributed entirely to the Specialty Healthcare Services business unit, decreased 15 percent to \$7.6 million in the first quarter of 2003 from \$8.9 million in the first quarter of 2002. The service revenues decrease of \$1.3 million for the first quarter 2003 is attributable to the operation of 88 Wound Care Center programs at the end of the first quarter of 2003 as compared to 96 at the end of the first quarter of the prior fiscal year as the result of contract terminations and renegotiation. Program terminations by client hospitals have been effected for such reasons as reduced reimbursement, financial restructuring, layoffs, bankruptcies or even hospital closings. The continued termination, non-renewal or renegotiations of a material number of management contracts or the inability to sign new contracts could result in a continued decline in the Company's Specialty Healthcare Services business unit revenue. The Company is currently exploring the possibility of a sale of the Specialty Healthcare Services business unit.

**Cost of Product Sales.** Cost of product sales increased \$27.1 million, or 263 percent, to \$37.4 million in the first quarter 2003 from \$10.3 million in the

## Edgar Filing: CURATIVE HEALTH SERVICES INC - Form 10-Q

first quarter of 2002. The increase is attributable to the internal growth of hemophilia patient revenues and the inclusion of the Specialty Pharmacy acquisitions completed in the first quarter of 2003 and throughout 2002. As a percentage of product sales, the cost of product sales for the first quarter of 2003 was 74 percent compared to 75 percent for the same period in 2002.

**Cost of Services.** Cost of services, attributed entirely to the Specialty Healthcare Services business unit, decreased \$.4 million, or 10 percent, to \$3.5 million in the first quarter of 2003 from \$3.9 million in the first quarter of 2002. The decrease is attributable to reduced staffing and operating expenses of approximately \$.4 million related to the operation of 88 programs at the end of the first quarter of 2003 as compared to 96 programs operating at the end of the first quarter 2002, offset by additional costs of \$.2 million related to new programs. Additionally, there were three fewer under-arrangement programs in operation at the end of the first quarter of 2003 as compared to the same period for 2002, at which the services component of costs is higher than at the Company's other centers due to the additional clinical staffing and expenses that these models require. For the first quarter of 2003, this reduction in the number of under-arrangement programs accounted for approximately \$.2 million of the decrease in the cost of services. As a percentage of service revenues, the cost of services for the first quarter of 2003 was 46 percent compared to 44 percent for the same period in 2002. This increase is primarily attributable to the decline in service revenues.

**Selling, General and Administrative.** Selling, general and administrative expenses increased \$6.2 million, or 127 percent, to \$11.1 million for the first quarter of 2003 from \$4.9 million for the first quarter 2002. For the first three months of 2003, selling, general and administrative expenses consisted of \$4.3 million related to the Specialty Pharmacy Services business, \$1.2 million related to the Specialty Healthcare Services business, \$2.9 related to corporate services and \$2.7 million in special charges, including \$1.6 million in expenses related to the Company's consolidation of its pharmacy operations in California and \$1.1 million in legal and other costs associated with the settlement of executive departures in March 2002. The increase of \$6.1 million is primarily due to an increase of \$3.0 million of Specialty Pharmacy Services expenses attributable to the Specialty Pharmacy acquisitions completed in the first quarter of 2003 and throughout 2002, increased costs of \$.3 million related to additional corporate staff to support these acquisitions and \$2.7 million in special charges. As a percentage of revenues, selling, general and administrative expenses were 19 percent in the first quarter of 2003 compared to 22 percent for 2002. The improvement in the first quarter of 2003 is due to the increased revenue base.

**Net Income.** Net income was \$3.4 million, or \$.25 per diluted share, in the first quarter of 2003 compared to \$2.1 million, or \$.19 per diluted share, in the first quarter of 2002. The increases in earnings of \$1.3 million, including special charges of \$2.7 million, for the first quarter of 2003 is primarily attributable to the inclusion of the Specialty Pharmacy acquisitions completed in the first quarter of 2003 and throughout 2002.

### Liquidity and Capital Resources

Working capital was \$13.4 million at March 31, 2003 compared to \$17.5 million at December 31, 2002. Total cash and cash equivalents as of March 31, 2003 was \$2.0 million. The ratio of current assets to current liabilities was 1.3:1 at March 31, 2003 and 1.4:1 at December 31, 2002. The decrease in the Company's working capital and current ratio is primarily attributable to the acquisition of MedCare completed in the first quarter of 2003.

Cash flows provided by operating activities for the three months ended March 31,

## Edgar Filing: CURATIVE HEALTH SERVICES INC - Form 10-Q

2003 totaled \$6.1 million, the majority of which is attributable to \$3.4 million in net income and an increase in accounts payable and accrued expenses of \$5.2 million, offset by an increase in accounts receivable, net of \$1.8 million.

Cash flows used in investing activities totaled \$6.5 million primarily attributable to \$6.1 million used in the acquisition of MedCare and \$1.8 million used in fixed asset purchases, offset by \$1.6 million in proceeds received from accounts receivable, indemnification and other claims related to the purchases of eBioCare.com, Inc. ("eBioCare") and Apex, transactions which were recorded as purchase price adjustments. Cash flows used in financing activities totaled \$3.3 million, attributable to \$1.5 million of cash used for repurchase of stock used in the purchase of HAI and \$5 million used in net repayment of debt obligations, offset by proceeds of \$1.8 million from the exercise of stock options.

For the first three months of 2003, the Company experienced a net increase in accounts receivable of \$4.4 million attributable to the growth in revenues as the result of the Specialty Pharmacy acquisitions. Days sales outstanding were 65 days as of March 31, 2003, as compared to 62 days at December 31, 2002. At March 31, 2003, days sales outstanding for the Specialty Pharmacy Services business were 65 days and 67 days for the Specialty Healthcare business.

As of March 31, 2003, the Company's current portion of long-term liabilities of \$7.0 million included \$3.9 million representing the current portion of the Company's borrowings from its commercial lender, \$2.0 million representing the current portion of the Department of Justice ("DOJ") obligation and \$1.1 million representing the current portion of a convertible note payable used in connection with the purchase of Apex in February 2002. As of March 31, 2003, the Company's long-term liabilities of \$24.1 million included \$3.5 million related to the DOJ obligation, a \$2.7 million promissory note representing the long-term portion of the convertible note used in the purchase of Apex, \$6.0 million in convertible notes payable related to the purchase of Infinity Infusion Care, Ltd. in June 2002, \$3.0 million in a convertible note payable related to the purchase of Home Care of New York, Inc. in October 2002 and \$8.9 million in borrowed funds from the Company's commercial lender.

The Company's longer term cash requirements include working capital for the expansion of its Specialty Pharmacy Services business and Specialty Healthcare Services business and for acquisitions. Other cash requirements are anticipated for capital expenditures in the normal course of business, including the acquisition of software, computers and equipment related to the Company's management information systems. Additionally, as of March 31, 2003, the Company has a \$5.5 million obligation, payable over approximately three years, to the DOJ related to the settlement of its litigation previously disclosed, as well as bank debt and convertible notes totaling \$25.6 million payable over various periods through 2007. In March 2003, the Company signed a commitment with GE Healthcare Financial Services for \$35 million in financing, expandable on a best-efforts basis for an additional \$45 million to finance future acquisitions. The Company expects that, based on its current business plan, its existing cash and cash equivalents and available credit will be sufficient to satisfy its working capital needs and minimal acquisitions at least through March 31, 2004. Any acquisitions of substantial size may require the Company to either increase its credit facilities, issue equity or offer some combination of both debt and equity. The effect of inflation risk is considered immaterial.

### Cautionary Statement

This report contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. These statements include statements regarding

## Edgar Filing: CURATIVE HEALTH SERVICES INC - Form 10-Q

intent, belief or current expectations of the Company and its management. These forward-looking statements are not guarantees of future performance and involve a number of risks and uncertainties that may cause the Company's actual results to differ materially from the results discussed in these statements. Factors that might cause such differences include, but are not limited to, those described under the heading, "Critical Accounting Policies and Estimates" herein, or those described in Exhibit 99.1 to this Form 10-Q and other factors described in the Company's future filings with the SEC.

### Item 3. Quantitative and Qualitative Disclosures About Market Risk

The Company does not have operations subject to risks of material foreign currency fluctuations, nor does it use derivative financial instruments in its operations or investment portfolios. The Company places its investments in instruments that meet high credit quality standards, as specified in the Company's investment policy guidelines. The Company does not expect any material loss with respect to its investment portfolio or exposure to market risks associated with interest rates.

### Item 4. Controls and Procedures

#### (a) Evaluation of disclosure controls and procedures.

Under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, we evaluated the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rule 13a-14(c) and Rule 15d-14(c) under the Exchange Act) as of a date (the "Evaluation Date") within 90 days prior to the filing date of this report. Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that, as of the Evaluation Date, our disclosure controls and procedures were effective in timely alerting them to the material information relating to us (or our consolidated subsidiaries) required to be included in our periodic SEC filings.

#### (b) Changes in internal controls.

There were no significant changes made in our internal controls during the period covered by this report or, to our knowledge, in other factors that could significantly affect these controls subsequent to the date of their evaluation.

Curative Health Services, Inc. and Subsidiaries

## Part II Other Information

### Item 1. Legal Proceedings

In the normal course of its business, the Company may be involved in lawsuits, claims, audits and investigations, including any arising out of services or products provided by or to the Company's operations, personal injury claims and employment disputes, the outcome of which, in the opinion of management, will not have a material adverse effect on the Company's financial position or

## Edgar Filing: CURATIVE HEALTH SERVICES INC - Form 10-Q

results of operations.

### Item 6. Exhibits and Reports on Form 8-K

#### (a) Exhibits

-----

- Exhibit 10.1 Employment agreement dated as of March 5, 2003 between Michelle LeDell and the Company
- Exhibit 10.2 Employment agreement dated as of March 5, 2003 between Alan Jackson and the Company
- Exhibit 10.3 Amendment No. 1 to Curative Health Services, Inc. 2001 Broad-Based Stock Incentive Plan
- Exhibit 10.4 Amendment No. 2 to Curative Health Services, Inc. 2001 Broad-Based Stock Incentive Plan
- Exhibit 99.1 Cautionary Statements
- Exhibit 99.2 Certification of Chief Executive Officer pursuant to 18 U.S.C. ss.1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
- Exhibit 99.3 Certification of Chief Financial Officer pursuant to 18 U.S.C. ss.1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

The Company has excluded from the exhibits filed with this report instruments defining the rights of holders of long-term convertible debt of the Company where the total amount of the securities authorized under such instruments does not exceed 10 percent of its total assets. The Company hereby agrees to furnish a copy of any of these instruments to the SEC upon request.

#### (b) Form 8-K

-----

Form 8-K filed February 5, 2003, reporting under Item 5 on the press release announcing the Company's acquisition of MedCare, Inc.

Form 8-K filed February 14, 2003, reporting under Item 5 to provide the director and executive compensation information for the purpose of being incorporated by reference into the Company's Registration Statement on Form S-3, filed on February 4, 2003, in accordance with the requirements of Response 8B of Item J. of the SEC's Telephone Interpretations Manual.

Form 8-K filed February 18, 2003, reporting under Item 5 on the press release announcing the Company's earnings for the fourth quarter and full year ended December 31, 2002.

Form 8-K filed February 28, 2003, reporting under Item 5 on the amendment of the Registration Rights and Lock-Up Agreement between the Company and the shareholders of Apex Therapeutic Care, Inc., in connection with the Company's acquisition of Apex on February 28, 2002, and the date and number of shares of the Company's common stock that will become freely tradeable in accordance with the amendment.

SIGNATURES



## Edgar Filing: CURATIVE HEALTH SERVICES INC - Form 10-Q

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.

Date: May 15, 2003

Curative Health Services, Inc.  
(Registrant)

/s/ Joseph Feshbach

-----  
Joseph Feshbach  
Chief Executive Officer and Chairman  
(Principal Executive Officer)

/s/ Thomas Axmacher

-----  
Thomas Axmacher  
Chief Financial Officer  
(Principal Financial and Accounting Officer)

### CERTIFICATIONS

I, Joseph Feshbach, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Curative Health Services, Inc.;
2. Based on my knowledge, this quarterly 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 quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly 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 quarterly report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:
  - (a) designed such disclosure controls and procedures 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 quarterly report is being prepared;
  - (b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and

## Edgar Filing: CURATIVE HEALTH SERVICES INC - Form 10-Q

- (c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):
- (a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
- (b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and
6. The registrant's other certifying officers and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: May 15, 2003

/s/ Joseph Feshbach  
-----  
Joseph Feshbach  
Chief Executive Officer

### CERTIFICATIONS

I, Thomas Axmacher, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Curative Health Services, Inc.;
2. Based on my knowledge, this quarterly 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 quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly 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 quarterly report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:
  - (a) designed such disclosure controls and procedures to ensure that

## Edgar Filing: CURATIVE HEALTH SERVICES INC - Form 10-Q

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 quarterly report is being prepared;

- (b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and
  - (c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):
- (a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
  - (b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and
6. The registrant's other certifying officers and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: May 15, 2003

/s/ Thomas Axmacher

-----  
Thomas Axmacher  
Chief Financial Officer

Exhibit 10.1

### EMPLOYMENT AGREEMENT

THIS EMPLOYMENT AGREEMENT (the "Agreement") is made effective as of March 5, 2003 (the "Effective Date"), between CURATIVE HEALTH SERVICES, INC., a Minnesota corporation (the "Company"), and Michelle LeDell ("Executive").

WHEREAS, the Company wishes to retain Executive as a key employee; and

WHEREAS, the Company and Executive want the terms and conditions of Executive's employment to be governed by this Agreement;

## Edgar Filing: CURATIVE HEALTH SERVICES INC - Form 10-Q

NOW, THEREFORE, in consideration of the promises and the mutual covenants and agreements herein contained, intending to be legally bound, the Company and Executive hereby agree as follows:

### 1. Employment

1.1 Employment and Duties. The Company hereby agrees to employ Executive for the Term (as hereinafter defined) as Senior Vice President - Human Resources, subject to the direction of the Chief Executive Officer, and in connection therewith, to perform such duties as she shall reasonably be directed by the Chief Executive Officer to perform. Executive hereby accepts such employment and agrees to render such services. Executive shall perform her duties and carry out her responsibilities hereunder in a diligent manner, shall devote her exclusive and full working time, attention and effort to the affairs of the Company, shall use her best efforts to promote the interests of the Company and shall be just and faithful in the performance of her duties and in carrying out her responsibilities.

1.2 Location. The principal location for performance of Executive's services hereunder shall be at the Company's office in St. Louis Park, Minnesota, subject to reasonable travel requirements during the course of such performance.

### 2. Employment Term

The term of Executive's employment hereunder (the "Term") shall be deemed to commence on the Effective Date and shall end on the first anniversary of the Effective Date, unless sooner terminated as hereinafter provided; provided, however, that the Term shall be automatically renewed and extended for an additional period of one (1) year on the first anniversary unless either party gives a Notice of Termination (as defined below) to the other party prior to the first anniversary.

### 3. Compensation and Benefits

#### 3.1 Cash Compensation.

- (a) Base Salary. The Company shall pay Executive an annual salary of \$130,069 payable in bi-weekly installments, in arrears (the "Base Salary"). The Base Salary shall be reviewed annually by the Company's Board of Directors and may be increased, but not decreased (unless mutually agreed upon by Executive and the Company).
- (b) Bonus Plan. Executive shall be entitled to participate in the Company's Annual Corporate Bonus Plan, in accordance with and subject to the terms and provisions thereof.

3.2 Participation in Benefit Plans. Executive shall be entitled to participate in all employee benefit plans or programs of the Company to the extent that her position, title, tenure, salary, active employment status and other qualifications make her eligible to participate. The Company does not guarantee the continuance of any particular employee benefit plan or program during the Term, and Executive's participation in any such plan or program shall be subject to all terms, provisions, rules and regulations applicable thereto. Executive will be entitled to twenty (20) days of vacation per year, to be used in accordance with the Company's vacation policy for senior executives as it may change from time to time. For the Benefit Period, if any, (as hereinafter defined), the Company will arrange to provide Executive with welfare benefits (including life and health insurance benefits) of substantially similar design

## Edgar Filing: CURATIVE HEALTH SERVICES INC - Form 10-Q

and cost to Executive as the welfare benefits and other employee benefits available to Executive prior to Executive's or the Company's, as the case may be, receipt of a Notice of Termination (as hereinafter defined). In the event that Executive shall obtain full-time employment providing welfare benefits during the Benefit Period, such benefits as otherwise receivable hereunder by Executive shall be discontinued.

3.3 Expenses. The Company will pay or reimburse Executive for all reasonable and necessary out-of-pocket expenses incurred by her in the performance of her duties under this Agreement. Executive shall keep detailed and accurate records of expenses incurred in connection with the performance of her duties hereunder and reimbursement therefore shall be in accordance with policies and procedures to be established from time to time by the Board.

3.4 Automobile Expenses. During the Term and in accordance with the Company's automobile policy, Executive shall be reimbursed by the Company for the monthly lease expense for an automobile leased in the name of the Executive, in an aggregate amount not to exceed \$500.00 per month.

### 4. Termination of Employment

#### 4.1 Definitions

(a) "Benefit Period" shall mean (i) the six (6) month period commencing on the Date of Termination which occurs in connection with a termination of employment described in the first sentence of Section 4.5(a), or (ii) the twelve (12) month period commencing on the Date of Termination which occurs in connection with a termination of employment described in the first sentence of Section 4.5(b).

(b) "Cause" shall mean any of the following:

(i) any act or failure to act (or series or combination thereof) by Executive done with the intent to harm in any material respect the interests of the Company;

(ii) the commission by Executive of a felony;

(iii) the perpetration by Executive of a dishonest act or common law fraud against the Company or any subsidiary thereof;

(iv) a grossly negligent act or failure to act (or series or combination thereof) by Executive detrimental in any material respect to the interests of the Company;

(v) the material breach by Executive of her agreements or obligations under this Agreement; or

(vi) the continued refusal to follow the directives of the Chief Executive Officer or Board of Directors that are consistent with Executive's duties and responsibilities identified in Section 1.1 hereof.

(c) A "Change of Control" shall mean any of the following:

(i) a sale of all or substantially all of the assets of the Company;

(ii) the acquisition of more than fifty percent (50%) of the Common Stock of the Company (with all classes or series thereof treated as a single class) by any person or group of persons, except a Permitted Shareholder (as hereinafter defined), acting in concert. A "Permitted

## Edgar Filing: CURATIVE HEALTH SERVICES INC - Form 10-Q

Shareholder" means a holder, as of the date the Plan was adopted by the Company, of Common Stock;

(iii) a reorganization of the Company wherein the holders of Common Stock of the Company receive stock in another company (other than a subsidiary of the Company), a merger of the Company with another company wherein there is a fifty percent (50%) or greater change in the ownership of the Common Stock of the Company as a result of such merger, or any other transaction in which the Company (other than as the parent corporation) is consolidated for federal income tax purposes or is eligible to be consolidated for federal income tax purposes with another corporation;

(iv) in the event that the Common Stock is traded on an established securities market, a public announcement that any person has acquired or has the right to acquire beneficial ownership of more than fifty percent (50%) of the then-outstanding Common Stock and for this purpose the terms "person" and "beneficial ownership" shall have the meanings provided in Section 13(d) of the Securities and Exchange Act of 1934 or related rules promulgated by the Securities and Exchange Commission, or the commencement of or public announcement of an intention to make a tender offer or exchange offer for more than fifty percent (50%) of the then outstanding Common Stock;

(v) a majority of the Board of Directors is not comprised of Continuing Directors. A "Continuing Director" means a director recommended by the Board of Directors of the Company for election as a director of the Company by the stockholders; or

(vi) the Board of Directors of the Company, in its sole and absolute discretion, determines that there has been a sufficient change in the share ownership of the Company to constitute a change of effective ownership or control of the Company.

(d) "Good Reason" shall mean, within the twelve (12) month period immediately following a Change of Control, the occurrence of any one or more of the following events:

(i) the assignment to Executive of any duties inconsistent in any respect with Executive's position (including status, offices, title, and reporting requirements), authority, duties or other responsibilities as in effect immediately prior to the Change of Control or any other action of the Company that results in a diminishment in such position, authority, duties or responsibilities, other than an insubstantial and inadvertent action that is remedied by the Company promptly after receipt of notice thereof given by Executive;

(ii) a reduction by the Company in Executive's Base Salary as in effect on the date hereof and as the same shall be increased from time to time hereafter;

(iii) the Company's requiring Executive to be based at a location in excess of fifty (50) miles from the location of Executive's principal office immediately prior to the Change of Control;

(iv) the failure by the Company to (a) continue in effect any material compensation or benefit plan, program, policy or practice in which Executive was participating at the time of the Change of Control or (b) provide Executive with compensation and benefits at least equal (in terms of benefit levels and/or reward opportunities) to those provided for under each employee benefit plan, program, policy and practice as in effect immediately prior to the Change of Control (or as in effect following the Change of Control, if greater);

## Edgar Filing: CURATIVE HEALTH SERVICES INC - Form 10-Q

(v) the failure of the Company to obtain a satisfactory agreement from any successor to the Company to assume and agree to perform this Agreement; and

(vi) any purported termination by the Company of Executive's employment that is not effected pursuant to a Notice of Termination (as defined below).

(e) "Date of Termination" shall mean the date specified in the Notice of Termination (as hereinafter defined) (except in the case of Executive's death, in which case Date of Termination shall be the date of death); provided, however, that if Executive's employment is terminated by the Company other than for Cause, the date specified in the Notice of Termination shall be at least thirty (30) days from the date the Notice of Termination is given to Executive and if Executive's employment is terminated by Executive for Good Reason, the date specified in the Notice of Termination shall not be more than sixty (60) days from the date the Notice of Termination is given to the Company.

(f) "Notice of Termination" shall mean a written notice either from the Company to Executive, or Executive to the Company, that indicates Section 2 or the specific provision of Section 4 of this Agreement relied upon as the reason for such termination or nonrenewal, the Date of Termination, and, in reasonable detail, the facts and circumstances claimed to provide a basis for termination or nonrenewal pursuant to Section 2 or this Section 4 of this Agreement.

4.2 Termination Upon Death or Disability. This Agreement, and Executive's employment hereunder, shall terminate automatically and without the necessity of any action on the part of the Company upon the death of Executive. In addition, if at any time during the Term Executive shall become physically or mentally disabled, whether totally or partially, so that she is unable substantially to perform her duties and services hereunder for (i) a period of six (6) consecutive months, or (ii) for shorter periods aggregating six (6) months during any twelve (12) month period, the Company may at any time after the last day of the sixth consecutive month of disability or the day on which the shorter periods of disability shall have equalled an aggregate of six (6) months, by written notice to Executive (but before Executive has recovered from such disability), terminate this Agreement and Executive's employment hereunder.

4.3 Company's and Executive's Right to Terminate—Prior to Change of Control. Prior to a Change of Control, this Agreement and Executive's employment hereunder may be terminated at any time by the Company, with or without Cause, upon thirty (30) days prior written notice to Executive, and by Executive, at any time, upon thirty (30) days prior written notice to the Company. Any termination of Executive's employment by the Company without Cause prior to a Change of Control that occurs at the request or insistence of any person (other than the Company) relating to such Change of Control shall be deemed to have occurred after the Change of Control for the purposes of this Agreement.

4.4 Company's and Executive's Right to Terminate—Following a Change of Control. Following a Change of Control, this Agreement and Executive's employment hereunder may be terminated at any time (i) by the Company, with or without Cause, upon thirty (30) days prior written notice to Executive, and (ii) by Executive for Good Reason upon thirty (30) days prior written notice to the Company. Executive's right to terminate her employment pursuant to this Section 4.4 shall not be affected by incapacity due to physical or mental illness. Executive's continued employment following a Change of Control shall not constitute consent to, or a waiver of rights with respect to, any circumstance constituting Good Reason hereunder.

4.5 Compensation Upon Termination.

## Edgar Filing: CURATIVE HEALTH SERVICES INC - Form 10-Q

(a) Termination Prior to Change of Control. In the event the Company terminates (or elects not to renew) this Agreement without Cause, and such termination (or nonrenewal) without Cause occurs prior to any Change of Control, Executive shall be entitled to receive her Base Salary through the Date of Termination, the welfare benefits described in Section 3.2 for the Benefit Period, and not later than thirty (30) days after the Date of Termination, a lump sum severance payment equal to the sum of six (6) months of EMPLOYEE's then current Base Salary plus a pro-rated bonus based on Executive's performance in the fiscal year in which the Date of Termination occurs. In addition, to the extent not otherwise required under the Company's Stock Option Plan or any award agreement with Executive, any unvested stock option awards theretofore awarded to Executive which would otherwise vest and become exercisable during the twelve (12) month period commencing on the Date of Termination shall vest and become exercisable on the Date of Termination. In the event this Agreement is terminated (or not renewed) for any reason other than by the Company without Cause, and such termination (or nonrenewal) occurs prior to a Change of Control, Executive shall not be entitled to the continuation of any compensation, bonuses or benefits provided hereunder, or any other payments following the Date of Termination, other than Base Salary earned through such Date of Termination.

(b) Termination Following Change of Control. If this Agreement is terminated (or not renewed) (i) by the Company without Cause, or (ii) by Executive for Good Reason during the twelve (12) month period immediately following a Change of Control, and such termination (or nonrenewal) occurs following a Change of Control, Executive shall be entitled to receive her full Base Salary through the Date of Termination, the welfare benefits described in Section 3.2 for the Benefit Period and, not later than thirty (30) days after the Date of Termination, a lump sum severance payment equal to the sum of Executive's then current Base Salary plus a pro-rated bonus based on Executive's performance in the fiscal year in which the Date of Termination occurs. In addition, to the extent not otherwise required under the Company's Stock Option Plan or any award agreement with Executive, any unvested stock option awards theretofore awarded to Executive shall vest and become immediately exercisable in full. In the event this Agreement is terminated (or not renewed) for any reason other than (i) by the Company without Cause, or (ii) by Executive for Good Reason, and such termination (or nonrenewal) occurs following a Change of Control, Executive shall not be entitled to the continuation of any compensation, bonuses or benefits provided hereunder, or any other payments following the Date of Termination, other than Base Salary earned through the Date of Termination.

(c) At Executive's option to be exercised by written notice to the Company, the severance benefits payable under this Section 4.5 shall be paid in accordance with the Company's normal payroll procedures over the six (6) or twelve (12) month period, as the case may be, corresponding to the amount of the payments instead of in a lump sum.

(d) Anything to the contrary contained herein notwithstanding, as a condition to Executive receiving severance benefits to be paid pursuant to this Section 4.5, Executive shall execute and deliver to the Company a general release in form and substance reasonably satisfactory to the Company releasing the Company and its subsidiaries, affiliates and their respective officers, directors, employees and agents from all liabilities, claims and obligations of any nature whatsoever, excepting only the Company's obligations under this Agreement, under any Stock Option Agreements, and under any other employee benefit plans or programs in which Executive participates under Section 3.2 hereof, subject to all terms and conditions of such plans or programs and this Agreement.

(e) Anything to the contrary contained herein notwithstanding, in the event that any payment or benefit received or to be received by Executive



## Edgar Filing: CURATIVE HEALTH SERVICES INC - Form 10-Q

in connection with a Change in Control of the Company or termination of Executive's employment (whether payable pursuant to the terms of this Agreement or any other plan, contract, agreement or arrangement with the Company, with any person whose actions result in a Change in Control of the Company or with any person constituting a member of an "affiliated group" as defined in Section 280G(d) (5) of the Internal Revenue Code of 1986, as amended (the "Code"), with the Company or with any person whose actions result in a Change in Control of the Company (collectively, the "Total Payments") would not be deductible (in whole or in part) by the Company or such other person making such payment or providing such benefit solely as a result of Section 280G of the Code, the amount payable to Executive pursuant to this Section 4.5 shall be reduced until no portion of the Total Payments is not deductible solely as a result of Section 280G of the Code or such amount payable to Executive pursuant to Section 4.5 is reduced to zero. For purposes of this limitation, (a) no portion of the Total Payments the receipt or enjoyment of which Executive shall have effectively waived in writing prior to the date of payment of the amount pursuant to Section 4.5 shall be taken into account; (b) no portion of the Total Payments shall be taken into account which in the opinion of tax counsel selected by the Company and reasonably acceptable to Executive does not constitute a "parachute payment" within the meaning of Section 280G(b) (2) of the Code; (c) the payment pursuant to Section 4.5 shall be reduced only to the extent necessary so that the Total Payments (other than those referred to in the immediately preceding clause (b)) in their entirety constitute reasonable compensation within the meaning of Section 280G(b) (4) (B) of the Code, in the opinion of the tax counsel referred to in the immediately preceding clause (b); and (d) the value of any other non-cash benefit or of any deferred cash payment included in the Total Payments shall be determined by the Company's independent auditors in accordance with the principles of Sections 280G(d) (3) and (4) of the Code.

### 5. Employment Covenants

5.1 Trade Secrets and Confidential Information. Executive agrees that she shall, during the course of her employment and thereafter, hold inviolate and keep secret all documents, materials, knowledge or other confidential business or technical information of any nature whatsoever disclosed to or developed by her or to which she had access as a result of her employment (hereinafter referred to as "Confidential Information"). Such Confidential Information shall include technical and business information, including, but not limited to, inventions, research and development, engineering, products, designs, manufacture, methods, systems, improvements, trade secrets, formulas, processes, marketing, merchandising, selling, licensing, servicing, customer lists, records or financial information, manuals or Company strategy concerning its business, strategy or policies. Executive agrees that all Confidential Information shall remain the sole and absolute property of the Company. During the course of her employment, Executive shall not use, disclose, disseminate, publish, reproduce or otherwise make available such Confidential Information to any person, firm, corporation or other entity, except for the purpose of conducting business on behalf of the Company. Following the Term, Executive shall not use, disclose, disseminate, publish, reproduce or otherwise make available such Confidential Information to any person, firm, corporation or other entity. Upon termination of her employment with the Company, Executive will leave with or deliver to the Company all records and any compositions, articles, devices, equipment and other items which disclose or embody Confidential Information including all copies or specimens thereof, whether prepared by her or by others. The foregoing restrictions on disclosure of Confidential Information shall apply so long as the information has not properly come into the public domain through no action of Executive.

5.2 Transfer of Inventions. Executive, for herself and her heirs and representatives, will promptly communicate and disclose to the Company, and upon request will, without additional compensation, execute all papers reasonably necessary to assign to the Company or the Company's nominees, free of

## Edgar Filing: CURATIVE HEALTH SERVICES INC - Form 10-Q

encumbrance or restrictions, all inventions, discoveries, improvements, whether patentable or not, conceived or originated by Executive solely or jointly with others, at the Company's expense or at the Company's facilities, or at the Company's request, or in the course of her employment, or based on knowledge or information obtained during the Term. All such assignments shall include the patent rights in this and all foreign countries. Notwithstanding the foregoing, this Section 5.2 shall not apply to any invention for which no equipment, supplies, facilities or trade secret information of the Company was used and which was developed entirely on Executive's own time and (a) that does not relate (1) directly to the business of the Company or (2) to the Company's actual or demonstrably anticipated research or development, or (b) that does not result from any work performed by Executive for the Company.

5.3 Exclusivity of Employment. During the Term, Executive shall not directly or indirectly engage in any activity competitive with or adverse to the Company's business or welfare or render a material level of services of a business, professional or commercial nature to any other person or firm, whether for compensation or otherwise.

5.4 Covenant Not to Compete. Executive agrees to be bound and abide by the following covenant not to compete:

(a) Term and Scope. During her employment with the Company and for a period of two (2) years after the Term, Executive will not render to any Conflicting Organization (as hereinafter defined), services, directly or indirectly, anywhere in the world in connection with any Conflicting Product, except that Executive may accept employment with a large Conflicting Organization whose business is diversified (and which has separate and distinct divisions) if Executive first certifies to the Board of Directors in writing that she has provided a copy of Section 5 of this Agreement to such prospective employer, that such prospective employer is a separate and distinct division of the Conflicting Organization and that Executive will not render services directly or indirectly in respect of any Conflicting Product (as hereinafter defined). Such two-year time period shall be tolled during any period that Executive is engaged in activity in violation of this covenant.

(b) Judicial Action. Executive and the Company agree that, if the period of time or the scope of the restrictive covenant not to compete contained in this Section 5.4 shall be adjudged unreasonable in any court proceeding, then the period of time and/or scope shall be reduced accordingly, so that this covenant may be enforced in such scope and during such period of time as is judged by the court to be reasonable. In the event of a breach or violation of this Section 5.4 by Executive, the parties agree that in addition to all other remedies, the Company shall be entitled to equitable relief for specific performance, and Executive hereby agrees and acknowledges that the Company has no adequate remedy at law for the breach of the covenants contained herein.

(c) Definitions. For purposes of this Agreement, the following terms shall have the following meanings:

"Conflicting Product" means any product, method or process, system or service of any person or organization other than the Company which is related to the areas of disease management, wound care or specialty pharmaceutical services, or the provision or sale of data in respect thereof, that is the same as or similar to or competes with a product, method or process, system or service of or provided by the Company or any of its subsidiaries or affiliates in existence or under development at the time Executive's employment with the Company terminates or about which Executive acquires Confidential Information.

## Edgar Filing: CURATIVE HEALTH SERVICES INC - Form 10-Q

"Conflicting Organization" means any person or organization which is engaged in disease management, wound care or specialty pharmaceutical services, or the provision or sale of data in respect thereof, and which is, or about to become engaged in, research on or development, production, marketing, licensing, selling or servicing of a Conflicting Product.

5.5 Disclosure to Prospective Employers. Executive will disclose to any prospective employer, prior to accepting employment, the existence of Section 5 of this Agreement. The obligation imposed by this Section 5.5 shall terminate two (2) years after termination of Executive's employment with the Company; provided, however, the running of such two-year period shall be tolled to the extent the covenant not to compete contained in Section 5.4(a) hereof is tolled.

5.6 Non-Solicitation. For one (1) year after termination of employment with the Company for any reason, the Executive shall not directly or indirectly solicit or hire, or assist any other person in soliciting or hiring, any employee of the Company (as of the date of termination) or any person who, as of the date of termination, was in the process of being recruited by the Company or induce any such employee to terminate his or her employment with the Company.

### 6. Miscellaneous

6.1 Notices. Any notice required or permitted to be delivered hereunder shall be in writing and shall be deemed to be delivered on the earlier of (i) the date received, or (ii) the date of delivery, refusal or non-delivery indicated on the return receipt, if deposited in a United States Postal Service depository, postage prepaid, sent registered or certified mail, return receipt requested, addressed to the party to receive the same at the address of such party set forth below, or at such other address as may be designated in a notice delivered or mailed as herein provided.

To Company: Curative Health Services, Inc.  
150 Motor Parkway, 4th Floor  
Hauppauge, NY 11788  
Attention: Nancy F. Lanis, Executive Vice  
President, General Counsel and Secretary

Executive: Michelle LeDell  
5118 Paul Drive  
Brooklyn Center, MN 55429

6.2 Headings. The headings of the articles and sections of this Agreement are inserted for convenience only and shall not be deemed a part of or affect the construction or interpretation of any provision hereof.

6.3 Modifications; Waiver. No modification of any provision of this Agreement or waiver of any right or remedy herein provided shall be effective for any purpose unless specifically set forth in a writing signed by the party to be bound thereby. No waiver of any right or remedy in respect of any occurrence or event on one occasion shall be deemed a waiver of such right or remedy in respect of such occurrence or event on any other occasion.

6.4 Entire Agreement. This Agreement contains the entire agreement of the parties with respect to the subject matter hereof and supersedes all other agreements, oral or written, heretofore made with respect thereto, including without limitation, the offer letter dated January 21, 2002.

6.5 Severability. Any provision of this Agreement prohibited by or

Edgar Filing: CURATIVE HEALTH SERVICES INC - Form 10-Q

unlawful or unenforceable under any applicable law of any jurisdiction shall as to such jurisdiction be ineffective without affecting any other provision hereof. To the full extent, however, that the provisions of such applicable law may be waived, they are hereby waived, to the end that this Employment Agreement be deemed to be a valid and binding agreement enforceable in accordance with its terms.

6.6 Controlling Law. This Agreement has been entered into by the parties in the State of New York and shall be continued and enforced in accordance with the laws of that State.

6.7 Assignments. The Company shall have the right to assign this Agreement and to delegate all rights, duties and obligations hereunder to any entity that controls the Company, that the Company controls or that may be the result of the merger, consolidation, acquisition or reorganization of the Company and another entity. Executive agrees that this Agreement is personal to her and her rights and interest hereunder may not be assigned, nor may her obligations and duties hereunder be delegated (except as to delegation in the normal course of operation of the Company), and any attempted assignment or delegation in violation of this provision shall be void.

6.8 Attorney Fees. In the event of litigation between the parties, to enforce their respective rights under this Agreement, the prevailing party shall be entitled to receive from the non-prevailing party reimbursement of the prevailing party's reasonable attorney's fees and costs at all levels of trial and appeal.

IN WITNESS WHEREOF, the parties have executed this Agreement as of the Effective Date.

CURATIVE HEALTH SERVICES, INC.

By: /s/ Joseph L. Feshbach

-----  
Name: Joseph L. Feshbach  
Title: Chairman and Chief Executive Officer

Executive: /s/ Michelle LeDell

-----  
Name: Michelle LeDell

Exhibit 10.2

EMPLOYMENT AGREEMENT

THIS EMPLOYMENT AGREEMENT (the "Agreement") is made effective as of March 5, 2003 (the "Effective Date"), between CURATIVE HEALTH SERVICES, INC., a Minnesota corporation (the "Company"), and Alan Jackson ("Executive").

## Edgar Filing: CURATIVE HEALTH SERVICES INC - Form 10-Q

WHEREAS, the Company wishes to retain Executive as a key employee; and

WHEREAS, the Company and Executive want the terms and conditions of Executive's employment to be governed by this Agreement;

NOW, THEREFORE, in consideration of the promises and the mutual covenants and agreements herein contained, intending to be legally bound, the Company and Executive hereby agree as follows:

### 1. Employment

1.1 Employment and Duties. The Company hereby agrees to employ Executive for the Term (as hereinafter defined) as Senior Vice President - Information Systems and Chief Information Officer, subject to the direction of the Chief Executive Officer, and in connection therewith, to perform such duties as he shall reasonably be directed by the Chief Executive Officer to perform. Executive hereby accepts such employment and agrees to render such services. Executive shall perform his duties and carry out his responsibilities hereunder in a diligent manner, shall devote his exclusive and full working time, attention and effort to the affairs of the Company, shall use his best efforts to promote the interests of the Company and shall be just and faithful in the performance of his duties and in carrying out his responsibilities.

1.2 Location. The principal location for performance of Executive's services hereunder shall be at the Company's executive offices, which are currently located in Hauppauge, New York, subject to reasonable travel requirements during the course of such performance.

### 2. Employment Term

The term of Executive's employment hereunder (the "Term") shall be deemed to commence on the Effective Date and shall end on the first anniversary of the Effective Date, unless sooner terminated as hereinafter provided; provided, however, that the Term shall be automatically renewed and extended for an additional period of one (1) year on the first anniversary unless either party gives a Notice of Termination (as defined below) to the other party prior to the first anniversary.

### 3. Compensation and Benefits

#### 3.1 Cash Compensation.

- (a) Base Salary. The Company shall pay Executive an annual salary of \$170,477.50 payable in bi-weekly installments, in arrears (the "Base Salary"). The Base Salary shall be reviewed annually by the Company's Board of Directors and may be increased, but not decreased (unless mutually agreed upon by Executive and the Company).
- (b) Bonus Plan. Executive shall be entitled to participate in the Company's Annual Corporate Bonus Plan, in accordance with and subject to the terms and provisions thereof.

3.2 Participation in Benefit Plans. Executive shall be entitled to participate in all employee benefit plans or programs of the Company to the extent that his position, title, tenure, salary, active employment status and other qualifications make him eligible to participate. The Company does not guarantee the continuance of any particular employee benefit plan or program during the Term, and Executive's participation in any such plan or program shall be subject to all terms, provisions, rules and regulations applicable thereto.

## Edgar Filing: CURATIVE HEALTH SERVICES INC - Form 10-Q

Executive will be entitled to twenty (20) days of vacation per year, to be used in accordance with the Company's vacation policy for senior executives as it may change from time to time. For the Benefit Period, if any, (as hereinafter defined), the Company will arrange to provide Executive with welfare benefits (including life and health insurance benefits) of substantially similar design and cost to Executive as the welfare benefits and other employee benefits available to Executive prior to Executive's or the Company's, as the case may be, receipt of a Notice of Termination (as hereinafter defined). In the event that Executive shall obtain full-time employment providing welfare benefits during the Benefit Period, such benefits as otherwise receivable hereunder by Executive shall be discontinued.

3.3 Expenses. The Company will pay or reimburse Executive for all reasonable and necessary out-of-pocket expenses incurred by him in the performance of his duties under this Agreement. Executive shall keep detailed and accurate records of expenses incurred in connection with the performance of his duties hereunder and reimbursement therefore shall be in accordance with policies and procedures to be established from time to time by the Board.

3.4 Automobile Expenses. During the Term and in accordance with the Company's automobile policy, Executive shall be reimbursed by the Company for the monthly lease expense for an automobile leased in the name of the Executive, in an aggregate amount not to exceed \$500.00 per month.

#### 4. Termination of Employment

##### 4.1 Definitions

(a) "Benefit Period" shall mean (i) the six (6) month period commencing on the Date of Termination which occurs in connection with a termination of employment described in the first sentence of Section 4.5(a), or (ii) the twelve (12) month period commencing on the Date of Termination which occurs in connection with a termination of employment described in the first sentence of Section 4.5(b).

(b) "Cause" shall mean any of the following:

(i) any act or failure to act (or series or combination thereof) by Executive done with the intent to harm in any material respect the interests of the Company;

(ii) the commission by Executive of a felony;

(iii) the perpetration by Executive of a dishonest act or common law fraud against the Company or any subsidiary thereof;

(iv) a grossly negligent act or failure to act (or series or combination thereof) by Executive detrimental in any material respect to the interests of the Company;

(v) the material breach by Executive of his agreements or obligations under this Agreement; or

(vi) the continued refusal to follow the directives of the Chief Executive Officer or Board of Directors that are consistent with Executive's duties and responsibilities identified in Section 1.1 hereof.

(c) A "Change of Control" shall mean any of the following:

(i) a sale of all or substantially all of the assets of the Company;

## Edgar Filing: CURATIVE HEALTH SERVICES INC - Form 10-Q

(ii) the acquisition of more than fifty percent (50%) of the Common Stock of the Company (with all classes or series thereof treated as a single class) by any person or group of persons, except a Permitted Shareholder (as hereinafter defined), acting in concert. A "Permitted Shareholder" means a holder, as of the date the Plan was adopted by the Company, of Common Stock;

(iii) a reorganization of the Company wherein the holders of Common Stock of the Company receive stock in another company (other than a subsidiary of the Company), a merger of the Company with another company wherein there is a fifty percent (50%) or greater change in the ownership of the Common Stock of the Company as a result of such merger, or any other transaction in which the Company (other than as the parent corporation) is consolidated for federal income tax purposes or is eligible to be consolidated for federal income tax purposes with another corporation;

(iv) in the event that the Common Stock is traded on an established securities market, a public announcement that any person has acquired or has the right to acquire beneficial ownership of more than fifty percent (50%) of the then-outstanding Common Stock and for this purpose the terms "person" and "beneficial ownership" shall have the meanings provided in Section 13(d) of the Securities and Exchange Act of 1934 or related rules promulgated by the Securities and Exchange Commission, or the commencement of or public announcement of an intention to make a tender offer or exchange offer for more than fifty percent (50%) of the then outstanding Common Stock;

(v) a majority of the Board of Directors is not comprised of Continuing Directors. A "Continuing Director" means a director recommended by the Board of Directors of the Company for election as a director of the Company by the stockholders; or

(vi) the Board of Directors of the Company, in its sole and absolute discretion, determines that there has been a sufficient change in the share ownership of the Company to constitute a change of effective ownership or control of the Company.

(d) "Good Reason" shall mean, within the twelve (12) month period immediately following a Change of Control, the occurrence of any one or more of the following events:

(i) the assignment to Executive of any duties inconsistent in any respect with Executive's position (including status, offices, title, and reporting requirements), authority, duties or other responsibilities as in effect immediately prior to the Change of Control or any other action of the Company that results in a diminishment in such position, authority, duties or responsibilities, other than an insubstantial and inadvertent action that is remedied by the Company promptly after receipt of notice thereof given by Executive;

(ii) a reduction by the Company in Executive's Base Salary as in effect on the date hereof and as the same shall be increased from time to time hereafter;

(iii) the Company's requiring Executive to be based at a location in excess of fifty (50) miles from the location of Executive's principal office immediately prior to the Change of Control;

(iv) the failure by the Company to (a) continue in effect any material compensation or benefit plan, program, policy or practice in which Executive was participating at the time of the Change of Control or (b) provide Executive with compensation and benefits at least equal (in terms of benefit levels and/or reward opportunities) to those provided for under each employee benefit plan, program, policy and practice as in effect immediately prior to the

## Edgar Filing: CURATIVE HEALTH SERVICES INC - Form 10-Q

Change of Control (or as in effect following the Change of Control, if greater);

(v) the failure of the Company to obtain a satisfactory agreement from any successor to the Company to assume and agree to perform this Agreement; and

(vi) any purported termination by the Company of Executive's employment that is not effected pursuant to a Notice of Termination (as defined below).

(e) "Date of Termination" shall mean the date specified in the Notice of Termination (as hereinafter defined) (except in the case of Executive's death, in which case Date of Termination shall be the date of death); provided, however, that if Executive's employment is terminated by the Company other than for Cause, the date specified in the Notice of Termination shall be at least thirty (30) days from the date the Notice of Termination is given to Executive and if Executive's employment is terminated by Executive for Good Reason, the date specified in the Notice of Termination shall not be more than sixty (60) days from the date the Notice of Termination is given to the Company.

(f) "Notice of Termination" shall mean a written notice either from the Company to Executive, or Executive to the Company, that indicates Section 2 or the specific provision of Section 4 of this Agreement relied upon as the reason for such termination or nonrenewal, the Date of Termination, and, in reasonable detail, the facts and circumstances claimed to provide a basis for termination or nonrenewal pursuant to Section 2 or this Section 4 of this Agreement.

4.2 Termination Upon Death or Disability. This Agreement, and Executive's employment hereunder, shall terminate automatically and without the necessity of any action on the part of the Company upon the death of Executive. In addition, if at any time during the Term Executive shall become physically or mentally disabled, whether totally or partially, so that he is unable substantially to perform his duties and services hereunder for (i) a period of six (6) consecutive months, or (ii) for shorter periods aggregating six (6) months during any twelve (12) month period, the Company may at any time after the last day of the sixth consecutive month of disability or the day on which the shorter periods of disability shall have equalled an aggregate of six (6) months, by written notice to Executive (but before Executive has recovered from such disability), terminate this Agreement and Executive's employment hereunder.

4.3 Company's and Executive's Right to Terminate-Prior to Change of Control. Prior to a Change of Control, this Agreement and Executive's employment hereunder may be terminated at any time by the Company, with or without Cause, upon thirty (30) days prior written notice to Executive, and by Executive, at any time, upon thirty (30) days prior written notice to the Company. Any termination of Executive's employment by the Company without Cause prior to a Change of Control that occurs at the request or insistence of any person (other than the Company) relating to such Change of Control shall be deemed to have occurred after the Change of Control for the purposes of this Agreement.

4.4 Company's and Executive's Right to Terminate-Following a Change of Control. Following a Change of Control, this Agreement and Executive's employment hereunder may be terminated at any time (i) by the Company, with or without Cause, upon thirty (30) days prior written notice to Executive, and (ii) by Executive for Good Reason upon thirty (30) days prior written notice to the Company. Executive's right to terminate his employment pursuant to this Section 4.4 shall not be affected by incapacity due to physical or mental illness. Executive's continued employment following a Change of Control shall not constitute consent to, or a waiver of rights with respect to, any circumstance constituting Good Reason hereunder.



## Edgar Filing: CURATIVE HEALTH SERVICES INC - Form 10-Q

### 4.5 Compensation Upon Termination.

(a) Termination Prior to Change of Control. In the event the Company terminates (or elects not to renew) this Agreement without Cause, and such termination (or nonrenewal) without Cause occurs prior to any Change of Control, Executive shall be entitled to receive his Base Salary through the Date of Termination, the welfare benefits described in Section 3.2 for the Benefit Period, and not later than thirty (30) days after the Date of Termination, a lump sum severance payment equal to the sum of six (6) month's of EMPLOYEE's annual Base Salary plus a pro-rated bonus based on Executive's performance in the fiscal year in which the Date of Termination occurs. In addition, to the extent not otherwise required under the Company's Stock Option Plan or any award agreement with Executive, any unvested stock option awards theretofore awarded to Executive which would otherwise vest and become exercisable during the twelve (12) month period commencing on the Date of Termination shall vest and become exercisable on the Date of Termination. In the event this Agreement is terminated (or not renewed) for any reason other than by the Company without Cause, and such termination (or nonrenewal) occurs prior to a Change of Control, Executive shall not be entitled to the continuation of any compensation, bonuses or benefits provided hereunder, or any other payments following the Date of Termination, other than Base Salary earned through such Date of Termination.

(b) Termination Following Change of Control. If this Agreement is terminated (or not renewed) (i) by the Company without Cause, or (ii) by Executive for Good Reason during the twelve (12) month period immediately following a Change of Control, and such termination (or nonrenewal) occurs following a Change of Control, Executive shall be entitled to receive his full Base Salary through the Date of Termination, the welfare benefits described in Section 3.2 for the Benefit Period and, not later than thirty (30) days after the Date of Termination, a lump sum severance payment equal to the sum of Executive's then current Base Salary plus a pro-rated bonus based on Executive's performance in the fiscal year in which the Date of Termination occurs. In addition, to the extent not otherwise required under the Company's Stock Option Plan or any award agreement with Executive, any unvested stock option awards theretofore awarded to Executive shall vest and become immediately exercisable in full. In the event this Agreement is terminated (or not renewed) for any reason other than (i) by the Company without Cause, or (ii) by Executive for Good Reason, and such termination (or nonrenewal) occurs following a Change of Control, Executive shall not be entitled to the continuation of any compensation, bonuses or benefits provided hereunder, or any other payments following the Date of Termination, other than Base Salary earned through the Date of Termination.

(c) At Executive's option to be exercised by written notice to the Company, the severance benefits payable under this Section 4.5 shall be paid in accordance with the Company's normal payroll procedures over the six (6) or twelve (12) month period, as the case may be, corresponding to the amount of the payments instead of in a lump sum.

(d) Anything to the contrary contained herein notwithstanding, as a condition to Executive receiving severance benefits to be paid pursuant to this Section 4.5, Executive shall execute and deliver to the Company a general release in form and substance reasonably satisfactory to the Company releasing the Company and its subsidiaries, affiliates and their respective officers, directors, employees and agents from all liabilities, claims and obligations of any nature whatsoever, excepting only the Company's obligations under this Agreement, under any Stock Option Agreements, and under any other employee benefit plans or programs in which Executive participates under Section 3.2 hereof, subject to all terms and conditions of such plans or programs and this Agreement.

## Edgar Filing: CURATIVE HEALTH SERVICES INC - Form 10-Q

(e) Anything to the contrary contained herein notwithstanding, in the event that any payment or benefit received or to be received by Executive in connection with a Change in Control of the Company or termination of Executive's employment (whether payable pursuant to the terms of this Agreement or any other plan, contract, agreement or arrangement with the Company, with any person whose actions result in a Change in Control of the Company or with any person constituting a member of an "affiliated group" as defined in Section 280G(d) (5) of the Internal Revenue Code of 1986, as amended (the "Code"), with the Company or with any person whose actions result in a Change in Control of the Company (collectively, the "Total Payments") would not be deductible (in whole or in part) by the Company or such other person making such payment or providing such benefit solely as a result of Section 280G of the Code, the amount payable to Executive pursuant to this Section 4.5 shall be reduced until no portion of the Total Payments is not deductible solely as a result of Section 280G of the Code or such amount payable to Executive pursuant to Section 4.5 is reduced to zero. For purposes of this limitation, (a) no portion of the Total Payments the receipt or enjoyment of which Executive shall have effectively waived in writing prior to the date of payment of the amount pursuant to Section 4.5 shall be taken into account; (b) no portion of the Total Payments shall be taken into account which in the opinion of tax counsel selected by the Company and reasonably acceptable to Executive does not constitute a "parachute payment" within the meaning of Section 280G(b) (2) of the Code; (c) the payment pursuant to Section 4.5 shall be reduced only to the extent necessary so that the Total Payments (other than those referred to in the immediately preceding clause (b)) in their entirety constitute reasonable compensation within the meaning of Section 280G(b) (4) (B) of the Code, in the opinion of the tax counsel referred to in the immediately preceding clause (b); and (d) the value of any other non-cash benefit or of any deferred cash payment included in the Total Payments shall be determined by the Company's independent auditors in accordance with the principles of Sections 280G(d) (3) and (4) of the Code.

### 5. Employment Covenants

5.1 Trade Secrets and Confidential Information. Executive agrees that he shall, during the course of his employment and thereafter, hold inviolate and keep secret all documents, materials, knowledge or other confidential business or technical information of any nature whatsoever disclosed to or developed by him or to which he had access as a result of his employment (hereinafter referred to as "Confidential Information"). Such Confidential Information shall include technical and business information, including, but not limited to, inventions, research and development, engineering, products, designs, manufacture, methods, systems, improvements, trade secrets, formulas, processes, marketing, merchandising, selling, licensing, servicing, customer lists, records or financial information, manuals or Company strategy concerning its business, strategy or policies. Executive agrees that all Confidential Information shall remain the sole and absolute property of the Company. During the course of his employment, Executive shall not use, disclose, disseminate, publish, reproduce or otherwise make available such Confidential Information to any person, firm, corporation or other entity, except for the purpose of conducting business on behalf of the Company. Following the Term, Executive shall not use, disclose, disseminate, publish, reproduce or otherwise make available such Confidential Information to any person, firm, corporation or other entity. Upon termination of his employment with the Company, Executive will leave with or deliver to the Company all records and any compositions, articles, devices, equipment and other items which disclose or embody Confidential Information including all copies or specimens thereof, whether prepared by him or by others. The foregoing restrictions on disclosure of Confidential Information shall apply so long as the information has not properly come into the public domain through no action of Executive.

5.2 Transfer of Inventions. Executive, for himself and his heirs and representatives, will promptly communicate and disclose to the Company, and upon

## Edgar Filing: CURATIVE HEALTH SERVICES INC - Form 10-Q

request will, without additional compensation, execute all papers reasonably necessary to assign to the Company or the Company's nominees, free of encumbrance or restrictions, all inventions, discoveries, improvements, whether patentable or not, conceived or originated by Executive solely or jointly with others, at the Company's expense or at the Company's facilities, or at the Company's request, or in the course of his employment, or based on knowledge or information obtained during the Term. All such assignments shall include the patent rights in this and all foreign countries. Notwithstanding the foregoing, this Section 5.2 shall not apply to any invention for which no equipment, supplies, facilities or trade secret information of the Company was used and which was developed entirely on Executive's own time and (a) that does not relate (1) directly to the business of the Company or (2) to the Company's actual or demonstrably anticipated research or development, or (b) that does not result from any work performed by Executive for the Company.

5.3 Exclusivity of Employment. During the Term, Executive shall not directly or indirectly engage in any activity competitive with or adverse to the Company's business or welfare or render a material level of services of a business, professional or commercial nature to any other person or firm, whether for compensation or otherwise.

5.4 Covenant Not to Compete. Executive agrees to be bound and abide by the following covenant not to compete:

(a) Term and Scope. During his employment with the Company and for a period of two (2) years after the Term, Executive will not render to any Conflicting Organization (as hereinafter defined), services, directly or indirectly, anywhere in the world in connection with any Conflicting Product, except that Executive may accept employment with a large Conflicting Organization whose business is diversified (and which has separate and distinct divisions) if Executive first certifies to the Board of Directors in writing that he has provided a copy of Section 5 of this Agreement to such prospective employer, that such prospective employer is a separate and distinct division of the Conflicting Organization and that Executive will not render services directly or indirectly in respect of any Conflicting Product (as hereinafter defined). Such two-year time period shall be tolled during any period that Executive is engaged in activity in violation of this covenant.

(b) Judicial Action. Executive and the Company agree that, if the period of time or the scope of the restrictive covenant not to compete contained in this Section 5.4 shall be adjudged unreasonable in any court proceeding, then the period of time and/or scope shall be reduced accordingly, so that this covenant may be enforced in such scope and during such period of time as is judged by the court to be reasonable. In the event of a breach or violation of this Section 5.4 by Executive, the parties agree that in addition to all other remedies, the Company shall be entitled to equitable relief for specific performance, and Executive hereby agrees and acknowledges that the Company has no adequate remedy at law for the breach of the covenants contained herein.

(c) Definitions. For purposes of this Agreement, the following terms shall have the following meanings:

"Conflicting Product" means any product, method or process, system or service of any person or organization other than the Company which is related to the areas of disease management, wound care or specialty pharmaceutical services, or the provision or sale of data in respect thereof, that is the same as or similar to or competes with a product, method or process, system or service of or provided by the Company or any of its subsidiaries or affiliates in existence or under development at the time Executive's employment with the Company terminates or about which Executive acquires Confidential Information.

## Edgar Filing: CURATIVE HEALTH SERVICES INC - Form 10-Q

"Conflicting Organization" means any person or organization which is engaged in disease management, wound care or specialty pharmaceutical services, or the provision or sale of data in respect thereof, and which is, or about to become engaged in, research on or development, production, marketing, licensing, selling or servicing of a Conflicting Product.

5.5 Disclosure to Prospective Employers. Executive will disclose to any prospective employer, prior to accepting employment, the existence of Section 5 of this Agreement. The obligation imposed by this Section 5.5 shall terminate two (2) years after termination of Executive's employment with the Company; provided, however, the running of such two-year period shall be tolled to the extent the covenant not to compete contained in Section 5.4(a) hereof is tolled.

5.6 Non-Solicitation. For one (1) year after termination of employment with the Company for any reason, the Executive shall not directly or indirectly solicit or hire, or assist any other person in soliciting or hiring, any employee of the Company (as of the date of termination) or any person who, as of the date of termination, was in the process of being recruited by the Company or induce any such employee to terminate his or her employment with the Company.

### 6. Miscellaneous

6.1 Notices. Any notice required or permitted to be delivered hereunder shall be in writing and shall be deemed to be delivered on the earlier of (i) the date received, or (ii) the date of delivery, refusal or non-delivery indicated on the return receipt, if deposited in a United States Postal Service depository, postage prepaid, sent registered or certified mail, return receipt requested, addressed to the party to receive the same at the address of such party set forth below, or at such other address as may be designated in a notice delivered or mailed as herein provided.

To Company: Curative Health Services, Inc.  
150 Motor Parkway, 4th Floor  
Hauppauge, NY 11788  
Attention: Nancy F. Lanis, Executive Vice President,  
General Counsel and Secretary

Executive: Alan Jackson  
129 W. Henrietta Avenue  
Oceanside, New York 11572

6.2 Headings. The headings of the articles and sections of this Agreement are inserted for convenience only and shall not be deemed a part of or affect the construction or interpretation of any provision hereof.

6.3 Modifications; Waiver. No modification of any provision of this Agreement or waiver of any right or remedy herein provided shall be effective for any purpose unless specifically set forth in a writing signed by the party to be bound thereby. No waiver of any right or remedy in respect of any occurrence or event on one occasion shall be deemed a waiver of such right or remedy in respect of such occurrence or event on any other occasion.

6.4 Entire Agreement. This Agreement contains the entire agreement of the parties with respect to the subject matter hereof and supersedes all other agreements, oral or written, heretofore made with respect thereto, including without limitation, the employment agreement dated September 29, 1999.

6.5 Severability. Any provision of this Agreement prohibited by or

Edgar Filing: CURATIVE HEALTH SERVICES INC - Form 10-Q

unlawful or unenforceable under any applicable law of any jurisdiction shall as to such jurisdiction be ineffective without affecting any other provision hereof. To the full extent, however, that the provisions of such applicable law may be waived, they are hereby waived, to the end that this Employment Agreement be deemed to be a valid and binding agreement enforceable in accordance with its terms.

6.6 Controlling Law. This Agreement has been entered into by the parties in the State of New York and shall be continued and enforced in accordance with the laws of that State.

6.7 Assignments. The Company shall have the right to assign this Agreement and to delegate all rights, duties and obligations hereunder to any entity that controls the Company, that the Company controls or that may be the result of the merger, consolidation, acquisition or reorganization of the Company and another entity. Executive agrees that this Agreement is personal to him and his rights and interest hereunder may not be assigned, nor may his obligations and duties hereunder be delegated (except as to delegation in the normal course of operation of the Company), and any attempted assignment or delegation in violation of this provision shall be void.

6.8 Attorney Fees. In the event of litigation between the parties, to enforce their respective rights under this Agreement, the prevailing party shall be entitled to receive from the non-prevailing party reimbursement of the prevailing party's reasonable attorney's fees and costs at all levels of trial and appeal.

IN WITNESS WHEREOF, the parties have executed this Agreement as of the Effective Date.

CURATIVE HEALTH SERVICES, INC.

By: /s/ Joseph L. Feshbach

-----  
Name: Joseph L. Feshbach  
Title: Chairman and Chief Executive Officer

Executive: /s/ Alan Jackson

-----  
Name: Alan Jackson

Exhibit 10.3

AMENDMENT NO. 1 TO CURATIVE HEALTH SERVICES, INC.

2001 BROAD-BASED STOCK INCENTIVE PLAN

WHEREAS, Curative Health Services, Inc.'s (the "Company") 2001 Broad-Based Stock Incentive Plan, (the "Plan") provides that 1,000,000 shares of Company common stock may be issued pursuant to Awards (as defined in the Plan) granted under the Plan.

## Edgar Filing: CURATIVE HEALTH SERVICES INC - Form 10-Q

WHEREAS, the Board of Directors of the Company wishes to increase the number of shares available for issuance pursuant to Awards to 2,000,000 shares of Common Stock.

1. The first sentence of Section 4(a) of the Plan is hereby amended and restated in its entirety to read as follows:

Subject to adjustment as provided in Section 4(c) of the Plan, the aggregate number of Shares that may be issued under all Awards under the Plan shall be 2,000,000.

Effective: June 21, 2002

Exhibit 10.4

### AMENDMENT NO. 2 TO CURATIVE HEALTH SERVICES, INC.

#### 2001 BROAD-BASED STOCK INCENTIVE PLAN

WHEREAS, Curative Health Services, Inc.'s (the "Company") 2001 Broad-Based Stock Incentive Plan, as amended (the "Plan") provides that 2,000,000 shares of Company common stock may be issued pursuant to Awards (as defined in the Plan) granted under the Plan.

WHEREAS, the Board of Directors of the Company wishes to make additional amendments to the Plan as set forth herein.

1. Section 5 of the Plan is hereby amended and restated in its entirety to read as follows:

#### Section 5. Eligibility.

-----

Any Eligible Person shall be eligible to be designated a Participant. In determining which Eligible Persons shall receive an Award and the terms of any Award, the Committee may take into account the nature of the Services rendered by the respective Eligible Persons, their present and potential contributions to the success of the Company or such other factors as the Committee, in its discretion, shall deem relevant. Notwithstanding the foregoing, the Committee shall not have the authority to grant Awards to Participants who are officers and directors of the Company in an aggregate amount that equals or exceeds 50% of the Shares authorized for issuance pursuant to Section 4(a) of the Plan.

2. Section 6(a) (iii) of the Plan is hereby amended by adding the following sentence at the end of that section:

Notwithstanding the foregoing, no executive officer or director of the Company shall make payment to the Company of the exercise price of any Option by means of a promissory note.

3. Section 6(f) of the Plan is hereby amended by adding the following sentence at the end of that section:

Notwithstanding the foregoing, no executive officer or director of the Company shall make payment to the Company of the consideration of any other Award by means of a promissory note.

## Edgar Filing: CURATIVE HEALTH SERVICES INC - Form 10-Q

4. Section 6(g) (iii) of the Plan is hereby amended by adding the following sentence at the end of that section:

Notwithstanding the foregoing, no executive officer or director of the Company shall make payment to the Company relating to an Award by means of a promissory note.

Effective: March 27, 2003

Exhibit 99.1

### RISK FACTORS

Cautionary Statements for Purposes of the "Safe Harbor" Provisions of the Private Securities Litigation Reform Act of 1995

The Private Securities Litigation Reform Act of 1995 provides a "safe harbor" for forward-looking statements to encourage companies to provide prospective information without fear of litigation so long as those statements are identified as forward-looking and are accompanied by meaningful cautionary statements identifying important factors that could cause actual results to differ materially from those projected in the statement. We desire to take advantage of these "safe harbor" provisions and are filing this Exhibit 99.1 in order to do so. Accordingly, we hereby identify the following important factors which could cause our actual results to differ materially from any such results which may be projected, forecast, estimated or budgeted by us in forward-looking statements made by us from time to time in reports, proxy statements, registration statements and other written communications, or in oral forward-looking statements made from time to time by the Company's officers and agents. We do not intend to update any of these forward-looking statements after the date of this Form 10-Q to conform them to actual results.

#### RISK RELATED TO OUR BUSINESS

If we fail to comply with the terms of our settlement agreement with the government, we could be subject to additional litigation or other governmental actions which would be harmful to our business.

On December 28, 2001, we entered into a settlement with the Department of Justice, the United States Attorney for the Southern District of New York, the United States Attorney for the Middle District of Florida and the U.S. Department of Health and Human Services, Office of the Inspector General, in connection with all federal investigations and legal proceedings related to the whistleblower lawsuits previously pending against us in the United States District Court for the Southern District of New York and the United States District Court for the District of Columbia. The focus of the government investigation and resolution was the allegation that we improperly caused our hospital customers to seek reimbursement for a portion of our management fees that included costs related to advertising and marketing activities by our personnel. Under the terms of the settlement, we were released from claims associated with services we provided to hospitals, and we agreed to pay the United States a \$9 million initial payment, with an additional \$7.5 million to be paid over the next four years. As of March 31, 2003, a balance of \$5.5 million was left on this obligation. Pursuant to the settlement, we will be

## Edgar Filing: CURATIVE HEALTH SERVICES INC - Form 10-Q

required to fulfill certain additional obligations, including abiding by a five-year Corporate Integrity Agreement (which incorporates much of our existing compliance program), avoiding violations of law and providing certain information to the Department of Justice from time to time. If we fail or if we are accused of failing to comply with the terms of the settlement, we may be subject to additional litigation or other governmental actions. In addition, as part of the settlement, we consented to the entry of a judgment for \$28 million against us if we fail to comply with the terms of the settlement.

We are involved in litigation which may harm the value of our business.

In the normal course of our business, we are involved in lawsuits, claims, audits and investigations, including any arising out of services or products provided by or to our operations, personal injury claims and employment disputes, the outcome of which, in the opinion of management, will not have a material adverse effect on our financial position or results of operations.

We have a concentration of revenues and of payors

Approximately 49 percent of our revenues for the three months ended March 31, 2003 were derived from sales of products needed by patients with hemophilia. Further, approximately 46 percent of our revenues were derived from products and/or services provided to patients covered under various state Medicaid programs. Currently, many states are experiencing budget deficits that may require reductions in health care related expenditures. Any reductions in benefit payments made by any state related to the products or services we provide may have a material adverse effect on our financial position or results of operations.

If we are unable to manage our growth effectively, our business will be harmed.

Our growth strategy will likely place a strain on our resources, and if we cannot effectively manage our growth, our business will be harmed. In connection with our growth strategy, we will likely experience a large increase in the number of our employees, the size of our programs and the scope of our operations. Our ability to manage this growth and to be successful in the future will depend partly on our ability to retain skilled employees, enhance our management team and improve our management information and financial control systems.

As part of our growth strategy, we continue to evaluate acquisition opportunities. Acquisitions involve many risks, including:

- o the specialty pharmacy industry is undergoing consolidation; therefore, we may experience difficulty in identifying suitable candidates and negotiating and consummating acquisitions on attractive terms;
- o in the industry in which our Specialty Pharmacy Services division operates, customers have a strong affiliation with their community-based representatives; it is sometimes difficult to retain and assimilate the community-based representatives of companies we acquire;
- o because of the relationships between community-based representatives and customers, the loss of a single community-based representative may entail the loss of a significant number of customers, and we are, therefore, subject to a significant potential for loss of customers,



## Edgar Filing: CURATIVE HEALTH SERVICES INC - Form 10-Q

especially during the periods in which we attempt to integrate newly-acquired businesses;

- o a growth strategy that involves significant acquisitions results in a diversion of our management's attention from existing operations.

We could also be exposed to unknown or contingent liabilities resulting from the pre-acquisition operations of the entities we acquire, such as liability for failure to comply with health care or reimbursement laws.

We may need additional capital to finance our growth and capital requirements, which could prevent us from fully pursuing our growth strategy.

In order to implement our present growth strategy, we will need substantial capital resources and will incur, from time to time, short- and long-term indebtedness, the terms of which will depend on market and other conditions. Due to uncertainties inherent in the capital markets (e.g., availability of capital, fluctuation of interest rates, etc.), we cannot be certain that existing or additional financing will be available to us on acceptable terms, if at all. As a result, we could be unable to fully pursue our growth strategy. Further, additional financing may involve the issuance of equity securities that would reduce the percentage ownership of our then current shareholders.

We could be adversely affected by an impairment of the significant amount of goodwill on our financial statements.

Our Specialty Pharmacy acquisitions resulted in the recording of a significant amount of goodwill on our financial statements. The goodwill was recorded because the fair value of the net assets acquired was less than the purchase price. We may not realize the full value of this goodwill. As such, we evaluate on at least an annual basis whether events and circumstances indicate that all or some of the carrying value of goodwill is no longer recoverable, in which case we would write off the unrecoverable goodwill as a charge to our earnings.

Since our growth strategy will likely involve the acquisition of other companies, we may record additional goodwill in the future. The possible write-off of this goodwill could negatively impact our future earnings. We will also be required to allocate a portion of the purchase price of any acquisition to the value of any intangible assets that meet the criteria specified in the Statement of Financial Accounting Standards No. 141, "Business Combinations," such as marketing, customer or contract-based intangibles. The amount allocated to these intangible assets could be amortized over a fairly short period. As a result, our earnings and the market price of our common stock could be negatively affected.

We are highly dependent on our relationships with a limited number of biopharmaceutical and pharmaceutical suppliers, and the loss of any of these relationships could significantly affect our ability to sustain or grow our revenues.

The biopharmaceutical and pharmaceutical industries are susceptible to product shortages. Some of the products that we distribute, such as factor VIII blood clotting products and intravenous immune globulins, have experienced shortages in the recent past. Suppliers were unable to increase production to meet rising global demand. This shortage has recently ended, and while supply has significantly increased, demand continues to grow. For the three month ended March 31, 2003, approximately 43 percent, or \$21.7 million, of our Specialty Pharmacy Services revenues were derived from our sale of factor VIII. We purchased our supplies of blood clotting products from five suppliers, including Baxter Healthcare Corp., Novo Nordisk Pharmaceuticals, Inc., Wyeth, Alpha

## Edgar Filing: CURATIVE HEALTH SERVICES INC - Form 10-Q

Therapeutics Corp. and Aventis Behring. The Company believes that these five suppliers represent substantially all of the production capacity for recombinant factor VIII. In the event that one of these suppliers is unable to continue to supply us with products, it is uncertain whether the remaining suppliers would be able to make up any shortfall resulting from such inability. Our ability to take on additional customers or to acquire other specialty pharmacy businesses with significant hemophilia customer bases could be affected negatively in the event we are unable to secure adequate supplies of our products from these suppliers. In addition, MedImmune, Inc. is the sole supplier of Synagis(R), a product used to treat respiratory syncytial virus in infants. In the event MedImmune is unable to provide us with an adequate supply of Synagis(R) product for any reason, our ability to add and service patients would be impaired. If these products, or any of the other drugs or products that we distribute, are in short supply for long periods of time, our business could be harmed.

If additional providers obtain access to favorably priced products we handle, our business could be harmed.

Because we do not receive federal grants under the Public Health Service Act, we are not eligible to participate directly in a federal pricing program administered by the Federal Health Resources and Services Administration's Public Health Service, which allows certain entities with such grants, such as certain hospitals and hemophilia treatment centers, to obtain discounts on drugs, including certain biopharmaceutical products (e.g., hemophilia clotting factor) which products represented 49 percent of our total Company revenues for the three months ended March 31, 2003. To the best of our knowledge, these entities benefit by being able to acquire, pursuant to this federal program, products competitive with ours at prices lower than our cost for the same products. Our customers, where eligible, may elect to obtain hemophilia clotting factor, or other products, from such lower-cost entities and this would result in a loss of revenue.

Recent investigations into reporting of average wholesale prices could reduce our pricing and margins.

Many government payors, including Medicare and Medicaid, as well as some private payors, pay us directly or indirectly based upon the drug's average wholesale price. If a drug's average wholesale price declines, and if we are unable to recoup the full amount of such decline from our customers, we will lose revenues. Biopharmaceutical products (biological products, e.g., hemophilia factor) and pharmaceutical products (i.e., drugs) are included as part of this drug reimbursement methodology. Most of Specialty Pharmacy Services' revenues results from reimbursement methodologies based on the average wholesale price of our products. Average wholesale price for most drugs is compiled and published by private companies, such as First DataBank, Inc., from information provided by manufacturers. Various federal and state government agencies have been investigating whether the reported average wholesale price of many drugs, including some that we sell, is an appropriate or accurate measure of the market price of the drugs. As reported in the "Wall Street Journal," there are also several whistleblower lawsuits pending against various drug manufacturers in connection with the appropriateness of the manufacturer's average wholesale price for a particular drug. These government investigations and lawsuits involve allegations that manufacturers reported artificially inflated average wholesale prices of various drugs to First DataBank, which, in turn, reported these prices to its subscribers, including many state Medicaid agencies who then included these average wholesale prices in the state's reimbursement policies. In 2001, Bayer Corporation, an occasional supplier of hemophilia factor to us, agreed to pay \$14 million in a settlement with the federal government and 45 states in order to close an investigation regarding these charges. Bayer also entered into a five-year corporate integrity agreement with the government, in

## Edgar Filing: CURATIVE HEALTH SERVICES INC - Form 10-Q

which Bayer agreed to provide information on the average sale price of its drugs to the government. In February 2000, First DataBank published a Market Price Survey of 437 drugs, which was significantly lower than the historic average wholesale price for a number of the clotting factor and intravenous immune globulin products that we sell. Consequently, a number of state Medicaid agencies have revised their payment methodology as a result of the Market Price Survey. Although the Centers for Medicare and Medicaid Services ("CMS") had also announced that Medicare fiscal agents should calculate the amount that they pay for Medicare claims for certain drugs by using the lower prices on the First DataBank Market Price Survey, the proposal to include clotting factor in the lower Medicare pricing was withdrawn. CMS announced that it will seek legislation that would establish payments to cover the administrative costs of suppliers of clotting factor as a supplement to a lower average wholesale price pricing for hemophilia factor.

On September 21, 2001, the United States House Subcommittees on Health and Oversight & Investigations held hearings to examine how Medicare reimburses providers for the cost of drugs. In conjunction with that hearing, the United States General Accounting Office issued its Draft Report recommending that Medicare establish payment levels for part-B prescription drugs and their delivery and administration that are more closely related to their costs, and that payments for drugs be set at levels that reflect actual market transaction prices and the likely acquisition costs to providers. On March 14, 2002, the Senate Finance Committee's Subcommittee on Health conducted a hearing on Medicare drug reimbursement issues, including average wholesale price. This hearing reflects Congress' interest in possibly changing the manner in which the government reimburses providers for drugs.

More recently, on January 10, 2003, the United States General Accounting Office issued a report on Medicare payment for blood clotting factor finding that, similar to earlier findings about other drugs Medicare pays for, in 2001, Medicare's payment for blood clotting products exceeded the actual acquisition costs of providers. The government's inquiries and the changes occurring in the reporting of average wholesale price and its related effects on Medicare and Medicaid prices could have a negative effect on our business. For example, if the reduced average wholesale price published by First DataBank for the drugs that we sell are ultimately adopted as the standard by which we are paid by government payors or private payors, this could have an adverse effect on our business, including reducing the pricing and margins on certain of our products.

The government's inquiries and the changes occurring in the reporting of average wholesale price and its related effects on Medicare and Medicaid prices could have a negative effect on our business. For example, if the reduced average wholesale prices published by First DataBank for the drugs that we sell are ultimately adopted as the standard by which we are paid by government payors or private payors, this could have an adverse effect on our business, including reducing the pricing and margins on certain of our products.

Our business would be harmed if demand for our products and services is reduced.

Reduced demand for our products and services, in either our Specialty Pharmacy Services or Specialty Healthcare Services businesses, could be caused by a number of circumstances, including:

- o customer shifts to treatment regimens other than those we offer;
- o new treatments or methods of delivery of existing drugs that do not require our specialty products and services;
- o the recall of a drug;

## Edgar Filing: CURATIVE HEALTH SERVICES INC - Form 10-Q

- o adverse reactions caused by a drug;
- o the expiration or challenge of a drug patent;
- o competing treatment from a new drug, a new use of an existing drug or genetic therapy;
- o drug companies cease to develop, supply and generate demand for drugs that are compatible with the services we provide;
- o drug companies stop outsourcing the services we provide or fail to support existing drugs or develop new drugs;
  
- o governmental or private initiatives that would alter how drug manufacturers, health care providers or pharmacies promote or sell products and services;
- o the loss of a managed care or other payor relationship covering a number of high revenue customers;
  
- o the cure of a disease we service.

Our business involves risks of professional, product and hazardous substance liability, and any inability to obtain adequate insurance may adversely affect our business.

The provision of health services entails an inherent risk of professional malpractice, regulatory violations and other similar claims. Claims, suits or complaints relating to health services and products provided by physicians, pharmacists or nurses in connection with our Specialty Pharmacy Services and Specialty Healthcare Services programs may be asserted against us in the future.

Our operations involve the handling of bio-hazardous materials. Our employees, like those of all companies that provide services dealing with human blood specimens, may be exposed to risks of infection from AIDS, hepatitis and other blood-borne diseases if appropriate laboratory practices are not followed. Although we believe that our safety procedures for handling and disposing of such materials comply with the standards prescribed by state and federal regulations, the risk of accidental infection or injury from these materials cannot be completely eliminated. In the event of such an accident, we could be held liable for any damages that result, and such liability could harm our business.

Our operations expose us to product and professional liability risks that are inherent in managing the delivery of wound care services and the provision and marketing of biopharmaceutical and pharmaceutical products. We currently maintain professional and product liability insurance coverage of \$25 million in the aggregate. Because we cannot predict the nature of future claims that may be made, we can not assure you that the coverage limits of our insurance would be adequate to protect us against any potential claims, including claims based upon the transmission of infectious disease, contaminated product or otherwise. In addition, we may not be able to obtain or maintain professional and product liability insurance in the future on acceptable terms or with adequate coverage against potential liabilities.

We rely on key community-based representatives whose absence or loss could harm our business.

The success of our Specialty Pharmacy Services division depends upon our ability

## Edgar Filing: CURATIVE HEALTH SERVICES INC - Form 10-Q

to retain key employees known as community-based representatives, and the loss of their services could adversely affect our business and prospects. Our community-based representatives are our chief contact and maintain the primary relationship with our customers and the loss of a single community-based representative could result in the loss of a significant number of customers. We do not have key man insurance on any of our community-based representatives. In addition, our success will depend, among other things, upon the successful recruitment and retention of qualified personnel, and we may not be able to retain all of our key management personnel or be successful in recruiting additional replacements should that become necessary.

Our inability to maintain a number of important contractual relationships could adversely affect our operations.

Substantially all of the revenues of our Specialty Healthcare Services operations are derived from management contracts with acute care hospitals. As of March 31, 2003, we had 88 management contracts. The contracts generally have initial terms of three to five years, and many have automatic renewal terms unless specifically terminated. During the remainder of the year ending December 31, 2003, the contract terms of 24 of our management contracts will expire, including 17 contracts which provide for automatic one-year renewals. The contracts often provide for early termination either by the client hospital if specified performance criteria are not satisfied, or by us under various other circumstances. Historically, some contracts have expired without renewal, and others have been terminated by us or the client hospital for various reasons prior to their scheduled expiration. During the first three months of 2003, one contract expired without renewal, and an additional five contracts were terminated prior to their scheduled expiration. Generally, these contracts were terminated by hospitals because of the Specialty Healthcare Services legal action, hospital financial difficulties and Medicare reimbursement changes which reduced hospital revenues. Our continued success is subject to our ability to renew or extend existing management contracts and obtain new management contracts. Any hospital may decide not to continue to do business with us following expiration of its management contract, or earlier if such management contract is terminable prior to expiration. In addition, any changes in the Medicare program or third-party reimbursement levels which generally have the effect of limiting or reducing reimbursement levels for health services provided by programs managed by us could result in the early termination of existing management contracts and could adversely affect our ability to renew or extend existing management contracts and to obtain new management contracts. The termination or non-renewal of a material number of management contracts could harm our business.

In addition, a portion of the revenues of our Specialty Pharmacy Services operations is derived from contractual relationships with retail pharmacies. Our success is subject to the continuation of these relationships, and termination of one or more of these relationships could harm our business.

Our business will suffer if we lose relationships with payors.

We are highly dependent on reimbursement from non-governmental payors. Many payors seek to limit the number of providers that supply drugs to their enrollees. From time to time, payors with whom we have relationships require that we and our competitors bid to keep their business, and, therefore, due to the uncertainties involved in any bidding process, we may either not be retained or our margins may be adversely affected. The loss of a significant number of payor relationships, or an adverse change in the financial condition of a significant number of payors could result in the loss of a significant number of patients and harm our business.

## Edgar Filing: CURATIVE HEALTH SERVICES INC - Form 10-Q

Changes in reimbursement rates may cause reductions in the revenues of our operations.

As a result of the Balanced Budget Act of 1997, CMS (formerly Health Care Financing Administration) implemented the Outpatient Prospective Payment System for all hospital outpatient department services furnished to Medicare patients beginning August 2000. Under the system, a predetermined rate is paid to hospitals for clinical services rendered, regardless of the hospital's cost. The new payment system does not provide comparable reimbursement for previously reimbursed services, and the payment rates for many services are insufficient for many of our hospital customers, resulting in revenue and income shortfalls for the Wound Care Center programs managed by us on behalf of the hospitals. As a result, during 2002 and 2001, we renegotiated and modified many of our management contracts, which has resulted in reduced revenue and income to us from those modified contracts and, in numerous cases, contract termination. These renegotiations resulted in reduced revenues of approximately \$4.2 million. In addition, we lost approximately \$9.7 million in revenues as the result of contract terminations. At any time during any given year, 10 percent to 20 percent of hospital contracts are being renegotiated. We expect that contract renegotiation and modification with many of our hospital customers will continue, and this could result in further reduced revenues and income to us from those contracts and even contract terminations. These results could harm our business.

The Wound Care Center programs managed by Specialty Healthcare Services on behalf of acute care hospitals are generally treated as "provider based entities" for Medicare reimbursement purposes. This designation is required for the hospital based program to be covered under the Medicare outpatient reimbursement system. With the Outpatient Prospective Payment System, Medicare published criteria for determining when programs may be designated "provider based entities." Programs that existed prior to October 1, 2000 are grandfathered by CMS to be "provider based entities" until the start of their next cost reporting period beginning on or after July 1, 2003. At that time, the hospital will submit an attestation to the appropriate Regional Office, attesting that the program meets all the requirements for provider based designation. Programs that started on or after October 1, 2000 are required to file an application for provider based designation status. We timely advised each of our hospital clients of the mandatory application procedures. Of the eight "under arrangement" models in our Specialty Healthcare Services business unit, where we, not the hospital, employ the clinical and administrative staff that work in the center, four are potentially at risk for not meeting the criteria for a "provider based entity." As a result, Specialty Healthcare Services has been in discussions with its "under arrangement" hospital customers to convert the programs to management models where the hospital employs the clinical and administrative staff. Although we believe that the programs we manage substantially meet the current criteria to be designated "provider based entities," a widespread denial of such designation would harm our business.

In recent years, competition for patients, efforts by traditional third-party payors to contain or reduce health care costs, and the increasing influence of managed care payors, such as health maintenance organizations, have resulted in reduced rates of reimbursement. If these trends continue, they could harm our business. The profitability of our Specialty Pharmacy operations depends on reimbursement from third-party payors because our customers seek reimbursement from third-party payors for the cost of drugs and related medical supplies that we distribute. Changes in reimbursement policies of private and governmental third-party payors, including policies relating to the Medicare, Medicaid and other federally funded programs, could reduce the amounts reimbursed to these customers for our products and, in turn, the amount these customers would be willing to pay for our products and services. In addition, where we have direct

## Edgar Filing: CURATIVE HEALTH SERVICES INC - Form 10-Q

relationships with payors, changes in their reimbursement policies may reduce amounts payable directly to us by such payors. Changes in those reimbursement policies could affect our customers, which in turn could harm our business.

Our business could be harmed by changes in Medicare or Medicaid.

Changes in the Medicare, Medicaid or similar government programs or the amounts paid by those programs for our services may adversely affect our earnings. Such programs are highly regulated and subject to frequent and substantial changes and cost containment measures. In recent years, changes in these programs have limited and reduced reimbursement to providers. According to a Kaiser Family Foundation report released on September 19, 2002, 45 states reported they took actions to decrease Medicaid spending on 2002, and 41 reported they would take additional actions to decrease Medicaid spending in 2003. As a result of our Specialty Pharmacy acquisitions, we expect the percentage of our revenues attributable to federal and state programs to increase. In September 2002, the Bush administration proposed deep reductions in Medicare payments for a wide range of drugs provided as outpatient services by hospitals. Among the drugs included in this proposal is hemophilia products. If this proposal is adopted, we cannot predict whether state Medicaid programs would adopt similar pricing.

We are subject to pricing pressures and other risks involved with commercial payors.

Commercial payors, such as managed care organizations and traditional indemnity insurers, increasingly are requesting fee structures and other arrangements providing for health care providers to assume all or a portion of the financial risk of providing care. The lowering of reimbursement rates, increasing medical review of bills for services and negotiating for reduced contract rates could harm our business. Pricing pressures by commercial payors may continue, and our business may be adversely affected by these trends.

Also, continued growth in managed care and capitated plans have pressured health care providers to find ways of becoming more cost competitive. Managed care organizations have grown substantially in terms of the percentage of the population they cover and in terms of the portion of the health care economy they control. Managed care organizations have continued to consolidate to enhance their ability to influence the delivery of health care services and to exert pressure to control health care costs. A rapid increase in the percentage of revenue derived from managed care payors or under capitated arrangements without a corresponding decrease in our operating costs could harm our business.

There is substantial competition in our industry, and we may not be able to compete successfully.

Our Specialty Pharmacy Services business faces competition from other disease management entities, general health care facilities and service providers, biopharmaceutical companies, pharmaceutical companies as well as other competitors. Many of these companies have substantially greater capital resources and marketing staffs and greater experience in commercializing products and services than we have. The principal competition with our Specialty Healthcare Services business consists of specialty clinics that have been established by some hospitals or physicians. Additionally, there are some private companies which provide wound care services through a hyperbaric oxygen therapy program format. In addition, recently developed technologies, or technologies that may be developed in the future, are or may be the basis for products which compete with our chronic wound care services. We may not be able to enter into co-marketing arrangements with respect to these products, and we may not be able to compete effectively against such companies in the future.

## Edgar Filing: CURATIVE HEALTH SERVICES INC - Form 10-Q

If we are unable to effectively adapt to changes in the health care industry, our business will be harmed.

Political, economic and regulatory influences are subjecting the health care industry in the United States to fundamental change. Although Congress has failed to pass comprehensive health care reform legislation thus far, we anticipate that Congress and state legislatures will continue to review and assess alternative health care delivery and payment systems and may in the future propose and adopt legislation effecting fundamental changes in the health care delivery system as well as changes to the Medicare Program's coverage and payments of the drugs and services we provide. It is possible that future legislation enacted by Congress or state legislatures will contain provisions that may harm our business, or may change the operating environment for our targeted customers (including hospitals and managed care organizations). Health care industry participants may react to such legislation or the uncertainty surrounding related proposals by curtailing or deferring expenditures and initiatives, including those relating to our programs and services. It is also possible that future legislation either could result in modifications to the nation's public and private health care insurance systems, or coverage for biopharmaceutical and pharmaceutical products, which could affect reimbursement policies in a manner adverse to us, or could encourage integration or reorganization of the health care delivery system in a manner that could materially and adversely affect our ability to compete or to continue our operations without substantial changes. Other legislation relating to our business or to the health care industry may be enacted, including legislation relating to third-party reimbursement, and such legislation may have a negative effect on our business.

Our industry is subject to extensive government regulation, and noncompliance by us or our suppliers, our customers or our referral sources could harm our business.

The marketing, labeling, dispensing, storage, provision and purchase of drugs, health supplies and health services including the biopharmaceutical and pharmaceutical products we provide, are extensively regulated by federal and state governments, and if we fail or are accused of failing to comply with laws and regulations, our business could be harmed. Our business could also be harmed if the suppliers, customers or referral sources we work with are accused of violating laws or regulations. The applicable regulatory framework is complex, and the laws are very broad in scope. Many of these laws remain open to interpretation and have not been addressed by substantive court decisions. The federal government, or states in which we operate, could, in the future, enact more restrictive legislation or interpret existing laws and regulations in a manner that could limit the manner in which we can operate our business and have a negative impact on our business.

There are a number of state and federal laws and regulations that apply to our operations including, but not limited to:

- o The federal "anti-kickback law" prohibits the offer or solicitation of remuneration in return for the referral of patients covered by almost all governmental programs, or the arrangement or recommendation of the purchase of any item, facility or service covered by those programs. The Health Insurance Portability and Accountability Act of 1996, or HIPAA, created new violations for fraudulent activity applicable to both public and private health care benefit programs and prohibits inducements to Medicare or Medicaid eligible patients to influence their decision to seek specific items and services reimbursed by the government or to choose a particular provider. The potential sanctions for violations of these laws include significant fines, exclusion from



## Edgar Filing: CURATIVE HEALTH SERVICES INC - Form 10-Q

participation in the Medicare and Medicaid programs and criminal sanctions. Although some "safe harbor" regulations attempt to clarify when an arrangement will not violate the anti-kickback law, our business arrangements and the services we provide may not fit within these safe harbors. Failure to satisfy a safe harbor requires further analysis of whether the parties violated the anti-kickback law. In addition to the anti-kickback law, many states have adopted similar kickback and/or fee-splitting laws, which can affect the financial relationships we may have with physicians, vendors, other retail pharmacies and patients. The finding of a violation of the federal laws or one of these state laws could harm our business.

- o In 2000, the Department of Health and Human Services issued final regulations implementing the Administrative Simplification provision of HIPAA concerning the maintenance, transmission and security of electronic health information, particularly individually identifiable information. The regulations, when effective, will require the development and implementation of security and transaction standards for all electronic health information and impose significant use and disclosure obligations on entities that send or receive individually identifiable electronic health information. As a result of these regulations, we anticipate new expenditures in ensuring that patient data kept on our computer networks are in compliance with these regulations. While we believe that we will be in compliance by the applicable deadlines, the cost of reaching compliance may harm our business. Also, failure to comply with these regulations or wrongful disclosure of confidential patient information could result in the imposition of administrative or criminal sanctions, including exclusion from the Medicare and state Medicaid programs. In addition, if we choose to distribute drugs through new distribution channels such as the Internet, we will have to comply with government regulations that apply to those distribution channels, which could harm our business.
  
- o The Ethics in Patient Referrals Act of 1989, as amended, commonly referred to as the "Stark Law," prohibits physician referrals to entities with which the physician or their immediate family members have a "financial relationship." A violation of the Stark Law is punishable by civil sanctions, including significant fines and exclusion from participation in Medicare and Medicaid.
  
- o State laws prohibit the practice of medicine, pharmacy and nursing without a license. To the extent that we assist patients and providers with prescribed treatment programs, a state could consider our activities to constitute the practice of medicine. Our nurses must obtain state licenses to provide nursing services we provide to some of our patients. In addition, in some states, coordination of nursing services for patients could necessitate licensure as a home health agency and/or could necessitate the need to use licensed nurses to provide certain patient directed services. If we are found to have violated those laws, we could face civil and criminal penalties and be required to reduce, restructure or even cease our business in that state.
  
- o Pharmacies (retail, mail-order and wholesale) as well as pharmacists often must obtain state licenses to operate and dispense drugs. Pharmacies must also obtain licenses in some states in order to operate and provide goods and services to residents of those states. In addition, our pharmacies may be required by the federal Drug Enforcement Agency, as well as by similar state agencies, to obtain

## Edgar Filing: CURATIVE HEALTH SERVICES INC - Form 10-Q

registration to handle controlled substances, including certain prescription drugs, and to follow specified labeling and record-keeping requirements for such substances. If we are unable to maintain our licenses, or if states place burdensome restrictions or limitations on non-resident pharmacies, this could limit or affect our ability to operate in some states which could harm our business.

- o Federal and state investigations and enforcement actions continue to focus on the health care industry, scrutinizing a wide range of items such as joint venture arrangements, referral and billing practices, product discount arrangements, home health care services, dissemination of confidential patient information, clinical drug research trials and gifts for patients or referral sources.
- o We are subject to federal and state laws prohibiting entities and individuals from knowingly and willfully making claims to Medicare and Medicaid, and other third party payors, that contain false or fraudulent information. The federal False Claims Act encourages private individuals to file suits on behalf of the government against health care providers such as us. As such suits are generally filed under seal with a court to allow the government adequate time to investigate and determine whether it will intervene in the action, health care providers affected are often unaware of the suit until the government has made its determination and the seal is lifted. Violations or alleged violations of such laws, and any related suits could result in significant financial or criminal sanctions or exclusion from participation in the Medicare and Medicaid programs.

There is a delay between our performance of services and our reimbursement.

The health care industry is characterized by delays that typically range from three to nine months between when services are provided and when the reimbursement or payment for these services is received. This makes working capital management, including prompt and diligent billing and collection, an important factor in our results of operations and liquidity. Trends in the industry may further extend the collection period and impact our working capital.

We rely heavily on a limited number of shipping providers, and our business would be harmed if our rates are increased or our providers are unavailable.

A significant portion of our revenues result from the sale of drugs we deliver to our patients, and a significant amount of our products are shipped by mail order, overnight courier, retail pharmacy or in person through our community-based representatives. The costs incurred in shipping are not passed on to our customers and, therefore, changes in these costs directly impact our margins. We depend heavily on these outsourced shipping services for efficient, cost effective delivery of our product. The risks associated with this dependence include:

- o any significant increase in shipping rates;
- o strikes or other service interruptions by these carriers; and
- o spoilage of high cost drugs during shipment, since our drugs often require special handling, such as refrigeration.

### RISK RELATED TO OUR COMMON STOCK

Possible volatility of stock price in the public market.

## Edgar Filing: CURATIVE HEALTH SERVICES INC - Form 10-Q

The market price of our common stock has experienced, and may continue to experience, substantial volatility. Over the past eight quarters, the market price of our common stock has ranged from a low of \$5.20 per share in the second quarter of 2001 to a high of \$22.75 in the first quarter of 2002. Many factors have influenced the common stock price in the past, including fluctuations in our earnings and changes in our financial position, management changes, low trading volume, and negative publicity and uncertainty resulting from the legal actions brought against us. In addition, the securities markets have, from time to time, experienced significant broad price and volume fluctuations that may be unrelated to the operating performance of particular companies. All of these factors could adversely affect the market price of our common stock.

Provisions of our articles of incorporation and Minnesota law may make it more difficult for you to receive a change-in-control premium. Our Board's ability to designate and issue up to 10 million shares of preferred stock and issue up to 50 million shares of common stock could adversely affect the voting power of the holders of common stock, and could have the effect of making it more difficult for a person to acquire, or could discourage a person from seeking to acquire, control of our company. If this occurred, you could lose the opportunity to receive a premium on the sale of your shares in a change of control transaction. In addition, the Minnesota Business Corporation Act contains provisions that would have the effect of restricting, delaying or preventing altogether certain business combinations with any person who becomes an interested stockholder. Interested stockholders include, among others, any person who, together with affiliates and associates, acquires 10 percent or more of a corporation's voting stock in a transaction which is not approved by a duly constituted committee of the Board of the corporation. These provisions could also limit your ability to receive a premium in a change of control transaction.

Exhibit 99.2

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

In connection with the Quarterly Report of Curative Health Services, Inc. (the "Company") on Form 10-Q for the period ended March 31, 2003 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Joseph Feshbach, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. ss.1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to the best of my knowledge:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Joseph Feshbach

-----  
Joseph Feshbach  
Chief Executive Officer  
May 15, 2003

Edgar Filing: CURATIVE HEALTH SERVICES INC - Form 10-Q

A signed original of this written statement required by Section 906 has been provided to Curative Health Services, Inc. and will be retained by Curative Health Services, Inc. and furnished to the Securities and Exchange Commission or its staff upon request.

Exhibit 99.3

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

In connection with the Quarterly Report of Curative Health Services, Inc. (the "Company") on Form 10-Q for the period ended March 31, 2003 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Thomas Axmacher, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. ss.1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to the best of my knowledge:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Thomas Axmacher  
-----  
Thomas Axmacher  
Chief Financial Officer  
May 15, 2003

A signed original of this written statement required by Section 906 has been provided to Curative Health Services, Inc. and will be retained by Curative Health Services, Inc. and furnished to the Securities and Exchange Commission or its staff upon request.