BioScrip, Inc.
Form 10-K
March 15, 2013

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
Form 10-K
(Mark One)

þ	ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 For the fiscal year ended December 31, 2012 OR
o	PERIODIC REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 For the transition period from to

Commission file number: 0-28740

BioScrip, Inc.
(Exact name of registrant as specified in its charter)

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

Registrant's telephone number, including area code:
914-460-1600
Securities registered pursuant to Section 12(b) of the Act:
None
Securities registered pursuant to section 12(g) of the Act:
Common Stock, $.0001 par value

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

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

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 þ No o

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 1-K or any amendment to this Form 10-K. o

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

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

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

The aggregate market value of the registrant's Common Stock held by non-affiliates of the registrant as of June 30, 2012, the last business day of the registrant's most recently completed second fiscal quarter, was approximately $182,899,703 based on the closing price of the Common Stock on the Nasdaq Global Market on such date.

On March 5, 2013, there were 57,035,125 shares of the registrant's Common Stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's definitive proxy statement for its 2013 Annual Meeting of Stockholders to be filed with the SEC within 120 days after the close of the registrant's fiscal year are incorporated by reference into Part III of this Annual Report.

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PART I

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

- our expectations regarding financial condition or results of operations in future periods;
- our future sources of, and needs for, liquidity and capital resources;
- our expectations regarding economic and business conditions;
- our expectations regarding potential legislative and regulatory changes impacting the level of reimbursement received from the Medicare and state Medicaid programs;
- our expectations regarding the size and growth of the market for our products and services;
- our business strategies and our ability to grow our business;
- the implementation or interpretation of current or future regulations and legislation, particularly governmental oversight of our business;
- our ability to maintain contracts and relationships with our customers;
- sales and marketing efforts;
- status of material contractual arrangements, including the negotiation or re-negotiation of such arrangements;
- future capital expenditures;
- our high level of indebtedness;
- our ability to make principal payments on our debt and satisfy the other covenants contained in our senior secured credit facility and other debt agreements;
- our ability to hire and retain key employees;
- our ability to successfully execute our succession plans;
- our ability to execute our acquisition and growth strategy;
- our ability to successfully integrate businesses we acquire; and
- other risks and uncertainties described from time to time in our filings with the SEC.

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

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

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

Item 1. Business

Overview

We are a national provider of home infusion and other home healthcare services that partners with patients, physicians, hospitals, healthcare payors and pharmaceutical manufacturers to provide clinical management solutions and the delivery of cost-effective access to prescription medications and home healthcare services. Our services are designed to improve clinical outcomes to patients with chronic and acute healthcare conditions while controlling overall healthcare costs. We were incorporated in Delaware in 1996 as MIM Corporation, with our primary business and operations being pharmacy benefit management services. Over the years, we have expanded our service offerings to include home infusion services and home health services which are now the primary drivers of our growth strategy.

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Our platform provides nationwide service capabilities and the ability to deliver clinical management services that offer patients a high-touch, home-based and community-based care environment. Our core services are provided in coordination with, and under the direction of the patient's physician. Our infusion and home health professionals, including pharmacists, nurses, dieticians, respiratory therapists and physical therapists, work with the physician to develop a plan of care suited to our patients' specific needs. Whether in the home, physician office, ambulatory infusion center or other alternate site of care, we provide products, services and condition-specific clinical management programs, often tailored to improve the care of individuals with complex health conditions such as cancer, multiple sclerosis, organ transplants, bleeding disorders, rheumatoid arthritis, immune deficiencies and congestive heart failure.

As a result of the Company entering into the Asset Purchase Agreement, the Company reevaluated its operating and reportable segments, changing its operating and reportable segments from "Infusion/Home Health Services" and "Pharmacy Services" to its new operating and reportable segments: "Infusion Services", "Home Health Services" and "PBM Services". These three new operating and reportable segments reflect how the Company's chief operating decision maker now reviews the Company's results in terms of allocating resources and assessing performance.

Our Infusion Services segment provides services consisting of home infusion therapy, respiratory therapy and the provision of durable medical equipment products and services. Infusion services include the dispensing and administering of infusion-based drugs, which typically require additional nursing and clinical management services, equipment to administer the correct dosage and patient training designed to improve patient outcomes. Home infusion services also include the dispensing of certain self-injectible therapies.

Our Home Health Services segment provides services including the provision of skilled nursing services and therapy visits, private duty nursing services, hospice services, rehabilitation services and medical social services to patients primarily in their home.

Our integrated pharmacy benefit management ("PBM") services, which includes discount card programs, design programs and claims processing to offer customers and patients cost-effective access to pharmacy products and services through network pharmacy providers.

Business Outlook

In the fourth quarter of 2010, we commenced a strategic assessment of our business and operations. The assessment examined our market strengths and opportunities and compared our position to that of our competitors. As a result of the assessment, we focused our growth on investments in the Infusion and Home Health Services segments and elected to pursue offers for a large portion of our Pharmacy Services segment. Thus, on February 1, 2012, the Company entered into a Community Pharmacy and Mail Business Purchase Agreement (the "Asset Purchase Agreement") by and among Walgreen Co. and certain subsidiaries (collectively, the "Buyers") and the Company and certain subsidiaries (collectively, the "Sellers") with respect to the sale of certain assets, rights and properties (the "Pharmacy Services Asset Sale") relating to the Sellers' traditional and specialty pharmacy mail and community retail pharmacy store operations.

Pursuant to the terms of the Asset Purchase Agreement, we received a total purchase price of approximately $173.8 million during 2012, including approximately $158.8 million at closing (which included monies received for the inventories on hand attributable to the operations subject to the Pharmacy Services Asset Sale), and a subsequent additional purchase price payment of $15.0 million based on events related to the Buyer's retention of certain business after closing. Similarly, the Company may be required to refund up to approximately $6.4 million of the cash received to the Buyers under certain circumstances. Any gain associated with this contingency will be recorded when the final amount retained or refunded is known. The $173.8 million purchase price excluded all accounts receivable and working capital liabilities relating to the operations subject to the sale, which were retained by us. Approximately

$50.8 million of these net assets were converted to cash subsequent to the sale.

We are continuing to execute our strategic plan and are investing in opportunities to maximize stockholder value going forward. We deployed the proceeds of the Pharmacy Services Asset Sale and our other assets in seeking business acquisition opportunities described below. We also paid off the balance of the line of credit following the sale and negotiated improved terms for its ongoing use.

On July 31, 2012, we acquired InfuScience, Inc. (“InfuScience”) for a cash payment of $38.3 million. The purchase price could increase to $41.4 million based on the results of operations during the 24 month period following the closing. InfuScience operates businesses providing alternate site infusion pharmacy services. The acquisition has added five infusion centers located in Eagan, Minnesota; Omaha, Nebraska; Chantilly, Virginia; Charleston, South Carolina; and Savannah,Georgia.

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Subsequent to December 31, 2012, we acquired all of the issued and outstanding equity of HomeChoice Partners, Inc., a Delaware corporation ("HomeChoice") pursuant to a Stock Purchase Agreement dated December 12, 2012 (the "Purchase Agreement") by and among the Company, HomeChoice, DaVita HealthCare Partners Inc., a Delaware corporation and majority stockholder of HomeChoice, and the other stockholders of HomeChoice. The purchase price was $70 million, subject to adjustment based in part on the net working capital of HomeChoice at closing (the "Purchase Price"). The Purchase Price may also be increased in an amount up to $20 million if HomeChoice reaches certain performance milestones in the two years following the closing. The Company funded the Acquisition with a combination of cash on hand and its revolving credit facility.

HomeChoice is a provider of alternate-site infusion pharmacy services. Headquartered in Norfolk, VA, HomeChoice services approximately 15,000 patients annually and has fourteen infusion pharmacy locations in Pennsylvania, Washington, DC, Maryland, Virginia, North Carolina, South Carolina, Georgia, Missouri, and Alabama. The acquisition was completed on February 1, 2013.

Other strategic options we may consider in addition to further acquisitions include redeeming all or a portion of the unsecured notes subject to the terms of our revolving credit facility and the indenture governing our the senior unsecured notes.
The Pharmacy Services Asset Sale discussed above caused us to perform a further strategic assessment of our business and operations in order to align our corporate structure with our remaining business operations. As a result of the reassessment and subsequent realignment, we have focused on expanding revenue opportunities and lowering corporate overhead as well as redeploying our resources strategically. These actions have resulted in write-downs of certain long−lived assets, employee severance, retention bonus payments and accelerated recognition of expense associated with certain of our contractual obligations. The impact of these efforts included a reduction in salaries, benefits, rent and other facility costs. The redeployment of resources following the Asset Sale has better positioned us for growth in our strategic areas of operation; however, the impact of these actions on our future Consolidated Financial Statements cannot be estimated.

Our Strengths

Our company has a number of competitive strengths, including:

We Have a Local Competitive Market Position within our National Platform and Infrastructure

As of December 31, 2012, we had a total of 81 locations in 24 states, encompassing 32 home nursing locations and 49 home infusion locations, including two contract affiliated infusion pharmacies. Our model combines local presence with comprehensive clinical programs for multiple therapies and specific delivery technologies (injectable and infusible). We also have the capabilities and payor relationships to distribute pharmaceuticals to all 50 states. We have more than 1,000 Managed Care Organizations ("MCO") relationships and are one of a limited number of pharmacy and home health services providers that can offer a truly national, integrated and comprehensive approach of managing a patient's chronic or acute conditions on behalf of his or her MCO, which generally favors fully integrated vendors that can provide high-touch pharmacy solutions to their patients.

Diversified Payor Base

We provide prescription drugs, infusion, home health and clinical management services to a broad range of commercial and governmental payors. One payor accounted for 18% of consolidated revenue, and Medicare accounted for14% of consolidated revenue during the year ended December 31, 2012. No other single government payors accounted for more than 4% of combined consolidated revenue.

Effective Care Management Clinical Programs that Produce Positive Clinical Outcomes and Reduce Readmissions

We have diversified and comprehensive clinical programs across numerous therapeutic areas, designed to improve patient adherence and retention. Our home infusion business provides traditional infusion therapies for acute conditions with accompanying clinical management and home care. Our infusion product offerings and services are also designed to treat patients with chronic infusion needs. In addition to the long-term treatment associated with these chronic conditions, these conditions require ongoing caregiver counseling and education regarding patient treatment and ongoing monitoring to encourage patients to comply with the prescribed therapy, including programs for enteral and total parenteral nutrition and pediatric infusion.

BioScrip's Centers of Excellence focus interdisciplinary teams on providing clinical excellence with outstanding personal service. Externally qualified by a panel of leading industry experts, the Centers employ evidence-based standards of care, policies, and procedures built on industry-recognized best practices. They are led by specialists with advanced certifications and training

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who are dedicated to developing, improving, and sustaining clinical services to achieve optimal patient outcomes and exceed the expectations of patients and referral sources.

Our clinical management programs offer a number of multiple disease-state therapy regimens, increasing the number of opportunities to cross-sell services and technologies. We believe we have earned a positive reputation among all of our stakeholders — patients, physicians, payors and pharmaceutical manufacturers — by providing quality service and favorable clinical outcomes. We believe our platform provides the necessary programs and services for better and more efficient clinical outcomes for our clients.

Products and Services

Infusion Services

We are one of the larger providers of home infusion services in the United States. Home infusion involves the preparation, delivery, administration and clinical monitoring of pharmaceutical treatments that are administered to a patient via intravenous (into the vein), subcutaneous (into the fatty layer under the skin), intramuscular (into the muscle) and intra-spinal (into the membranes around the spinal cord) methods. These methods are employed when a physician determines that the best outcome can be achieved through utilization of one or more of the therapies provided through the routes of administration described above.

Our home infusion services primarily involve the intravenous administration of medications treating a wide range of acute and chronic conditions, such as infections, nutritional deficiencies, various immunologic and neurologic disorders, cancer, pain and palliative care. Our services are usually provided in the patient's home but may also be provided at outpatient clinics, the physician's office or at one of our ambulatory infusion centers. We receive payment for our home health services and medications pursuant to provider agreements with government sources, such as Medicare and Medicaid programs, managed care organizations ("MCOs") and other commercial insurance ("Third Party Payors”).

We provide a wide array of home infusion products and services to meet the diverse needs of physicians, patients and payors. Diseases commonly requiring infusion therapy include infections that are unresponsive to oral antibiotics, cancer and cancer-related pain, dehydration and gastrointestinal diseases or disorders that prevent normal functioning of the gastrointestinal tract, which require IV fluids, parenteral or enteral nutrition. Other conditions treated with infusion therapies may include chronic diseases such as congestive heart failure, Crohn's disease, hemophilia, immune deficiencies, multiple sclerosis, rheumatoid arthritis, growth disorders and genetic enzyme deficiencies, such as Gaucher's or Pompe's disease. The therapies most commonly provided are listed below:

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Therapy Type	Description
Parenteral Nutrition (PN)	Provide intravenous nutrition customized to the nutritional needs of the patient. PN is used in patients that cannot meet their nutritional needs via other means due to disease process or as a complication of a disease process, surgical procedure or congenital anomaly. PN may be used short term or chronically.
Enteral Nutrition (EN)	Provide nutrition directly to the stomach or intestine in patients who cannot chew or swallow nutrients in the usual manner. EN may be delivered via a naso-gastric tube or a tube placed directly into the stomach or intestine. EN may be used short term or chronically.
Antimicrobial Therapy	Provide intravenous antimicrobial medications used in the treatment of patients with various infectious processes such as: HIV/AIDS, wound infections, pneumonia, osteomyelitis, cystic fibrosis, Lyme's disease and cellulitis. May also be used in patients with disease processes or therapies that may lead to infections when oral antimicrobials are not effective.
Chemotherapy	Provide injectable and/or infused medications in the home or the prescriber's office for the treatment of cancer. Adjuvant medications may also be provided to minimize the side effects associated with chemotherapy.
Immune Globulin (IG) Therapy	Provide immune globulins intravenously or subcutaneously on an as-needed basis in patients with immune deficiencies or auto-immune diseases. This therapy may be chronic based on the etiology of the immune deficiency.
Pain Management	Provide analgesic medications intravenously, subcutaneously or epidurally. This therapy is generally administered as a continuous infusion via an internal or external infusion pump to treat severe pain associated with diseases such as COPD, cancer and severe injury.
Blood Factor Therapies	Provide medications to patients with one of several inherited bleeding disorders in which a patient does not manufacture the clotting factors necessary or use the clotting factors their liver makes appropriately in order to halt an external or internal bleed in response to a physical injury or trauma.
Inotropes Therapy	Provide intravenous inotropes in the home for the treatment of heart failure, either in anticipation of cardiac transplant or to provide palliation of heart failure symptoms. Inotropes increase the strength of weak heart muscles to pump blood. The therapy is only started in late phase heart failure when alternative therapies proved inadequate.
Respiratory Therapy/Home Medical Equipment	Provide oxygen systems, continuous or bi-level positive airway pressure devices, nebulizers, home ventilators, respiratory devices, respiratory medications and other medical equipment.

Patients generally are referred to us by physicians, hospital discharge planners, MCOs and other referral sources. Our medications are compounded and dispensed under the supervision of a registered pharmacist in a state licensed pharmacy that is accredited by an independent accrediting organization. The accrediting organization surveys for compliance with the USP 797 standards for sterile drug compounding pharmacies and has confirmed that we are in compliance with such standards. The therapy is typically administered in the patient's home by a registered nurse or trained caregiver. Depending on the preferences of the patient or the payor, these services may also be provided at one

of our ambulatory infusion centers, a physician's office or another alternate site of administration.

We currently have relationships with a large number of MCOs and other Third Party Payors to provide pharmacy products and services, including infusion services. These relationships are primarily at a local or regional level. A key element of our business strategy is to leverage our relationships, geographic coverage, clinical expertise and reputation in order to gain contracts with payors. Our infusion service contracts typically provide for us to receive a fee for preparing and delivering medications and related equipment to patients in their homes. Pricing is typically negotiated in advance on the basis of Average Wholesale Price (“AWP”) minus some percentage of contractual discount, or Average Selling Price (“ASP”) plus some percentage. In addition, we typically receive a per diem payment for the service and supplies component of care provided to patients in connection with infusion services and a visit rate for the associated skilled nursing provided.

Home Health Services

We conduct our home nursing and therapy services through state-licensed as well as Medicare-certified agencies. Our healthcare professionals provide healthcare services to adult and pediatric patients in their homes, including those suffering from chronic and acute illnesses, those in recovery from surgical procedures and those who require monitoring or care for other reasons. Our key services and program offerings are skilled nursing; wound care; oncology nursing and infusion nursing; rehabilitation

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services, which includes physical therapy; occupational therapy and speech language pathology; medical social services; and home health aide services. Our services are provided by registered nurses, licensed practical nurses, physical, occupational and speech therapists, infusion specialists, wound care specialists and social workers. Our home nursing offerings also include private duty nursing care, in which our nurses provide services on an hourly or shift basis, and intermittent nursing care, in which our nurses provide services on an irregular basis or for a limited period of time. Our nurses provide medical care to these patients through pain and symptom management, wound treatment and management, medication management, infusion therapy services, skilled assessment and observations of patients through home visits and telemonitoring and education to patients and family caregivers.

Most of our home nursing services are provided to beneficiaries of government sponsored programs. The majority of our skilled home nursing services are reimbursed by Medicare, based on the "prospective payment system" rates per episode, which varies with the complexity of patient condition. Our private duty nursing services are generally billed on an hourly basis and are reimbursed primarily through one of a number of MCOs contracted by the TennCare program to administer these services on behalf of state residents who qualify for such benefits.

PBM Services

We also provide prescription discount card programs and integrated PBM services. These services are designed to offer employers, MCOs, Third Party Administrators (“TPAs”), and other third party payors (collectively, "Plan Sponsors") cost-effective delivery of pharmacy benefit plans including the low cost distribution of mail services for plan members who receive traditional maintenance medications through our network pharmacies that deliver traditional and specialty medications through mail facilities and retail stores.

Prescription Discount Card Programs

Our discount card services provide a cost effective alternative for individuals who may be uninsured, underinsured or may have restrictive coverage that disallows reimbursement for certain medications. Under these discount programs, individuals who present a discount card at one of our participating network pharmacies receive prescription medications at a discounted price as compared to the retail price. The discount card programs are designed and marketed by consumer marketing organizations with which we contract. The marketing organizations receive a broker fee or commission for the sales generated. We contract with a third party PBM to process our discount card claims.

PBM Formulary and Benefit Design

Our funded PBM business involves working with our Plan Sponsors to offer formularies and benefit plan designs that meet their specific program requirements. Formulary design assists in controlling program costs to the extent consistent with accepted medical and pharmacy practices and applicable law, primarily through three principal techniques: (i) tiered co-pay or percentage coinsurance designs, which provide lower co-pays for formulary preferred medications and higher co-pays for non-preferred medications, or charge a percentage of the prescription price to the member at different percentages based on the preferred or non-preferred status of a drug; (ii) generic substitution, which involves the selection of a generic drug as a cost-effective alternative to its bio-equivalent brand name drug; and/or (iii) therapeutic interchange, which involves the selection of a lower cost brand name drug as an alternative to a higher priced brand name drug within a therapeutic class. Formulary rebates on brand name drugs are negotiated with drug manufacturers based on the drug's preferred status and are typically shared with Plan Sponsors. Our rebates are managed and administered by a third party vendor.

PBM Drug Usage Evaluation

Drug usage is evaluated on a concurrent, prospective and/or retrospective basis utilizing the real-time POS system and information systems for multiple drug interactions, duplication of therapy, step therapy protocol enforcement,

minimum/maximum dose range edits, compliance with prescribed utilization levels and early refill notification. In addition, we maintain a drug utilization review program through which select medication therapies are reviewed and data is collected, analyzed and reported for management applications.

Sales and Marketing

We have over 150 sales and marketing representatives and over 1,000 payor relationships including Managed Care Organizations (MCOs), Medicare Part D pharmacy networks, and government programs such as Medicare and Medicaid. Our sales and marketing efforts are focused on payors, manufacturers, patients and physician prescribers, and are driven by dedicated managed care and physician sales teams as well as home health care consultants. Our sales and marketing strategies include the development of strong relationships with key referral sources, such as physicians, hospital discharge planners, case managers,

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long-term care facilities and other healthcare professionals, primarily through regular contact with the referral sources. Contracts with Third Party Payors, including MCOs, are an integral component for sales success.
Through its PBM, BioScrip also has over 100 relationships with PBM Clients including Medicaid MCOs, employers, TPAs, workers compensation providers and discount card marketers. A range of direct sales methods are used to promote the program and add new marketing organizations.

Intellectual Property

We own and use a variety of trademarks, trade names and service marks, including “BioScrip”, “BioScripcare”, “Scripmine”, “Scrip Pharmacy”, “Adima”, “Scrip PBM”, “Infoscrip”, “MD Star”, “Critical Homecare Solutions”, “CHS Critic Homecare Solutions”, “Infusion Partners”, “Infusion Care”, “Infusion Solutions, Inc.”, “Infusion Care Systems”, “NE-HT”, "PHCS", “Wilcox Home Infusion”, “Deaconess HomeCare”, "InfuScience", "Infusal", "HomeChoice", and "HomeChoice Partners", each of which has either been registered at the state or federal level or is being used pursuant to common law rights. We are recognized in local markets by several of these trade names, but we do not consider the marks material to our business.

Competition

Infusion Services and Home Health Services

The home infusion services and home health services market is largely fragmented with local and regional companies representing the majority of the market, with competition primarily on the basis of service. Companies strive to differentiate themselves based on responsiveness to customer demands; the commitment to provide flexible, clinically-oriented services; and quality, scope and cost of clinical support programs and services. Our Centers of Excellence offer a high touch, high service approach to care on a local basis, which we believe differentiates our service.

Existing and potential competitors within the home infusion market include Option Care, Inc. (a subsidiary of Walgreen Co.), Apria Healthcare Group Inc. (which includes its subsidiary, Coram, Inc.), Critical Care Systems, Inc. and Accredo Health Group, Inc. (both subsidiaries of Express Scripts Holding Company), Omnicare, Inc., various regional providers and local providers of alternate site healthcare services such as hospitals, local home health agencies, and other local providers.

Existing and potential competitors within the home health services market include Gentiva Health Services, Inc., Almost Family, Inc., Amedisys, Inc., LHC Group, Inc. and local providers in our areas of service.

Pharmacy Benefits Management and Discount Card Services

In the Pharmacy Benefits Management (PBM) market we compete with large national PBMs and a number of smaller and regional PBMs. The large PBMs have integrated Mail Service and Specialty Pharmacy services and are very competitive with all Plan Sponsors. These national PBM companies include Express Scripts, Inc., Catamaran Corp., and CVS/Caremark Corp. In the discount card services market there are numerous competitors of various size. Generally, PBMs contract with Marketing and Sales organizations that market the cards either regionally or nationally via various sources, such as direct mail, internet, email, and sub-brokers/sales representatives.

Existing and potential competitors within the pharmacy discount card market include Catamaran Corp., ReStat Corp., Agility, Inc., CVS/Caremark Corp and local marketers across the country.

Information Technology

2012 has been a year of reorganization of our Information Technology ("IT") department. In the early part of the year, IT was reorganized to both support the divestiture of BioScrip's mail and specialty pharmacy divisions and then to scale IT operations accordingly to the continuing businesses. In mid-year, with the hiring of a new Chief Information Officer, IT department management was realigned to better position the IT organization for growth. IT investments in 2012 included, enhancements to the data-warehouse and business intelligence capabilities, significant functional expansion of our clinical portal, mybioscrip.com, and implementation of mobile devices to both sales and clinical field staff.

During 2013, we will initiate IT strategic investments in the areas of clinical workflow, data analytics and reporting via web portal(s), and tele-health device integration. In addition, restructuring will continue with the outsourcing of our IT data center hosting, management and operations.

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Financial Information about Segments

Segment financial information is provided in Note 9 of the Notes to the Consolidated Financial Statements.

Government Regulation

The healthcare industry is subject to extensive regulation by a number of governmental entities at the federal, state and local level. The healthcare regulatory landscape is also subject to frequent change. Laws and regulations in the healthcare industry are extremely complex and, in many instances, the industry does not have the benefit of significant regulatory or judicial interpretation. Moreover, our business is impacted not only by those laws and regulations that are directly applicable to us but also by certain laws and regulations that are applicable to our payors, vendors and referral sources. While our management believes we are in substantial compliance with all of the existing laws and regulations applicable to us, such laws and regulations are subject to rapid change and often are uncertain in their application. As controversies continue to arise in the healthcare industry, federal and state regulation and enforcement priorities in this area may increase, the impact of which cannot be predicted. There can be no assurance that we will not be subject to scrutiny or challenge under one or more of these laws or that any such challenge would not be successful. Any such challenge, whether or not successful, could have a material adverse effect upon our business and Consolidated Financial Statements. In addition, the Patient Protection and Affordable Care Act, or PPACA, and the Health Care and Education Reconciliation Act of 2010, which amended PPACA (collectively, the "Health Reform Law"), may have a considerable impact on the financing and delivery of health care and conceivably could have a material adverse effect on our business.

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

Medicare and Medicaid Reimbursement

Many of the products and services that we provide are reimbursed by Medicare and state Medicaid programs and are therefore subject to extensive government regulation. Medicare is a federally funded program that provides health insurance coverage for qualified persons age 65 or older and for some disabled persons with certain specific conditions. The Medicare Program currently consists of four parts: Medicare Part A, which covers, among other things, inpatient hospital, skilled nursing facility, home nursing and certain other types of healthcare services; Medicare Part B, which covers physicians' services, outpatient services, items and services provided by medical suppliers, and a limited number of prescription drugs; Medicare Part C, which generally allows beneficiaries to enroll in private healthcare plans (known as Medicare Advantage plans); and Medicare Part D, established by the Medicare Prescription, Drug, Improvement and Modernization Act of 2003 ("Medicare Modernization Act"), which provides for a voluntary prescription drug benefit.

The Medicaid Program provides medical benefits to groups of low-income and disabled individuals, some who may have inadequate or no medical insurance. Although the federal government establishes general guidelines for the program, Medicaid is a state administered program and each state sets its own guidelines regarding eligibility and covered services, subject to certain minimum federal requirements.

Congress often enacts legislation that affects, positively or negatively, the reimbursement rates of Medicare providers and also may impact Medicaid providers. Generally, Medicare provider payment modifications occur in the context of budget reconciliation; however, Medicare changes also may occur in the context of broader healthcare policy legislation, including the Health Reform Law. In the last several years, Congress has reduced Medicare reimbursement for various providers, including Medicare Part A certified home health agencies, and Medicare Part B suppliers.

Approximately 33% of our revenue for the year ended December 31, 2012 was derived directly from Medicare, Medicaid or other government-sponsored healthcare programs. Also, we indirectly provide services to beneficiaries of Medicare, Medicaid and other government-sponsored healthcare programs through managed care entities. Should there be material changes to federal or state reimbursement methodologies, regulations or policies, our direct reimbursements from government-sponsored healthcare programs, as well as service fees that relate indirectly to such reimbursements, could be adversely affected. In addition, certain state Medicaid programs only allow for reimbursement to pharmacies residing in the state or in a border state. While we believe we can service our current Medicaid patients through existing pharmacies, there can be no assurance that additional states will not enact in-state dispensing requirements for their Medicaid programs. To the extent such requirements are enacted, certain therapeutic pharmaceutical reimbursements could be adversely affected.

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Medicare Parts B and D

We receive reimbursement for infusion therapy under both Medicare Part B and Medicare Part D. In connection with the enactment of the Medicare Modernization Act, the Centers for Medicare and Medicaid Services ("CMS") promulgated a substantial volume of new regulations implementing the federal government's Voluntary Prescription Drug Benefit Program, known as Medicare Part D. CMS has attempted to clarify issues regarding coverage of infused drugs under Medicare Part D and the relationship with existing coverage under Medicare Part B. In certain cases, both Medicare Parts B and D will cover identical infused drugs. CMS has stated that coverage is generally determined by the diagnosis and the method of drug delivery.

Under Medicare Part D, the ingredient costs and dispensing fees associated with the administration of home infusion therapies are covered. Under Medicare Part B, no separate dispensing reimbursement is available. For eligible Medicare beneficiaries, the cost of equipment and supplies associated with infused drugs covered under Medicare Part D will continue to be reimbursed on a limited basis under Medicare Part A or Part B, as applicable, and the cost of professional services associated with infused covered Medicare Part D drugs will continue to be reimbursed on a limited basis under Medicare Part A. For beneficiaries who are dually eligible for benefits under Medicare and a state Medicaid program, Medicaid covered infused drugs will be reimbursed under individual state coverage guidelines if coverage is denied by Medicare.

The U.S. Department of Health and Human Services, Office of the Inspector General (“OIG”) and CMS continue to issue guidance with regard to the Medicare Part D program and compliance with related federal laws and regulations by Part D sponsors and their subcontractors. The receipt of funds made available through this program may be subject to compliance with these new regulations, the established laws and regulations governing the federal government's payment for healthcare goods and services, and provisions in contracts with the prescription drug plans. There are many uncertainties about the financial and regulatory risks of participating in the Medicare Part D program, and these risks could negatively impact our business in future periods.

Medicare Part A

Home health agencies, including ours, are reimbursed under the Medicare program on a prospective payment system. Home health services include:

- skilled nursing care;
- physical, occupational, and speech therapy;
- medical social work;
- home health aide services; and
- hospice services.

Medicare's home health prospective payment system is comprised of a set payment for each 60-day episode of care, a case-mix adjustment based on a patient's medical condition and service needs, an outlier payment for high cost patients and a low-utilization adjustment for patients who require only a few visits. Patients are assigned to case mix resource groups based on clinical and functional status and service use.

The Health Reform Law included a number of additional changes to payment for home health care services, including the following:

- reinstatement of the 3% home health rural add-on beginning April 1, 2010 (expiring January 1, 2016);
- market basket adjustment for 2011 to be determined by CMS, offset by a 1% reduction (1% reduction to market based updates set also for 2012 and 2013); and
- revised outlier payment policy beginning in 2011.

The impact of these items overall has decreased revenue within the industry. We believe we have not been affected differently than other companies within the industry.

On November 8, 2012, CMS published the Home Health Prospective Payment System update which became effective on January 1, 2013. The update finalized the following:

- a case-mix adjustment applicable to the national standardized 60-day episode equal to 1.32%;
- a Market Basket Index equal to 2.3%; and
- a home health payment update equal to 1.3%.

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Medicare Part C - Medicare Advantage

Under Medicare Part C, beneficiaries can choose to enroll with a managed care organization. Providers who serve these beneficiaries must contract with the applicable managed care organization. Reimbursement and other requirements imposed on the provider are governed by the agreement with the managed care organization rather than by statute or regulation and as such vary from plan to plan. Medicare advantage plans are permitted to cover certain services that fee-for-service Medicare does not cover. We currently have contracts with a number of Medicare advantage plans.

Legislative Changes to Medicare Reimbursement

The Medicare Modernization Act authorized a competitive bidding program for determining Medicare reimbursement rates for certain items of durable medical equipment, including enteral nutrients, supplies and equipment, and certain RT/HME products. CMS has the discretion to determine which products will be subject to competitive bidding. The first round of competitive bidding occurred in nine metropolitan areas around the country. A round one re-compete for certain product categories was also conducted, the results of which are not yet known. The second round of competitive bidding was conducted in 91 additional metropolitan statistical areas. New prices will go into effect in these areas July 1, 2013. The Health Reform Law requires that CMS institute competitive bidding or use competitive bidding prices in all areas by January 1, 2016. While there were several implementation delays, the first round became effective on January 1, 2011 and did not have a material impact on our business. It is unclear what, if any, impact the round one re-compete or the second round of bidding will have on our business. Continuing expansion of the program could have a negative impact on our revenue if we are not a successful bidder in many or all of the remaining metropolitan areas.

Legislation was introduced in the 112th Congress that would establish Medicare coverage of home infusion therapy and home infusion drugs under Medicare Part B and consolidate coverage under Medicare Part D. Medicare currently covers home infusion therapy for selected therapies primarily through the durable medical equipment benefit. However, these bills were not passed and we cannot predict whether new legislation will be introduced or passed. The Health Reform Law did not change Medicare coverage for home infusion therapy or home infusion drugs.

In the future, Congress could enact changes to Medicare reimbursement affecting home health services, including reducing the annual payment updates to below the current statutory levels, making other modifications for home health agencies in rural areas, adding beneficiary co-payments, requiring additional quality reporting or performance requirements and making broad-based changes to reimbursement for post-acute care settings (which includes nursing homes, inpatient rehabilitation facilities and long term care).

State Legislation and Other Matters Affecting Drug Prices

Some states have adopted legislation providing that a pharmacy participating in the state Medicaid program must give the state the best price that the pharmacy makes available to any third party plan ("most favored nation" legislation). Such legislation may adversely affect our ability to negotiate discounts in the future from network pharmacies. At least one state has enacted "unitary pricing" legislation, which mandates that all wholesale purchasers of drugs within the state be given access to the same discounts and incentives. Such legislation, if enacted in other states, could adversely affect our ability to negotiate discounts on our purchase of prescription drugs to be dispensed by the mail service pharmacies.

Effective September 26, 2009, First DataBank and Medi-Span agreed to reduce the mark-up factor applied to WAC, on which AWP is based, from 1.25 to 1.20 for the approximately 1,400 drug codes that were the subject of the lawsuits. These AWP publishers also similarly reduced the mark-up factor on all other national drug codes on which they had marked up AWP. This voluntary reduction affected approximately 18,000 national drug codes. First DataBank ceased publication of the AWP pricing benchmarks on September 28, 2011. As of March 5, 2013, a viable generally accepted alternative to the AWP benchmark has not been developed by the industry, and Medi-Span has announced they will continue to publish AWP until a new benchmark is widely accepted. See "Risk Factors - Risks Related to Our Business - Changes in industry pricing benchmarks could adversely affect our financial performance."

Medicaid

We are also sensitive to possible changes in state Medicaid programs as we do business with several state Medicaid programs. Budgetary concerns in many states have resulted in, and may continue to result in, reductions to Medicaid reimbursement and Medicaid eligibility as well as delays in payment of outstanding claims. Any reductions to or delays in collecting amounts

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reimbursable by state Medicaid programs for our products or services, or changes in regulations governing such reimbursements, could cause our revenue and profitability to decline and increase its working capital requirements. For further discussion on state Medicaid reductions, refer to “Management’s Discussion and Analysis of Financial Condition and Results of Operations” in Part II, Item 7.

Regulation of the Pharmacy Industry

Pharmacy Regulation

Every state's laws require our pharmacy locations in those states be licensed as an in-state pharmacy to dispense pharmaceuticals. State controlled substance laws require registration and compliance with state pharmacy licensure, registration or permit standards promulgated by the state's pharmacy licensing authority. Pharmacy and controlled substances laws often address the qualification of an applicant's personnel, the adequacy of its prescription fulfillment and inventory control practices and the adequacy of its facilities. In general, pharmacy licenses are renewed annually. We believe our pharmacy locations materially comply with all state licensing laws applicable to these businesses. If our pharmacy locations become subject to additional licensure requirements, are unable to maintain their required licenses or if states place burdensome restrictions or limitations on pharmacies, our ability to operate in some states would be limited, which could have an adverse impact on our business. We believe the impact of any such requirements would be mitigated by our ability to shift business among our numerous locations.

Many states, as well as the federal government, are considering imposing, or have already begun to impose, more stringent requirements on compounding pharmacies. (See also Food, Drug, and Cosmetic Act, below). We believe that our compounding is done in safe environments and we have clinically appropriate policies and procedures in place. We only compound pursuant to a patient specific prescription and do so in compliance with USP 797 standards. We cannot predict the impact of increased scrutiny on or regulation of compounding pharmacies.

Many of the states into which we deliver pharmaceuticals have laws and regulations that require out-of-state pharmacies to register with, or be licensed by, the boards of pharmacy or similar regulatory bodies in those states. These states generally permit the dispensing pharmacy to follow the laws of the state within which the dispensing pharmacy is located. However, various state pharmacy boards have enacted laws and/or adopted rules or regulations directed at restricting or prohibiting the operation of out-of-state pharmacies by, among other things, requiring compliance with all laws of the states into which the out-of-state pharmacy dispenses medications, whether or not those laws conflict with the laws of the state in which the pharmacy is located, or requiring the pharmacist-in-charge to be licensed in that state. To the extent that such laws or regulations are found to be applicable to our operations, we believe we comply with them. To the extent that any of the foregoing laws or regulations prohibit or restrict the operation of out-of-state pharmacies and are found to be applicable to us, they could have an adverse effect on our operations.

Laws enforced by the U.S. Drug Enforcement Administration, or DEA, as well as some similar state agencies, require each of our pharmacy locations to register with the DEA in order to handle and dispense controlled substances. A separate registration is required at each principal place of business where we dispense controlled substances. Federal and state laws also require we follow specific labeling, reporting and record-keeping requirements for controlled substances. We maintain federal and state controlled substance registrations for each of our facilities that require such registration and follow procedures intended to comply with all applicable federal and state requirements regarding

controlled substances.

Many states in which we operate also require home infusion companies to be licensed as home health agencies. We believe we comply with these laws.

Professional Licensure

Nurses, pharmacists and certain other professionals employed by us are required to be individually licensed and/or certified under applicable state law. We perform criminal and other background checks on employees and are required under state licensure to ensure respective employees possess all licenses and certifications required in order to provide their relevant healthcare-related services. We believe our employees comply with applicable licensure laws.

Food, Drug and Cosmetic Act

Pharmacy operations

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Certain provisions of the Federal Food, Drug and Cosmetic Act govern the preparation, handling, storage, marketing and distribution of pharmaceutical products. This law exempts many pharmaceuticals and medical devices from federal labeling and packaging requirements as long as they are not adulterated or misbranded and are dispensed in accordance with, and pursuant to, a valid prescription. The U.S. Food and Drug Administration (“FDA”) does not, however, regulate directly pharmacies or compounding pharmacies. Nevertheless, FDA will attempt to assert jurisdiction over pharmacies or compounding pharmacies which the agency believes act outside the scope of traditional pharmacy practice. In addition, the Federal Food, Drug, and Cosmetic Act governs pharmaceutical products' movement in interstate commerce. FDA has recently indicated an intention to scrutinize more closely compounding pharmacies' operations and compounded pharmaceuticals' movement in interstate commerce. While we cannot predict the future regulatory environment in which the company will operate, therefore, we believe we comply in all material respects with all applicable requirements.

Infusion services

The company's health care services offerings do not fall under the jurisdiction of FDA. However, certain medical devices (infusion pumps) essential to the company's infusion services are governed by the Federal Food, Drug, and Cosmetic Act and regulated by FDA. An infusion pump, like any medical device, is subject to failure. Since 2010, due to the relatively large number of adverse events associated with the use of infusion pumps, FDA has begun to change its approach to overseeing infusion pumps. Changes have included introducing higher levels of scrutiny, intensifying manufacturer engagement and bolstering user education / adverse event reporting. The shifting regulatory climate around infusion pumps, the requirement to maintain high levels of proficiency in using and training patients in the safe use of infusion pumps and, finally, the need to stay current in infusion pump design and “best practices” present elements of risk. Nevertheless, we believe we comply in all material respects with all applicable requirements and that our employees are adequately trained and equipped to use these devices.

Quality Standards/Accreditation

As mandated by the Medicare Modernization Act, in August 2006, CMS issued quality standards for suppliers, which are being applied by independent accredited organizations approved by CMS. As modified by The Medicare Improvements for Patients and Providers Act ("MIPPA"), all Medicare suppliers had to be accredited before October 1, 2009. We believe we have complied with this requirement.

Antitrust Laws

Numerous lawsuits have been filed throughout the United States by retail pharmacies against drug manufacturers challenging certain brand drug pricing practices under various state and federal antitrust laws. A settlement in this type of lawsuit could have an impact on pricing and discounts and could reduce or eliminate the availability to us of certain discounts, rebates and fees currently received in connection with our drug purchasing and formulary administration programs. In addition, to the extent that we or an associated business appear to have actual or potential market power in a relevant market, business arrangements and practices may be subject to heightened scrutiny from an anti-competitive perspective and possible challenge by state or federal regulators or private parties.

Regulation of the Home Health Industry

Home health agencies operate under licenses granted by the health authorities of their respective states. Home health agencies are surveyed for compliance with licensure regulation on a periodic basis, generally every 24 to 36 months. Certain states, including some in which we operate, carefully restrict new entrants into the market based on demographic and/or competitive changes. If our home health agencies become subject to new licensure requirements, are unable to maintain required licenses or if states place burdensome restrictions or limitations on home health agencies or home nursing agencies, our subsidiaries' ability to operate in some states would be limited, which could have an adverse impact on our business. We, through our subsidiaries, operate our home health business through state-licensed and Medicare certified, licensed agencies and believe we are in material compliance with all current licensure laws and regulations.

Fraud and Abuse Laws

Anti-Kickback Laws

Subject to certain statutory and regulatory exceptions (including exceptions relating to certain managed care, discount, bona fide employment arrangements, group purchasing and personal services arrangements), the federal "anti-kickback" law prohibits the knowing and willful offer or payment of any remuneration to induce the referral of an individual or the purchase, lease or order

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(or the arranging for or recommending of the purchase, lease or order) of healthcare items or services paid for in whole or in part by Medicare, Medicaid or other government-funded healthcare programs (including both traditional Medicaid fee-for-service programs as well as Medicaid managed care programs). Violation of the federal anti-kickback statute could subject us to criminal and/or civil penalties including suspension or exclusion from Medicare and Medicaid programs and other government-funded healthcare programs. A number of states also have enacted anti-kickback laws that sometimes apply not only to state-sponsored healthcare programs but also to items or services that are paid for by private insurance and self-pay patients. State anti-kickback laws can vary considerably in their applicability and scope and sometimes have fewer statutory and regulatory exceptions than does the federal law. Our management carefully considers the importance of such anti-kickback laws when structuring each company's operations and believes that each of our respective companies is in compliance therewith.

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

Certain governmental entities have commenced investigations of PBM companies and other companies having dealings with the PBM industry and have identified issues concerning selection of drug formularies, therapeutic substitution programs and discounts or rebates from prescription drug manufacturers and whether best pricing requirements are being complied with. Additionally, at least one state has filed a lawsuit concerning similar issues against a health plan. Governmental entities have also commenced investigations against specialty pharmaceutical distribution companies having dealings with pharmaceutical manufacturers concerning retail distribution and sales and marketing practices of certain products and therapies. There can be no assurance that we will not receive subpoenas or be requested to produce documents in pending investigations or litigation from time to time. In addition, we may be the target or subject of one or more such investigations or named parties in corresponding actions.

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

On April 18, 2003, the OIG released Compliance Program Guidance for Pharmaceutical Manufacturers (the "Guidance"), which is designed to provide voluntary, nonbinding guidance in devising effective compliance programs to assist companies that develop, manufacture, market and sell pharmaceutical products or biological products. The

Guidance provides the OIG's view of the fundamental elements of a pharmaceutical manufacturer's compliance program and principles that should be considered when creating and implementing an effective compliance program, or as a benchmark for companies with existing compliance programs. While we are not a manufacturer, we believe that many aspects of it are useful to our business and therefore we currently maintain a compliance program that includes the key compliance program elements described in the Guidance. We believe the fundamental elements of our compliance programs are consistent with the principles, policies and intent of the Guidance.

The Stark Laws

The federal self-referral law, commonly known as the "Stark Law," prohibits physicians from referring Medicare patients for "designated health services" (which include, among other things, outpatient prescription drugs, durable medical equipment and supplies and home health services) to an entity with which the physician, or an immediate family member of the physician, has a direct or indirect financial relationship, unless the financial relationship is structured to meet an applicable exception. Possible penalties for violation of the Stark Law include denial of payment, refund of amounts collected in violation of the statute, civil monetary penalties and program exclusion. Our management carefully considers the Stark Law and its accompanying regulations in structuring our financial relationships with physicians and believes we are in compliance therewith.

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State Self-Referral Laws

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

Statutes Prohibiting False Claims and Fraudulent Billing Activities

A range of federal civil and criminal laws target false claims and fraudulent billing activities. One of the most significant is the federal False Claims Act, which we refer to as the False Claims Act, which imposes civil penalties for knowingly making or causing to be made false claims in order to secure a reimbursement from government-sponsored programs, such as Medicare and Medicaid. Investigations or actions commenced under the False Claims Act may be brought either by the government or by private individuals on behalf of the government, through a "whistleblower" or "qui tam" action. The False Claims Act authorizes the payment of a portion of any recovery to the individual bringing suit. Such actions are initially required to be filed under seal pending their review by the Department of Justice. If the government intervenes in the lawsuit and prevails, the whistleblower (or plaintiff filing the initial complaint) may share with the federal government in any settlement or judgment. If the government does not intervene in the lawsuit, the whistleblower plaintiff may pursue the action independently. The False Claims Act generally provides for the imposition of civil penalties and for treble damages, resulting in the possibility of substantial financial penalties for small billing errors that are replicated in a large number of claims, as each individual claim could be deemed to be a separate violation of the False Claims Act. Significantly, the Health Reform Law amended the False Claims Act to require that an overpayment must be reported and returned to the government within 60 days after an overpayment is identified. The failure to comply with this requirement now constitutes a violation of the federal False Claims Act.

Some states also have enacted statutes similar to the False Claims Act which may include criminal penalties, substantial fines, and treble damages. In recent years, federal and state governments have launched several initiatives aimed at uncovering practices that violate false claims or fraudulent billing laws. Under Section 1909 of the Social Security Act, which became effective January 1, 2007, if a state false claim act meets certain requirements as determined by the OIG in consultation with the U.S. Attorney General, the state is entitled to an increase of ten percentage points in the state medical assistance percentage with respect to any amounts recovered under a state action brought under such a law. Some of the larger states in terms of population that have had the OIG review such laws include: California, Florida, Georgia, Illinois, Michigan, New Jersey, New York, North Carolina, Texas, and Virginia. We operate in all of these states and we submit claims for Medicaid reimbursement to the respective state Medicaid agencies. We expect the list of states that enact qualifying false claims acts to continue to grow. This legislation has led to increased auditing activities by state healthcare regulators. As such, we have been the subject of an increased number of audits. Further, a number of states, including states in which we operate, have adopted their own false claims statutes as well as statutes that allow individuals to bring qui tam actions. We believe we have procedures in place to ensure the accuracy of our claims. While we believe we are in compliance with Medicaid and Medicare billing rules and requirements, there can be no assurance that regulators would agree with the methodology employed by us in billing for our products and services, and a material disagreement between us, on the one hand, and these governmental agencies, on the other hand, on the manner in which we provide products or services could have a

material adverse effect on our business and Consolidated Financial Statements.

The False Claims Act also has been used by the federal government and private whistleblowers to bring enforcement actions under so-called "fraud and abuse" laws like the federal anti-kickback statute and the Stark Law. Such actions are not based on a contention that an entity has submitted claims that are facially invalid. Instead, such actions are based on the theory that when an entity submits a claim, it either expressly or impliedly certifies that it has provided the underlying services in compliance with applicable laws, and therefore that services provided and billed for during an anti-kickback statute or Stark Law violation result in false claims, even if such claims are billed accurately for appropriate and medically necessary services. The existence of the False Claims Act, which enforces alleged fraud and abuse violations, has increased the potential for such actions to be brought, and which often are costly and time-consuming to defend.

Civil Monetary Penalties Act

The Civil Monetary Penalties Act authorizes the U.S. Secretary of Health and Human Services (“HHS”) to impose civil money penalties, assessments and program supervision or exclusion for various forms of fraud and abuse involving the Medicare and Medicaid programs. Penalties range from $2,000 to $100,000 for each violation, depending on the specific misconduct

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involved. The Inspector General must only prove liability by a "preponderance of the evidence" rather than the more demanding "beyond a reasonable doubt" standard required in criminal actions. A health care provider may be held liable based on its own negligence and the negligence of its employees. There is no requirement that intent to defraud must be proved. The availability of the Civil Money Penalties Act to enforce alleged fraud and abuse violations has increased the potential for such actions, which often are costly and time-consuming to defend, to be brought.

Regulation of the PBM Industry

Licensure Laws

Many states have licensure or registration laws governing certain types of ancillary healthcare organizations, including preferred provider organizations, TPAs, discount card prescription drug programs and companies that provide utilization review services. The scope of these laws differs significantly from state to state, and the application of such laws to the activities of PBMs often is unclear. We have registered or are registering under such laws in those states in which we have concluded that such registration or licensure is required.

Legislation Imposing Plan Design Mandates

Some states have enacted legislation that prohibits Plan Sponsors from implementing certain restrictions on design features, and many states have introduced legislation to regulate various aspects of managed care plans including legislation that prohibits or restricts therapeutic substitution, requires coverage of all drugs approved by the FDA, or prohibits denial of coverage for non-FDA approved uses. For example, some states provide that members may not be required to use network providers, but that they must instead be provided with benefits even if they choose to use non-network providers ("freedom of choice" legislation), or provide that a member may sue his or her health plan if care is denied. Some states have enacted, and other states have introduced, legislation regarding plan design mandates. Some states mandate coverage of certain benefits or conditions. Such legislation does not generally apply to our business, but it may apply to certain of our customers (generally, health maintenance organizations ("HMOs") and health insurers). We do not believe the widespread enactment of these regulations would have a material adverse effect on our PBM business.

Consumer Protection Laws

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

Comprehensive PBM Regulation

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

Confidentiality, Privacy and HIPAA

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

The U.S. Congress passed the Administrative Simplification provisions of the Health Insurance Portability and Accountability Act of 1996 (“HIPAA”) to give people greater control over the privacy of their medical information, to help them transfer health insurance between employers, and to lower the costs involved in transmitting this information. In 2009, the Health Information for Economic and Clinical Health Act (“HITECH”), which was enacted as a part of the economic stimulus legislation, modified certain provisions of HIPAA to strengthen its privacy and security provisions.

The federal privacy regulations under HIPAA (the "Privacy Regulations") are designed to protect the medical information of a healthcare patient or health plan enrollee that could be used to identify the individual. We refer to this information as protected health information ("PHI"). Among numerous other requirements, the Privacy Regulations, as amended by HITECH: (i) limit

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certain uses and disclosures of PHI; (ii) limit most disclosures of PHI to the minimum necessary for the intended purpose; (iii) require patient authorization for certain uses and disclosures of PHI; (iv) guarantee patients the right to access their medical records and to know who else has accessed them; and (v) establish requirements for breach notification.

The Privacy Regulations apply to "covered entities," which include most healthcare providers and health plans. Under HITECH, the Privacy Regulations also apply to “business associates,” which are persons or entities that perform or assist in the performance of certain activities for or on behalf of a covered entity, if the performance of the services involves the use or disclosure of a patient’s protected health information. HIPAA requires that a covered entity and its business associate enter into written contract whereby the business associate agrees to certain restrictions regarding its use and disclosure of PHI. We provide a varied line of services to patients and other entities. Depending on the purpose or function of the service line, we may be functioning as a covered entity or a business associate for purposes of complying with HIPAA and the Privacy Regulations. For example, in our role as a pharmacy and home infusion therapy service provider, we are a covered entity. In our role as a PBM, we are a business associate.

We are also subject to compliance with the federal security regulations under HIPAA (the "Security Regulations"). The Security Regulations as amended by HITECH impose substantial requirements on covered entities and their business associates regarding the storage, utilization of, access to and transmission of electronic PHI.

The requirements imposed by the Privacy Regulations, and the Security Regulations are extensive and have required substantial cost and effort to assess and implement. We have taken and will continue to take steps that we believe are reasonable to ensure our policies and procedures are in compliance with the Privacy Regulations, and the Security Standards. The requirements imposed by HIPAA have increased our burden and costs of regulatory compliance (including our health improvement programs and other information-based products), altered our reporting and reduced the amount of information we can use or disclose if patients or members do not authorize such uses or disclosures. In addition, most states have enacted privacy and security laws that protect identifiable patient information which is not health related. Which state's laws are implicated is generally based on the state of the patient's residence. In response to concerns about identity theft, many states adopted so-called "security breach" notification laws that impose an obligation to notify persons when their personal information (e.g., social security numbers and financial information) has or may have been accessed by an unauthorized person. Further, several states have enacted pharmacy-related privacy legislation that not only applies to patient records but also prohibits the transfer or use for commercial purposes of pharmacy data that identifies prescribers. Many of these laws apply to our business and have and will continue to increase our burden and costs of privacy and security related regulatory compliance.

Healthcare Reform Legislation – The Health Reform Law

In March 2010, President Obama signed into law the Health Reform Law. The Health Reform Law will result in sweeping changes to the existing U.S. system for the delivery and financing of health care. In general, among other things, the reforms will increase the number of persons covered under government program and private insurance; furnish economic incentives for measurable improvements in health care quality outcomes; promote a more integrated health care delivery system and the creation of new health care delivery models; revise payment for health care services under the Medicare and Medicaid programs; and increase government enforcement tools and sanctions for combating fraud and abuse by health care providers. In addition, the Health Reform Law will reduce cost sharing for Medicare beneficiaries under the Part D prescription drug benefit program and provide funding for medication management services by licensed pharmacists to individuals with chronic conditions. In addition, subject to promulgation of regulations by the HHS Secretary, PBMs will be required to begin reporting to the HHS Secretary information regarding the percentage of prescriptions provided through retail as opposed to mail order pharmacies;

percentage of prescriptions for which a generic drug was available and dispensed; the aggregate amount of rebates, discounts and other price concessions that the PBM negotiates and the aggregate amount of such price concessions that are passed through to the Plan Sponsor; and the aggregate amount of the difference between the amount the health benefits plan pays the PBM, and the amount the PBM pays retail and mail order pharmacies.

The details for implementation of many of the requirements under the Health Reform Law will depend on the promulgation of regulations by a number of federal government agencies, including the HHS. It is impossible to predict what many of the final requirements will be, and the net effect of those requirements on us. There is likely to be considerable uncertainty as health industry stakeholders absorb and adapt to the profound changes embodied in the Health Reform Law.

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Employees

On March 5, 2013, we had 2,112 full-time, 86 part-time and 741 per diem employees. Per diem employees are defined as those available on an as-needed basis. None of our employees are represented by any union and, in our opinion, relations with our employees are satisfactory.

Available Information

We maintain a website at www.bioscrip.com. The information contained on our website is not incorporated by reference into this annual report on Form 10-K and should not be considered part of this report. We file annual, quarterly and current reports, proxy statements and other information with the Securities and Exchange Commission ("SEC"). We make available, free of charge, through our web site our reports on Forms 10-K, 10-Q, and 8-K, and amendments to those reports, as soon as reasonably practicable after they are filed with or furnished to the SEC.

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

Item 1A. Risk Factors

Risks Related to Our Business

The continuing economic pressures relating to the downturn in the economy could adversely affect our business and Consolidated Financial Statements.

During economic downturns and periods of stagnant or slow economic growth, Federal and state budgets are typically negatively affected, resulting in reduced reimbursements or delayed payments by our Federal and state government health care coverage programs in which we participate, including Medicare, Medicaid and other Federal or state assistance plans. Also, a reduction in state Medicaid reimbursement rates could be imposed upon us through amendments to contracts previously negotiated with the government and could adversely affect our revenues and financial results. Government programs could also slow or temporarily suspend payments on Medicaid obligations, negatively impacting our cash flow and increase our working capital needs and interest payments. We have seen, and believe we will continue to see, Medicare and state Medicaid programs institute measures aimed at controlling spending growth, including reductions in reimbursement rates.

Higher unemployment rates and significant employment layoffs and downsizings may lead to lower numbers of patients enrolled in employer-provided plans. The adverse economic conditions could also cause employers to stop offering, or limit, healthcare coverage, or modify program designs, shifting more costs to the individual and exposing us to greater credit risk from patients or the discontinuance of drug therapy compliance.

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

Our business is subject to numerous Federal, state and local laws and regulations. See "Business – Government Regulation." Changes in these regulations may require extensive changes to our systems and operations that may be difficult to implement. Untimely compliance or noncompliance with applicable laws and regulations could adversely affect the continued operation of our business, including, but not limited to: imposition of civil or criminal penalties;

suspension of payments from government programs; loss of required government certifications or approvals; suspension of authorizations to participate in or exclusion from government reimbursement programs; or loss of licensure. Reduction in reimbursement by Medicare, Medicaid and other governmental payors could adversely affect our business. The regulations to which we are subject include, but are not limited to, Anti-Kickback laws; Federal and state laws prohibiting self-referrals or "Stark laws"; HIPAA; False Claims Act; Civil Monetary Penalties Act; regulations of the FDA, U.S. Federal Trade Commission, and the U.S. Drug Enforcement Administration, and regulations of various state regulatory authorities. In that regard, our business and Consolidated Financial Statements could be affected by one or more of the following:

- Federal and state laws and regulations governing the purchase, distribution, management, compounding, dispensing and reimbursement of prescription drugs and related services;
- FDA and/or state regulation affecting the pharmacy or PBM industries;

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- rules and regulations issued pursuant to HIPAA and HITECH; and other federal and state laws affecting the use, disclosure and transmission of health information, such as state security breach notification laws and state laws limiting the use and disclosure of prescriber information;
- administration of Medicare and state Medicaid programs, including legislative changes and/or rulemaking and interpretation;
- state laws and regulations establishing or changing prompt payment requirements for payments to pharmacies and home health agencies;
- government regulation of the development, administration, review and updating of formularies and drug lists;
- managed care reform and plan design legislation; and
- federal or state laws governing our relationships with physicians or others in a position to refer to us.

If any of our home health agencies or pharmacies fail to comply with the conditions of participation in the Medicare program or Medicare supplier standards that home health agency or pharmacy could be suspended or disbarred from Federal healthcare programs, including Medicaid and Medicare, which could adversely affect our Consolidated Financial Statements.

Our home health agencies and pharmacies must comply with the extensive conditions of participation in the Medicare program. These conditions vary depending on the type of facility, but, in general, require our facilities to meet specified standards relating to licensure, personnel, patient rights, patient care, patient records, physical site, administrative reporting and legal compliance. If an agency or pharmacy fails to meet any of the Medicare conditions of participation or supplier standards, as applicable, that agency or pharmacy could be terminated from the Medicare program. We respond in the ordinary course to deficiency notices issued by state surveyors, and none of our pharmacies or agencies have ever been terminated from the Medicare program for failure to comply with the conditions of participation or supplier standards, as applicable. Any termination of one or more of our agencies or pharmacies from the Medicare program for failure to satisfy the Medicare conditions of participation or supplier standards, as applicable, could adversely affect our Consolidated Financial Statements.

We cannot predict the impact of any new requirements on compounding pharmacies.

Compounding pharmacies have come under increasing scrutiny from federal and state governmental agencies. We have been responding to requests for additional information on our practices as we receive them. We believe that our compounding is done in safe environments and we have clinically appropriate policies and procedures in place. We only compound pursuant to a patient specific prescription and do so in compliance with USP 797 standards. We cannot predict the impact of increased scrutiny on or regulation of compounding pharmacies.

Competition in the healthcare industry could reduce profit margins.

The healthcare industry is very competitive. Our competitors include large and well-established companies that may have greater financial, marketing and technological resources than we do. Some of our competitors are under common control with, or owned by, pharmaceutical wholesalers and distributors, managed care organizations, pharmacy benefit managers or retail pharmacy chains and may be better positioned with respect to the cost-effective distribution of pharmaceuticals. In addition, some of our competitors may have secured long-term supply or distribution arrangements for prescription pharmaceuticals necessary to treat certain chronic disease states on price terms substantially more favorable than the terms currently available to us. As a result of such advantageous pricing, we may be less price competitive than some of these competitors with respect to certain pharmaceutical products. Our competitive position could also be adversely affected by any inability to obtain access to new biotech pharmaceutical products.

Changes in the case mix of patients, as well as payor mix and payment methodologies, may have a material adverse effect on our Consolidated Financial Statements.

The sources and amounts of our patient revenue are determined by a number of factors, including the mix of patients and the rates of reimbursement among payors. Changes in the case mix of the patients, payment methodologies or payor mix among private pay, Medicare and Medicaid may significantly affect our Consolidated Financial Statements.

Changes in industry pricing benchmarks could adversely affect our financial performance.

Contracts within our business generally use certain published benchmarks to establish pricing for the reimbursement of prescription medications dispensed by us. These benchmarks include AWP, WAC and average manufacturer price. Many of our

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contracts utilize the AWP benchmark. As a part of the settlement of class-action lawsuits brought against First DataBank and Medi-Span, effective September 26, 2009, both companies announced they would cease publication of the AWP pricing benchmarks at the end of 2011. First DataBank ceased publication of the AWP pricing benchmarks on September 28, 2011. Without a suitable pricing benchmark in place many of our contracts will have to be modified and could potentially change the economic structure of our agreements. As of March 5, 2013, a viable generally accepted alternative to the AWP benchmark has not been developed by the industry, and Medi-Span has announced they will continue to publish AWP until a new benchmark is widely accepted.

Competitive bidding could reduce our volumes and profitability.

The Medicare Modernization Act authorized a competitive bidding program for determining Medicare reimbursement rates for certain items of durable medical equipment, including enteral nutrients, supplies and equipment, and certain RT/HME products. CMS has the discretion to determine which products will be subject to competitive bidding. The first round of competitive bidding occurred in nine metropolitan areas around the country. The second round of competitive bidding was conducted in 91 additional metropolitan statistical areas. New prices will go into effect in these areas July 1, 2013. The Health Reform Law requires that CMS institute competitive bidding or use competitive bidding prices in all areas by January 1, 2016. While there were several implementation delays, the first round became effective on January 1, 2011 and did not have a material impact on our business. It is unclear what, if any, impact the round one re-compete or the second round of bidding will have on our business. Continuing expansion of the program could have a negative impact on our revenue if we are not a successful bidder in many or all of the remaining metropolitan areas.

PBM client demands for enhanced service levels or possible loss or unfavorable modification of contracts with clients or providers could adversely affect our Consolidated Financial Statements.

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

Our contracts with PBM clients generally do not have terms longer than three years and, in some cases, may be terminated by the client on relatively short notice, typically 90 days. Our PBM clients generally seek bids from other PBM or specialty providers in advance of the expiration of their contracts. If several of these clients elect not to extend their relationship with us, and we are not successful in generating sales to replace the lost business, our future business and operating results could be materially and adversely affected. In addition, we believe the managed care industry is undergoing substantial consolidation, and another party that is not our client could acquire some of our managed care clients. In such case, there is a risk of contract loss and a loss of the associated revenues and profit.

There are approximately 60,000 retail pharmacies in the United States. All major retail chain pharmacies and a vast majority of independent pharmacies participate in our pharmacy network. The top ten retail pharmacy chains represent approximately 65% of the total number of stores and over 80% of prescriptions filled in our network. Our contracts with retail pharmacies, which are non-exclusive, are generally terminable on relatively short notice. If one or more of the top pharmacy chains elects to terminate its relationship with us, our members' access to retail pharmacies and our business could be materially and adversely affected. In addition, many large pharmacy chains either own PBMs today, or could attempt to acquire a PBM in the future. Increased ownership of PBMs by retail pharmacy chains could materially and adversely affect our relationships with those pharmacy chains and, accordingly, our Consolidated Financial Statements.

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

We are subject to risks relating to litigation and other proceedings in connection with our operations, including the dispensing of pharmaceutical products. See Item 3 – Legal Proceedings for a list of material proceedings pending against us. While we believe that these suits are without merit and intend to contest them vigorously, we can give no assurance that an adverse outcome in one or more of these suits would not have a material adverse effect on our consolidated results of operations, consolidated financial position and/or consolidated cash flow from operations, or would not require us to make material changes to our business practices. We periodically respond to subpoenas and requests for information from governmental agencies. We confirm that we are not a target or a potential subject of a criminal investigation. We cannot predict with certainty what the outcome of any of the foregoing might be or whether we may in the future become a target or potential target of an investigation or the subject of further inquiries or ultimately settlements with respect to the subject matter of these subpoenas. In addition to potential monetary liability arising from these suits and proceedings, from time to time we incur costs in providing documents to government agencies. Current

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pending claims and associated costs may be covered by our insurance, but certain other costs are not insured. There can be no assurance that such costs will not increase and/or continue to be material to the Company's performance in the future.

In addition, as we continue our strategic assessment and cost reduction efforts, there is an increased risk of employment and workers compensation-related litigation and/or administrative claim brought against us. We would defend against any and all such litigation and claims, as appropriate. We do not believe that any one or more such employment and workers compensation related litigation and claims would have a material adverse effect upon us and our Consolidated Financial Statements; however, there can be no assurance that there would not be a material adverse effect on our Consolidated Financial Statements in any particular reporting period.

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

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

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

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

We purchase a majority of our pharmaceutical products from one vendor and a disruption in our purchasing arrangements could adversely impact our business.

We purchase a majority of our prescription products, subject to certain minimum periodic purchase levels and excluding purchases of therapeutic plasma products, from a single wholesaler, ABDC, pursuant to a prime vendor agreement. The term of this agreement extends until December 2015, subject to extension for up to two additional years. Any significant disruption in our relationship with ABDC, or in ABDC's supply and timely delivery of products to us, would make it difficult and possibly more costly for us to continue to operate our business until we are able to execute a replacement wholesaler agreement. There can be no assurance that we would be able to find a replacement wholesaler on a timely basis or that such wholesaler would be able to fulfill our demands on similar financial terms and service levels. If we are unable to identify a replacement on substantially similar financial terms and/or service levels, our Consolidated Financial Statements may be materially and adversely affected.

A disruption in supply could adversely impact our business

We also source pharmaceuticals, medical supplies and equipment from other manufacturers, distributors and wholesalers. Most of the pharmaceuticals that we purchase are available from multiple sources, and we believe they

are available in sufficient quantities to meet our needs and the needs of our patients. We keep safety stock to ensure continuity of service for reasonable, but limited, periods of time. Should a supply disruption result in the inability to obtain especially high margin drugs and compound components, our Consolidated Financial Statements could be negatively impacted.

Acts of God such as major weather disturbances could disrupt our business

We operate in a network of prescribers, providers, patients, and facilities that can be negatively impacted by local weather disturbances and other force majeure events. For example,in anticipation of major weather events, patients with impaired health may be moved to alternate sites. After a major weather event, availability of electricity, clean water and transportation can impact our ability to provide service in the home. In addition, acts of God and other force majeure events may cause a reduction in our business or increased costs, such as increased costs in our operations as we incur overtime charges or redirect services to other locations, delays in our ability to work with payors, hospitals, physicians and other strategic partners on new business initiatives, and disruption to referral patterns as patients are moved out of facilities affected by such events or are unable to return to sites of service in the home.

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Failure to develop new services may adversely affect our business.

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

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

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

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

Our business is dependent on the services provided by third party information technology vendors.

Our information technology infrastructure includes hosting services provided by third parties. While we believe these third parties are secure, high-performing organizations with customary certifications, they could suffer business interruption which in term could impact our operations negatively.

Our failure to maintain controls and processes over billing and collecting could have a significant negative impact on our Consolidated Financial Statements.

The collection of accounts receivable is a significant challenge, and requires constant focus and involvement by management and ongoing enhancements to information systems and billing center operating procedures. If we are unable to properly bill and collect our accounts receivable, our results could be materially and adversely affected. While management believes that controls and processes are satisfactory, there can be no assurance that accounts receivable collectability will remain at current levels.

The Health Reform Law and its implementation could have a material adverse effect on our business.

The Health Reform Law will result in sweeping changes to the existing U.S. system for the delivery and financing of health care. The details for implementation of many of the requirements under the Health Reform Law will depend on the promulgation of regulations by a number of federal government agencies, including the HHS. It is impossible to predict the outcome of these changes, what many of the final requirements of the Health Reform Law will be, and the net effect of those requirements on us. As such, we cannot predict the impact of the Health Reform Law on our business, operations or financial performance.

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

We dispense significant volumes of prescription medications from our pharmacies. Our dispensing volume is the principle driver of revenue and profitability. When products are withdrawn by manufacturers, or when increased safety risk profiles of specific drugs or classes of drugs result in utilization decreases, physicians may cease writing or reduce the numbers of prescriptions written for these higher-risk drugs. Additionally, negative media reports regarding drugs with higher safety risk profiles may result in reduced consumer demand for such drugs. In cases where there are no acceptable prescription drug equivalents or alternatives for these prescription drugs, our prescription volumes, net revenues, profitability and cash flows may decline.

The loss of a relationship with one or more Third Party Payors or Plan Sponsors could negatively impact our business.

Where we do not have preferred or exclusive arrangements with Plan Sponsors, our contracts for reimbursement with Plan Sponsors are often on a perpetual or “evergreen” basis. These evergreen contracts are subject to termination by a Plan Sponsor’s written notice. The required notice varies by contract and is typically 30 to 90 days. Depending on the amount of revenues

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generated by any single Plan Sponsor or more than one Plan Sponsor in the aggregate, one or more terminations could have a material and adverse effect on our Consolidated Financial Statements. As of the date of this filing, we are unaware of any intention by one or more Plan Sponsors to terminate or not renew agreement(s) with us such that we would experience a material and adverse effect on our Consolidated Financial Statements.

Home infusion joint ventures formed with hospitals could adversely affect our financial results.

The home infusion industry is currently seeing renewed activity in the formation of equity-based infusion joint ventures formed with hospitals. This activity stems, in part, from hospitals seeking to position themselves for new paradigms in the delivery of coordinated healthcare and new methods of payment, including an emerging interdisciplinary care model forming what is being labeled an accountable care organization (ACO). These organizations are encouraged by the new Health Reform Law. These entities are being designed in order to save money and improve quality of care by better integrating care, with the healthcare provider possibly sharing in the financial benefits of the new efficiencies.

Participation in equity-based joint ventures offer hospitals and other providers an opportunity to more efficiently transfer patients to less expensive care settings, while keeping the patient within its network. Additionally, it provides many hospitals with a mechanism to invest accumulated profits in a growing sector with attractive margins.

If these home infusion joint ventures continue to expand and we lose referrals as a result, our Consolidated Financial Statements could be adversely affected.

Network lock-outs by health insurers and PBMs could adversely affect our financial results.

Many Plan Sponsors and PBMs continue to create exclusive pharmacy networks which limit a member’s access to a mail service facility or network of preferred pharmacies. To the extent our pharmacies are excluded from these networks, we are unable to dispense medications to those members and bill for prescriptions to those member’s insurance carriers. If these specialty networks continue to expand and we are locked out from dispensing infusion medications to members of exclusive networks, our Consolidated Financial Statements could be adversely affected.

A shortage of qualified registered nursing staff, pharmacists and other professionals could adversely affect our ability to attract, train and retrain qualified personnel and could increase operating costs.

Our business relies significantly on its ability to attract and retain nursing staff, pharmacists and other professionals who possess the skills, experience and licenses necessary to meet the requirements of their job responsibilities. From time to time and particularly in recent years, there have been shortages of nursing staff, pharmacists and other professionals in certain local and regional markets. As such, we are often required to compete for personnel with other healthcare systems and our competitors. Our ability to attract and retain personnel depends on several factors, including our ability to provide them with engaging assignments and competitive benefits and salaries. There can be no assurance that we will be successful in any of these areas.

In addition, where labor shortages arise in markets in which we operate, we may face higher costs to attract personnel, and we may have to provide them with more attractive benefit packages than originally anticipated or are being paid in other markets where such shortages don’t exist at the time. In either case, such circumstances could cause our profitability to decline. Finally, if we expand our operations into geographic areas where healthcare providers historically have unionized or unionization occurs in our existing geographic areas, we cannot provide assurance that negotiating collective bargaining agreements will not have a negative effect on our ability to timely and successfully recruit qualified personnel and on our financial results. If we are unable to attract and retain nursing staff, pharmacists and other professionals, the quality of our services may decline and we could lose patients and referral sources.

Introduction of new drugs or accelerated adoption of existing lower margin drugs could cause us to experience lower revenues and profitability when prescribers prescribe these drugs for their patients or they are mandated by Plan Sponsors.

The pharmaceutical industry pipeline of new drugs includes many drugs that over the long term, may replace older, more expensive therapies, as a result of such drugs going off patent and being replaced by generic substitutes, new and less expensive delivery methods (such as when an infusion or injectable drug is replaced with an oral drug) or additional products are added to a therapeutic class, thereby increasing price competition among competing manufacturer's products in that therapeutic category. In such cases, manufacturers have the ability to increase drug acquisition costs or lower the selling price of replaced products. This could have the effect of lowering our revenues and/or margins.

The loss of a relationship with one or more of our discount card brokers could negatively impact our business.

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We contract with over 80 marketing companies that provide pharmacy discount cards to the uninsured and underinsured. Depending on the amount of revenue generated by any broker agreement, one or more terminations could have a material and adverse effect on our Consolidated Financial Statements. The brokers we use are typically small, privately held marketing companies. The two largest brokers generate a significant percentage of the discount card business. We are unaware of any intention by a significant discount card broker to terminate or not renew an agreement with us.

Financial difficulties at our third party processor of discount card claims could negatively impact our business.

Our contract with a third party PBM to process discount card transactions allows for the timely collections of discount card claims against the third party processor's network pharmacy claims population. While this can improve claim collection, it also concentrates our credit risk with the third party processor. Should our third party processor experience financial difficulties or declare bankruptcy, we could suffer increased bad debt expense and reduced operating profit.

Increases in costs to fulfill discount card claims could reduce our profitability

The discount card portion of our PBM business relies on participating network pharmacies to fulfill drug prescriptions and reimburse us for the utilization of the card. Our fees are based on negotiated rates with the pharmacies. Should these fees decrease, operating profit will be reduced.

Subject to certain limitations, the former CHS stockholders and certain former option holders of CHS may sell our common stock, which could cause our stock price to decline.

The shares of our common stock that the former CHS stockholders and certain former option holders of CHS received in connection with the merger with CHS are restricted, but such former CHS stockholders and former option holders may sell the shares of our common stock under certain circumstances, including in compliance with Rule 144 promulgated under the Securities Act of 1933, as amended. We have entered into a stockholders' agreement with the former CHS stockholders and certain former option holders of CHS, pursuant to which we have agreed to register their shares of our common stock with the SEC in order to facilitate sales of those shares. The sale of a substantial number of our shares by such parties or our other stockholders within a short period of time could cause our stock price to decline, making it more difficult for us to raise funds through future offerings of our common stock or acquire other businesses using our common stock as consideration.

Our ability to use net operating loss carryforwards to offset future taxable income for U.S. federal tax purposes is subject to limitation, and our issuance of common stock in the CHS merger increased the risk that we could experience an "ownership change" in the future that could further limit our ability to utilize our net operating losses.

Under U.S. federal income tax law, a corporation's ability to utilize its net operating losses, or NOLs, to offset future taxable income may be significantly limited if it experiences an "ownership change" as defined in Section 382 of the Internal Revenue Code of 1986, as amended, which we refer to as the Code. In general, an ownership change will occur if there is a cumulative change in a corporation's ownership by "5-percent shareholders" that exceeds 50 percentage points over a rolling three-year period. A corporation that experiences an ownership change will generally be subject to an annual limitation on its pre-ownership change NOLs equal to the value of the corporation immediately before the ownership change, multiplied by the long-term tax-exempt rate (subject to certain adjustments). The annual limitation for a taxable year generally is increased by the amount of any "recognized built-in gains" for such year and the amount of any unused annual limitation in a prior year.

As of December 31, 2012, we had NOLs for U.S. federal income tax purposes of approximately $49.6 million. Approximately $26.6 million of these NOLs were acquired in the InfuScience, Inc. acquisition in 2012 and are subject to an annual limitation under Section 382 of the Code.

We did not experience an ownership change upon the issuance of common stock in the CHS merger in 2010. However, the issuance of common stock in the merger, together with other issuances of common stock during the applicable three-year period, could cause us to experience an ownership change under Section 382 of the Code. As a result, the issuance of our common stock in the merger increased the risk that we could experience an ownership change during the three-year period following the merger, which could further limit our ability to utilize our NOLs.

Federal actions may reduce reimbursement rates from governmental payors and adversely affect our results of operations.

In August 2011, the Budget Control Act of 2011 was enacted into law to increase the federal debt ceiling. The law included spending cuts of nearly $1 trillion over the next 10 years. The law further created a Congressional committee that was given a

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deadline of November 23, 2011 to develop recommendations for further reducing the federal deficit by another $1.2 trillion over 10 years. The committee was unable to agree on a plan by the November deadline, and as a result, automatic spending cuts were triggered. In January 2013, the American Taxpayer Relief Act of 2012 was enacted to address a number of events commonly known as the “fiscal cliff.” As a result of this legislation, automatic Medicare spending cuts (and resultant reductions in reimbursement) were delayed by two (2) months. Congress did not act to change or delay the automatic spending cuts by March 1, 2013, so they are now in effect. Unless Congress takes additional action, Medicare reimbursement to providers will be reduced overall by 2% beginning April 1, 2013. The automatic spending cuts do not have an impact on Medicaid reimbursement. The reductions in Medicare reimbursement could have an adverse effect on our results of operations, although the impact cannot yet be predicted. There may also be other impacts from the automatic spending reductions that we cannot predict. For example, staff at CMS and Medicare administrative contractors may be reduced which could result in delays in claims processing.

We may face liabilities and expect to incur significant costs relating to our business, and the Pharmacy Services Asset Sale.

We are still subject to potential liabilities relating to historical business operations that were subject to the Pharmacy Services Asset Sale. Under the terms of the Pharmacy Services Asset Sale, we retained and are responsible for most historical liabilities of the operations subject to the Pharmacy Services Asset Sale. In addition, we are obligated to indemnify the Buyers against certain potential liabilities and for breaches of representations, warranties and covenants under the Asset Purchase Agreement. We may also be subject to claims by, and liabilities to, various stakeholders or other parties, including counterparties, regulatory authorities and employees, resulting from the conduct of the operations subject to the Pharmacy Services Asset Sale prior to the consummation of the Pharmacy Services Asset Sale.

Acquisitions, strategic investments and strategic relationships involve certain risks.

We intend to pursue opportunistic strategic acquisitions of, or investments in, businesses and technologies. Acquisitions may entail numerous risks, including difficulties in assessing values for acquired businesses, intangible assets and technologies, difficulties in the assimilation of acquired operations and products, diversion of management's attention from other business concerns, assumption of unknown material liabilities of acquired companies, amortization of acquired intangible assets which could reduce future reported earnings, and potential loss of clients or key employees of acquired companies. We may not be able to successfully fully integrate the operations, personnel, services or products that we have acquired or may acquire in the future. Strategic investments may also entail some of the risks described above. If these investments are unsuccessful, we may need to incur charges against earnings. We may also pursue a number of strategic relationships. These relationships and others we may enter into in the future may be important to our business and growth prospects. We may not be able to maintain these relationships or develop new strategic alliances.

There can be no assurance that we will be able to identify suitable acquisition candidates or business and investment opportunities.

We intend to continue to explore strategic alternatives and identify new business acquisition opportunities. There is no assurance that we will be able to identify such new business acquisition opportunities or strategic alternatives to continue to execute our strategy.

We may incur significant costs in connection with our evaluation of new business opportunities and suitable acquisition candidates.

Our management intends to identify, analyze and evaluate potential new business opportunities, including possible acquisition and merger candidates. We may incur significant costs, such as due diligence and legal and other professional fees and expenses, as part of these efforts. Notwithstanding these efforts and expenditures, we cannot give any assurance that we will identify an appropriate new business opportunity, or any acquisition opportunity, in the near term, or at all.

Infusion expansion involves certain regulatory risks.

The Company is expanding its infusion presence which may expose the Company to regulatory and governmental risks. The infusion services industry in many states is heavily regulated. The varying compliance requirements of these different regulatory jurisdictions and other factors may limit our ability to successfully conduct or expand our business. Additionally, the expansion into new locations involves substantial operational and execution risk. We may not be able to manage these risks effectively.

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Risks Related to Indebtedness

The significant indebtedness incurred to complete the CHS acquisition imposed operating and financial restrictions on us which, together with the resulting debt service obligations, may significantly limit our ability to execute our business strategy and increase the risk of default under our debt obligations.

We issued $225 million of senior unsecured notes (“Senior Unsecured Notes”) and entered into a credit agreement to finance the acquisition of CHS. In late 2010, we refinanced and entered into an amended and restated credit agreement which resulted in a $150.0 million revolving facility ("Revolving Credit Facility"), which was further amended to reduce the revolving commitment from $150.0 million to $125.0 million. The terms of the Revolving Credit Facility require us to comply with certain financial covenants, including a minimum fixed charge coverage ratio, minimum liquidity levels and maximum accounts receivable turnover levels. In addition, subject to a number of important exceptions, the indenture governing the Senior Unsecured Notes and the Revolving Credit Facility contains certain restrictions on our ability to, among other things:

- incur or guarantee additional indebtedness or issue certain preferred stock;
- transfer or sell assets;
- make certain investments;
- pay dividends or distributions, redeem subordinated indebtedness, or make other restricted payments;
- create or incur liens;
- incur dividend or other payment restrictions affecting certain subsidiaries;
- issue capital stock of our subsidiaries;
- consummate a merger, consolidation or sale of all or substantially all of our assets; and
- enter into transactions with affiliates.

Consequently, the restrictions contained in the indenture governing the Senior Unsecured Notes and the Revolving Credit Facility may prevent us from taking actions that we believe would be in the best interest of our business, and may make it difficult for us to successfully execute our business strategy or effectively compete with companies that are not similarly restricted. Additionally, the terms of the Revolving Credit Facility require us to comply with certain financial covenants, including a minimum fixed charge coverage ratio, minimum liquidity levels and maximum accounts receivable turnover levels. We cannot assure you that we will meet those tests or that the lenders under the Revolving Credit Facility will waive any failure to meet those tests.

A breach of any of these covenants or the inability to comply with the required financial ratios could result in a default under the Revolving Credit Facility or the indenture governing the Senior Unsecured Notes, as applicable. If any such default occurs, the lenders under the Revolving Credit Facility and the holders of the Senior Unsecured Notes may elect to declare all of their respective outstanding debt, together with accrued interest and other amounts payable thereunder, to be immediately due and payable. The lenders under the Revolving Credit Facility also have the right in these circumstances to terminate any commitments they have to provide further borrowings. If we were unable to pay such amounts, the lenders under the Revolving Credit Facility could proceed against the collateral pledged to them. We have pledged a substantial portion of our assets to the lenders under the Revolving Credit Facility.

In addition, the degree to which we may be leveraged as a result of the indebtedness incurred in connection with the merger or otherwise could:

- materially and adversely affect our ability to obtain additional financing for working capital, capital expenditures, acquisitions, debt service requirements or other purposes;
- make us more vulnerable to general adverse economic, regulatory and industry conditions;
- limit our flexibility in planning for, or reacting to, changes and opportunities in the markets in which we compete;

- place us at a competitive disadvantage compared to our competitors that have less debt or could require us to dedicate a substantial portion of our cash flow to service our debt;
- reduce the funds available to us for operations and other purposes;
- limit our ability to fund the repurchase of the Senior Unsecured Notes upon a change of control; or
- restrict us from making strategic acquisitions or exploiting other business opportunities.

Our Senior Unsecured Notes are not secured by our assets or those of our guarantor subsidiaries.

Our Senior Unsecured Notes and the related guarantees are our, and our guarantor subsidiaries', general unsecured obligations and are effectively subordinated in right of payment to all of our and our guarantor subsidiaries' secured indebtedness and obligations, including all indebtedness under the Revolving Credit Facility. If we become insolvent or are liquidated, or if payment under any of the instruments governing our secured debt is accelerated, the lenders under those instruments will be entitled to

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exercise the remedies available to a secured lender under applicable law and pursuant to the instruments governing such debt. Accordingly, our secured indebtedness and obligations, including all indebtedness under the Revolving Credit Facility, is senior to the Senior Unsecured Notes to the extent of the value of the excess collateral securing that indebtedness. In that event, because the Senior Unsecured Notes and the guarantees will not be secured by any of our assets, it is possible that our remaining assets might be insufficient to satisfy claims of holders of the Senior Unsecured Notes in full or at all.

As of December 31, 2012, we had no principal amount of secured indebtedness outstanding under the Revolving Credit Facility. Under the terms of our prime vendor agreement with our primary drug wholesaler, we granted our primary drug wholesaler a secured second lien in all of our inventory accounts and proceeds and products thereto and thereof. Any additional borrowings pursuant to the Revolving Credit Facility would be secured indebtedness, if incurred. Although the indenture governing the Senior Unsecured Notes contains limitations on the amount of additional indebtedness that we may incur, under certain circumstances the amount of such indebtedness could be substantial and, under certain circumstances, such indebtedness may be secured indebtedness and senior in right of payment to the Senior Unsecured Notes.

Despite our substantial indebtedness, we may still incur significantly more debt. This could exacerbate the risks associated with our substantial leverage.

We may incur substantial additional indebtedness, including additional secured indebtedness, in the future, including in connection with future acquisitions, strategic investments and strategic relationships. Although the indenture governing the Senior Unsecured Notes and the Revolving Credit Facility contain restrictions on the incurrence of additional debt, these restrictions are subject to a number of qualifications and exceptions and, under certain circumstances, debt incurred in compliance with these restrictions, including secured debt, could be substantial. The Revolving Credit Facility permits, among other things, revolving credit borrowings of up to $125.0 million. Adding additional debt to current debt levels could exacerbate the leverage-related risks described above.

To service our indebtedness and other obligations, we will require a significant amount of cash. Our ability to generate cash depends on many factors beyond our control.

Our ability to make payments on and to refinance our indebtedness, including the Senior Unsecured Notes, and to fund working capital needs and planned capital expenditures will depend on our ability to generate cash in the future. A significant reduction in our operating cash flows resulting from changes in economic conditions, increased competition or other events beyond our control could increase the need for additional or alternative sources of liquidity and could have a material adverse effect on our business, Consolidated Financial Statements, prospects and our ability to service our debt and other obligations.

We cannot assure you that our business will generate sufficient cash flows from operations or that future borrowings will be available to us under the Revolving Credit Facility or otherwise in an amount sufficient to enable us to pay our indebtedness, including our indebtedness under the Revolving Credit Facility and the Senior Unsecured Notes, or to fund our other liquidity needs. We may need to refinance all or a portion of our indebtedness, including the Senior Unsecured Notes, on or before the maturity of the debt. We cannot assure you that we will be able to refinance any of our indebtedness on commercially reasonable terms or at all.

We may not be able to satisfy our obligations to holders of the Senior Unsecured Notes upon a change of control or asset sale.

Upon the occurrence of a change of control (as defined in the indenture governing the Senior Unsecured Notes), holders of the Senior Unsecured Notes will have the right to require us to purchase the Senior Unsecured Notes at a price equal to 101% of the principal amount of such Senior Unsecured Notes, plus any accrued and unpaid interest to the date of purchase.

In addition, upon the occurrence of a certain asset sale, holders of the Senior Unsecured Notes may, under certain circumstances, have the right to require us to purchase a portion of the Senior Unsecured Notes at a price equal to 100% of the principal amount of such Senior Unsecured Notes, plus any accrued and unpaid interest to the date of purchase.

In addition, upon the occurrence of such asset sale, the net proceeds generated from the sale may be used for certain specified purposes within 360 days of receipt, including to repay indebtedness under our Revolving Credit Facility and correspondingly reduce commitments under the facility, to acquire the capital stock or substantially all of the assets of a business that will become a restricted subsidiary of the Company, to make capital expenditures, and to acquire long-term assets that are useful for the operation of the Company's business. If net proceeds exceeding $15 million remain after 360 days following receipt of the proceeds of such an asset sale, we will be required to offer to purchase the maximum principal amount of the Senior Unsecured Notes that may be purchased with such excess proceeds, at a price equal to 100% of the principal amount of such Senior Unsecured Notes, plus

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any accrued and unpaid interest to the date of purchase. Thereafter, any proceeds remaining from such an asset sale and not used to purchase Senior Unsecured Notes may be used for any appropriate business purpose without restriction. Because the net proceeds received from the Pharmacy Services Asset Sale have been reinvested in accordance with the indenture governing the Senior Unsecured Notes, we will not be required to offer to purchase any Senior Unsecured Notes as a result of that sale.

If a change of control offer or asset sale offer is made, we may not have available funds sufficient to pay the change of control purchase price or asset sale purchase price for any or all of the Senior Unsecured Notes that might be delivered by holders of the Senior Unsecured Notes seeking to exercise the change of control put right or asset sale put right. If we are required to purchase Senior Unsecured Notes pursuant to a change of control offer or asset sale offer, we would be required to seek third-party financing to the extent we do not have available funds to meet our purchase obligations. There can be no assurance that we will be able to obtain such financing on acceptable terms to us or at all. Accordingly, none of the holders of the Senior Unsecured Notes may receive the change of control purchase price or asset sale purchase price for their Senior Unsecured Notes. Our failure to make or consummate the change of control offer or asset sale offer, or to pay the change of control purchase price or asset sale purchase price when due, will give the holders of the Senior Unsecured Notes the rights described in "Description of Notes — Events of Default and Remedies", which is in the Company's Form S-4 filed with the SEC on June 22, 2010.

In addition, the events that constitute a change of control or asset sale under the indenture governing the Senior Unsecured Notes may also be events of default under the Revolving Credit Facility. These events may permit the lenders under the Revolving Credit Facility to accelerate the debt outstanding there-under and, if such debt is not paid, to enforce security interests in our specified assets, thereby limiting our ability to raise cash to purchase the Senior Unsecured Notes and reducing the practical benefit of the offer-to-purchase provisions to the holders of the Senior Unsecured Notes.

A subsidiary guarantee could be voided if it constitutes a fraudulent transfer under U.S. bankruptcy or similar state law, which would prevent the holders of the Senior Unsecured Notes from relying on that subsidiary to satisfy claims.

The Senior Unsecured Notes are guaranteed by our domestic restricted subsidiaries. The guarantees may be subject to review under U.S. federal bankruptcy law and comparable provisions of state fraudulent conveyance laws if a bankruptcy or another similar case or lawsuit is commenced by or on behalf of our or a guarantor subsidiary's unpaid creditors or another authorized party. Under these laws, if a court were to find that, at the time any guarantor subsidiary issued a guarantee of the Senior Unsecured Notes, either it issued the guarantee to delay, hinder or defraud present or future creditors or it received less than reasonably equivalent value or fair consideration for issuing the guarantee and at the time:

- it was insolvent or rendered insolvent by reason of issuing the guarantee;
- it was engaged, or about to engage, in a business or transaction for which its remaining unencumbered assets constituted unreasonably small capital to carry on its business;
- it intended to incur, or believed that it would incur, debts beyond its ability to pay as they mature; or
- it was a defendant in an action for money damages, or had a judgment for money damages docketed against it if, in either case, after final judgment, the judgment is unsatisfied, then the court could void the obligations under the guarantee, subordinate the guarantee of the Senior Unsecured Notes to other debt or take other action detrimental to holders of the Senior Unsecured Notes.

We cannot be sure as to the standard that a court would use to determine whether a guarantor subsidiary was solvent at the relevant time, or, regardless of the standard that the court uses, that the issuance of the guarantees would not be voided or that the guarantees would not be subordinated to other debt. If such a case were to occur, the guarantee

could also be subject to the claim that, since the guarantee was incurred for our benefit, and only indirectly for the benefit of the guarantor subsidiary, the obligations of the applicable guarantor subsidiary were incurred for less than fair consideration. A court could thus void the obligations under the guarantee, subordinate the guarantee to the applicable guarantor subsidiary's other debt or take other action detrimental to holders of the Senior Unsecured Notes. If a court were to void a guarantee, holders of the Senior Unsecured Notes would no longer have a claim against the guarantor subsidiary. Sufficient funds to repay the Senior Unsecured Notes may not be available from other sources, including the remaining guarantor subsidiaries, if any. In addition, the court might direct the holder of the Senior Unsecured Notes to repay any amounts already received from or are attributable to the guarantor subsidiary.

Each subsidiary guarantee contains a provision intended to limit the guarantor subsidiary's liability to the maximum amount that it could incur without causing the incurrence of obligations under its subsidiary guarantee to be a fraudulent transfer. This provision may not be effective to protect the subsidiary guarantees from being voided under fraudulent transfer law.

Our subsidiary guarantors may be unable to fulfill their obligations under their guarantees.

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The ability of our subsidiary guarantors to make any required payments under their guarantees depends on our future operating performance, which will be affected by financial, business, economic, and other factors, many of which we cannot control. Such subsidiaries' businesses may not generate sufficient cash flow from operations in the future and their anticipated growth in revenue and cash flow may not be realized, either or both of which could result in their being unable to honor their guarantees or to fund other liquidity needs. If such subsidiaries do not have enough money, they may be required to refinance all or part of their then-existing debt, sell assets, or borrow more money. They may not be able to accomplish any of these alternatives on terms acceptable to them, or at all. In addition, the terms of existing or future debt agreements, including the Revolving Credit Facility and the indenture governing the Senior Unsecured Notes, may restrict such subsidiaries from adopting any of these alternatives. The failure of our subsidiaries to generate sufficient cash flow or to achieve any of these alternatives could materially and adversely affect the value of the Senior Unsecured Notes and the ability of such subsidiaries to pay the amounts due under their guarantees, if any.

Risks Related to the Pharmacy Services Asset Sale

A portion of the purchase price received from the Pharmacy Services Asset Sale is "at risk".

Pursuant to the terms of the asset purchase agreement, as amended, entered into in connection with the Pharmacy Services Asset Sale, Walgreen Co. may be entitled to up to approximately $6.4 million of the purchase price received by the Company in connection with the Pharmacy Services Asset Sale to the extent certain store net revenue during the trailing twelve month period ending on June 30, 2013 (the "measurement period" for any of the five Florida locations owned by the Company prior to the Pharmacy Services Asset Sale is less than specified amounts (based generally on historical net revenues of the respective store location), calculable on a store-by-store basis based on the amount of displaced store net revenue at such store. Generation of such revenue by each such store during the measurement period is not in the Company's control and, therefore, there is no guarantee that the Company will not have to return all or a portion of the "at risk" purchase price to Walgreen.

Item 1B. Unresolved Staff Comments

None.

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Item 2. Properties

Our executive offices are located in Elmsford, New York, and we maintain a corporate office in Eden Prairie, Minnesota. We currently lease all of our properties from third parties under various lease terms expiring over periods extending through 2020, in addition to a number of non-material month-to-month leases. Our properties mainly consist of infusion pharmacies equipped with clean room and compounding capabilities. Some infusion pharmacies are co-located with an ambulatory infusion center where patients receive infusion treatments. We also have several home health agency offices. As of December 31, 2012 our property locations were as follows:

Corporate Offices

Elmsford, NY
Conshohocken, PA (1)
Eden Prairie, MN

Infusion Pharmacies and Home Nursing Locations (2) (4)

Alabama
Birmingham
California
Burbank
Connecticut
Cromwell
Milford
Vernon
Florida
Miami Lakes
Melbourne
Coral Springs
Tampa Bay
Georgia
Brunswick
Savannah
Illinois
Elmhurst
Silvis
Kentucky
Lexington
Louisiana
Baton Rouge
Covington Area
Elmwood
Maine
Auburn
Massachusetts
Southborough
Michigan
Auburn Hills
Minnesota
Eagan
Mississippi
Biloxi (two locations)
Brookhaven (two locations)
Columbia
Flowood
Gulfport
Hattiesburg (3)
Laurel
Lucedale
Magee
Meridian
Natchez
Pascagoula
Pearl
Picayune
Vicksburg
Waynesboro
Nebraska
Omaha
New Hampshire
Bedford
New Jersey
Morris Plains
New York
Lake Success
Ohio
Akron
Cincinnati
Columbus
Sylvania

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Infusion Pharmacies and Home Nursing Locations (2)	
Pennsylvania	Texas
Sharpsburg	Grand Prairie
West Chester	Houston
Tennessee	Virginia
Cookeville	Chantilly
Fayetteville (two locations)	Vermont
Jackson (two locations)	Rutland
Knoxville	South Carolina
Memphis	North Charleston
Mt. Juliet	
Nashville (two locations)	
Oneida	
Savannah	
Selmer	
Waynesboro	

(1) Facility was vacated on January 4, 2013.
(2) Facility houses operations for Infusion or Home Health Services operations.
(3) Facility houses a home care nursing branch, Hospice parent location, and a support office in the same location.
(4) Subsequent to December 31, 2012, we acquired 14 new infusion pharmacy locations through the acquisition of HomeChoice Partners, Inc.

Item 3. Legal Proceedings

On March 31, 2009, Professional Home Care Services, Inc., or PHCS, which is one of the subsidiaries we acquired through our acquisition of CHS, was sued by Alexander Infusion, LLC, a New York-based home infusion company, in the Supreme Court of the State of New York. The complaint alleges principally breach of contract arising in connection with PHCS's failure to consummate an acquisition of Alexander Infusion after failing to satisfy the conditions to PHCS's obligation to close. Alexander Infusion has sued for $3.5 million in damages. We believe Alexander Infusion's claims to be without merit and intend to continue to defend against the allegations vigorously. Furthermore, under the Merger Agreement, subject to certain limits, the former CHS Stockholders agreed to indemnify us in connection with any losses arising from claims made in respect of the acquisition agreement entered into between PHCS and Alexander Infusion.

As was previously disclosed, following responses to government subpoenas and discussions with the government, in May 2011, the Company was advised of a qui tam lawsuit filed under seal in federal court in Minnesota in 2006 and naming the Company as defendant. The complaint alleged violations of healthcare statutes and regulations by the Company and predecessor companies dating back to 2000. The Company has entered into a final settlement resolving all issues alleged in the complaint and the government's investigation in exchange for a release and dismissal of the claims.

PBM Services Payment Delay

The Company has a large PBM Services customer that had become approximately two months behind payment terms as of September 30, 2012 for a total amount owed to the Company of $7.8 million (of which $0.3 was due to the Company for PBM services rendered) ("the $7.8M Obligation"). The customer remitted full payment to the Company and fully satisfied the $7.8M Obligation in December, 2012. This customer has also provided the Company with a

release of any and all claims it may have against the Company that relate to PBM services rendered, including those relating to the $7.8M Obligation.

Item 4. Mine Safety Disclosures
Item not applicable.

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Executive Officers of BioScrip

Name	Title	Age
Richard M. Smith	President and Chief Executive Officer	53
Hai Tran	Chief Financial Officer and Treasurer	43
Patricia Bogusz	VP Finance and Principal Accounting Officer	53
Daniel Colucci	VP PBM Services	47
Barbara Cormier	Chief Compliance Officer and Privacy Officer	69
David Evans	Senior Vice President, Strategic Operations	48
Vito Ponzio, Jr.	Senior Vice President, Human Resources	58
Brian Stiver	Senior Vice President, National Infusion Sales	50

Each officer is appointed by and serves at the pleasure of the Board of Directors subject to the terms of their respective employment and/or severance agreements with the Company. There is neither a family relationship between any of the officers named and any other executive officer or member of the Board of Directors nor any arrangement or understanding pursuant to which any person was selected as an officer. The service period of each officer in the positions listed and other business experience for the past five years is listed below.

Richard M. Smith	President and Chief Executive Officer since January, 2011. President and Chief Operating Officer since January, 2009. Prior to joining the Company, Mr. Smith was Chief Executive Officer and a director of Byram Healthcare Centers, Inc.
Hai Tran	Chief Financial Officer since May, 2012. Prior to joining the Company, Mr. Tran was the Chief Financial Officer and VP International of Harris Healthcare Solutions, a subsidiary of Harris Corporation, a diversified technology company. From 2008 to 2011, Mr. Tran served as Chief Financial Officer of Catalyst Health Solutions, Inc. (Nasdaq: CHSI). Mr. Tran served as Vice President and Treasurer of Hanger Orthopedic Group (NYSE: HGR), from 2006 to May 2008.
Patricia Bogusz	Vice President Finance and Principal Accounting Officer since April, 2011. Vice President and Controller from July, 2007 to April, 2011.
Daniel Colucci	Vice President of PBM Services for BioScrip since April of 2005.
Barbara Cormier	Chief Compliance Officer since 2003 and Privacy Officer since 2012.
David Evans	Senior Vice President, Strategic Operations since February, 2009. Prior to joining BioScrip, Mr. Evans was Chief Financial Officer and Secretary of Byram Healthcare Centers, Inc.,
Vito Ponzio, Jr.	Senior Vice President, Human Resources since December, 2010. Mr. Ponzio joined BioScrip as VP, Community Store Division. Prior to joining the Company in January, 2010, Mr. Ponzio was the Senior Vice President, Administration for Coram Specialty Infusion Services (“Coram”), a division of Apria Healthcare.
Brian Stiver	Senior Vice President of Sales since July 2012. Prior to joining BioScrip, Mr. Stiver was Vice President, Specialty Pharmacy, at Walgreen Co.

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PART II

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

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

		High	Low
2012	First Quarter	$7.40	$5.20
	Second Quarter	$7.88	$6.43
	Third Quarter	$9.23	$6.14
	Fourth Quarter	$11.06	$8.81
2011	First Quarter	$5.52	$4.06
	Second Quarter	$7.85	$4.19
	Third Quarter	$7.53	$5.00
	Fourth Quarter	$7.05	$5.05

As of March 5, 2013, there were 208 stockholders of record of our Common Stock in addition to approximately 7,800 stockholders whose shares were held in nominee name. On March 5, 2013 the closing sale price of our Common Stock on the Nasdaq Global Market was $10.09.

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

Information regarding securities authorized for issuance under our equity compensation plans required by this Item 5 is included in our definitive proxy statement to be filed with the SEC on or before April 30, 2013 in connection with our 2013 Annual Meeting of Stockholders and is hereby incorporated by reference.

The graph set forth below compares, for the five-year period commencing December 31, 2007 and ending December 31, 2012, the total cumulative return to holders of our Common Stock with the cumulative total return of the Nasdaq Composite Index and the Nasdaq Health Services Index.

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Item 6. Selected Consolidated Financial Data

The selected consolidated financial data presented below should be read in conjunction with, and is qualified in its entirety by reference to, Management's Discussion and Analysis and our Consolidated Financial Statements and the Notes thereto appearing elsewhere in this Annual Report. Acquisitions during the periods below include CHS, beginning March, 2010, DS Pharmacy, beginning July, 2010 and InfuScience beginning August, 2012. Divestitures during this period include the Pharmacy Services Asset Sale. All historical amounts have been restated to reclassify amounts directly associated with the divested operations as discontinued operations. These do not necessarily reflect what the actual results would have been if the business had not actually included the divested operations at the beginning of the period.

	December 31,				
Balance Sheet Data	2012	2011	2010	2009	2008
	(in thousands)				
Working capital	$127,158	$71,695	$50,137	$91,078	$58,844
Total assets	$642,376	$677,102	$663,986	$287,220	$246,957
Long-term debt	$226,379	$293,459	$306,469	$30,389	$50,411
Stockholders' equity	$293,409	$215,279	$200,101	$155,793	$95,537
Total assets from discontinued operations	$—	$59,004	$73,022	$57,648	$47,639

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Statement of Operations Data	Year Ended December 31, 2012	2011	2010	2009	2008
	(in thousands, except per share amounts)				
Revenue	$662,637	$554,506	$430,707	$204,646	$177,967
Gross profit	$224,960	$215,415	$160,536	$48,270	$38,272
Acquisition and integration expenses (1)	$4,046	$—	$5,924	$1,774	$—
Restructuring and other expenses (2)	$5,143	$7,909	$3,985	$—	$—
Net (loss) income from continuing operations	$(8,340)	$(424)	$(67,675)	$35,076	$(46,110)
Net income (loss) from discontinued operations	$73,047	$8,296	$(1,467)	$19,023	$(27,922)
Net income (loss) (3) (4) (5)	$64,707	$7,872	$(69,142)	$54,099	$(74,032)
Net (loss) income from continuing operations per basic share	$(0.15)	$(0.01)	$(1.34)	$0.90	$(1.20)
Net income (loss) from discontinued operations per basic share	$1.30	$0.15	$(0.03)	$0.49	$(0.73)
Net income (loss) per basic share	$1.15	$0.14	$(1.37)	$1.39	$(1.93)
Net (loss) income from continuing operations per diluted share	$(0.15)	$(0.01)	$(1.34)	$0.88	$(1.2)
Net income (loss) from discontinued operations per diluted share	$1.30	$0.15	$(0.03)	$0.48	$(0.73)
Net income (loss) per diluted share (6)	$1.15	$0.14	$(1.37)	$1.36	$(1.93)
Weighted average shares outstanding used in computing:					
basic income (loss) per share	56,239	54,505	50,374	38,985	38,417
diluted income (loss) per share	56,239	54,505	50,374	39,737	38,417

(1) Expenses in 2012 related to the acquisitions of InfuScience and HomeChoice Partners and the integration of InfuScience as well as costs associated with the divestiture resulting from the Pharmacy Services Asset Sale. Expenses in 2010 related to the acquisitions and integrations of CHS and DS Pharmacy. Expenses in 2009 related to the acquisition of CHS.

(2) These costs were related to our strategic assessment and related restructuring plan.

(3) Net income (loss) in 2010 included a $48.7 million income tax expense charge, primarily related to the recognition of a valuation allowance on deferred tax assets. Net income (loss) in 2010 also includes a $9.6 million loss on extinguishment of debt associated with the refinancing of our senior secured facility in December 2010.

(4) Net income (loss) in 2009 includes a $52.5 million tax benefit, primarily relating to the reversal of the valuation allowance on deferred tax assets.

(5) Net income (loss) in 2008 included a $90.0 million charge related to the impairment of goodwill, of which $60.8 million is associated with discontinued operations. It also includes a $3.9 million charge related to the write-off of intangible assets, including customer lists and non-compete agreements, all of which are associated with discontinued operations.

(6) The net income (loss) per diluted share excludes the effect of all common stock equivalents for all years except 2009, as their inclusion would be anti-dilutive to (loss) income per share from continuing operations.

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

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

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

This report contains statements not purely historical and which may be considered forward-looking statements within the meaning of Section 27A of the Securities Act, and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), including statements regarding our expectations, hopes, beliefs, intentions or strategies regarding the future. These forward looking statements may include, but are not limited to:

- our expectations regarding financial condition or results of operations in future periods;
- our future sources of, and needs for, liquidity and capital resources;
- our expectations regarding economic and business conditions;
- our expectations regarding potential legislative and regulatory changes impacting the level of reimbursement received from the Medicare and state Medicaid programs;
- our expectations regarding the size and growth of the market for our products and services;
- our business strategies and our ability to grow our business;
- the implementation or interpretation of current or future regulations and legislation, particularly governmental oversight of our business;
- our ability to maintain contracts and relationships with our customers;
- sales and marketing efforts;
- status of material contractual arrangements, including the negotiation or re-negotiation of such arrangements;
- our ability to maintain supplies and services, which could be impacted by force majeure events such as war, strike, riot, crime, or "acts of God" such as hurricanes, flooding, blizzards or earthquakes;
- future capital expenditures;
- our high level of indebtedness;
- our ability to make principal payments on our debt and satisfy the other covenants contained in our senior secured credit facility and other debt agreements;
- our ability to hire and retain key employees;
- our ability to successfully execute our succession plans;
- our ability to execute our acquisition and growth strategy;
- our ability to successfully integrate businesses we acquire; and
- other risks and uncertainties described from time to time in our filings with the SEC.

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

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risks associated with increased government regulation related to the health care and insurance industries in general, and more specifically, home health providers, pharmacy benefit management and home infusion providers;

- our expectation regarding the interim and ultimate outcome of commercial disputes, including litigation;
- unfavorable economic and market conditions;
- disruptions in supplies and services resulting from force majeure events such as war, strike, riot, crime, or "acts of God" such as hurricanes, flooding, blizzards or earthquakes;
- reductions in federal and state reimbursement for our products and services;
- delays or suspensions of Federal and state payments for services provided;
- efforts to reduce healthcare costs and alter health care financing;

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- effects of the Patient Protection and Affordable Care Act, or PPACA, and the Health Care and Education Reconciliation Act of 2010, which amended PPACA, and the related accountable care organizations;
- existence of complex laws and regulations relating to our business;
- achieving financial covenants under our credit facility;
- availability of financing sources;
- declines and other changes in revenue due to the expiration of short-term contracts;
- network lock-outs and decisions to in-source by health insurers including lockouts with respect to acquired entities;
- unforeseen contract terminations;
- difficulties in the implementation and conversion of our new pharmacy systems;
- difficulties integrating businesses we acquire;
- increases or other changes in the Company’s acquisition cost for its products;
- increased competition from competitors having greater financial, technical, reimbursement, marketing and other resources could have the effect of reducing prices and margins;
- the level of our indebtedness may limit our ability to execute our business strategy and increase the risk of default under our debt obligations,
- introduction of new drugs can cause prescribers to adopt therapies for existing patients that are less profitable to us; and
- changes in industry pricing benchmarks could have the effect of reducing prices and margins.

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

Business Overview

We are a national provider of home infusion and other home healthcare services that partners with patients, physicians, hospitals, healthcare payors and pharmaceutical manufacturers to provide clinical management solutions and the delivery of cost-effective access to prescription medications and home healthcare services. Our services are designed to improve clinical outcomes to patients with chronic and acute healthcare conditions while controlling overall healthcare costs. As of December 31, 2012, we had a total of 81 locations in 24 states encompassing 32 home nursing locations and 49 home infusion locations, including two contract affiliated infusion pharmacies.

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

Our business is currently reported under three segments: Infusion Services, Home Health Services and pharmacy benefit management ("PBM") Services. These three segments reflect how our chief operating decision maker reviews our results in terms of allocating resources and assessing operating and financial performance.

The Infusion Services segment provides services consisting of home infusion therapy, respiratory therapy and the provision of durable medical equipment products and services. Infusion services include the dispensing and administering of infusion-based drugs, which typically require additional nursing and clinical management services,

equipment to administer the correct dosage and patient training designed to improve patient outcomes. Home infusion services also include the dispensing of self-injectible therapies.

The Home Health Services segment provides services which include the provision of skilled nursing services and therapy visits, private duty nursing services, hospice services, rehabilitation services and medical social services to patients primarily in their home.

Since the acquisition of Critical Homecare Solutions Holdings, Inc. ("CHS") in March, 2010, we have implemented certain managed care contracts across both the Infusion Services and Home Health Services segments. The contracted rates have reduced reimbursement levels compared to the out-of-network reimbursement levels received prior to June, 2010, when we began the process of moving certain out-of-network payors under national contracts. On a year-over-year basis, the contracts have reduced net revenue per patient in certain therapies and drug classes and, correspondingly, our gross profit margin and Segment Adjusted

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EBITDA, as defined below. However, the contract relationship allows greater access to more insured lives. We have seen sequential and year-over-year volume trends increase from these contracted relationships.

The PBM Services segment consists of integrated PBM services, which primarily consists of discount card programs. The discount card programs provide a cost effective alternative for individuals who may be uninsured, underinsured or may have restrictive coverage that disallows reimbursement for certain medications. Under these discount programs, individuals who present a discount card at one of the Company's participating network pharmacies receive prescription medications at a discounted price compared to the retail price. In addition, in the Company's capacity as a pharmacy benefit manager, it has fully funded prescription benefit programs where the Company reimburses its network pharmacies and third party payors in turn reimburse the Company based on Medi-Span reported pricing for those claims fulfilled for their plan participants.

In the fourth quarter of 2010, we commenced a strategic assessment of our business and operations. This assessment focused on expanding revenue opportunities and lowering corporate overhead, including workforce and benefit reductions and facility rationalization. It also examined our market strengths and opportunities and compared our position to that of our competitors. As a result of the assessment, we focused our growth on investments in the Infusion Services and Home Health Services segments and elected to pursue offers for a large portion of our Pharmacy Services segment. Thus, on February 1, 2012, the Company entered into a Community Pharmacy and Mail Business Purchase Agreement (the “Asset Purchase Agreement”) by and among Walgreen Co. and certain subsidiaries (collectively, the “Buyers”) and the Company and certain subsidiaries (collectively, the "Sellers") with respect to the sale of certain assets, rights and properties (the “Pharmacy Services Asset Sale”) relating to the Sellers' traditional and specialty pharmacy mail and community retail pharmacy store operations.

Pursuant to the terms of the Asset Purchase Agreement, we received a total purchase price of approximately $173.8 million during 2012, including approximately $158.8 million at closing (which included monies received for the inventories on hand attributable to the operations subject to the Pharmacy Services Asset Sale), and a subsequent additional purchase price payment of $15.0 million based on events related to the Buyer's retention of certain business after closing. Similarly, the Company may be required to refund up to approximately $6.4 million of the cash received to the Buyers. Any gain associated with this contingency will be recorded once the final amount retained or refunded is known. The $173.8 million purchase price excluded all accounts receivable and working capital liabilities relating to the operations subject to the sale, which were retained by us. Approximately $50.8 million of these net assets were converted to cash subsequent to the sale.

We are continuing to execute our strategic plan and are investing in opportunities to maximize stockholder value going forward. We deployed the proceeds of the Pharmacy Services Asset Sale seeking business acquisition opportunities described below. We also paid off the line of credit balance following the sale and negotiated improved terms for its ongoing use.

On July 31, 2012, we acquired InfuScience, Inc. (“InfuScience”) for a cash payment of $38.3 million. The purchase price could increase to $41.4 million based on the results of operations during the 24 month period following the closing. InfuScience acquires, develops and operates businesses providing alternate site infusion pharmacy services. The acquisition has added five infusion centers located in Eagan, Minnesota; Omaha, Nebraska; Chantilly, Virginia; Charleston, South Carolina; and Savannah,Georgia.

Subsequent to December 31, 2012, we acquired of all of the issued and outstanding equity of HomeChoice Partners, Inc., a Delaware corporation (“HomeChoice”) pursuant to that Stock Purchase Agreement dated December 12, 2012 (the “Purchase Agreement”) by and among the Company, HomeChoice, DaVita HealthCare Partners Inc., a Delaware corporation and majority stockholder of HomeChoice, and the other stockholders of HomeChoice. The purchase price was $70 million, subject to adjustment based in part on the net working capital of HomeChoice at closing (the “Purchase Price”). The Purchase Price may also be increased in an amount up to $20 million if HomeChoice reaches certain performance milestones in the two years following the closing. The Company funded the Acquisition with a combination of cash on hand and its revolving credit facility.

HomeChoice is a provider of alternate-site infusion pharmacy services. Headquartered in Norfolk, VA, HomeChoice services approximately 15,000 patients annually and has fourteen infusion pharmacy locations in Pennsylvania, Washington, DC, Maryland, Virginia, North Carolina, South Carolina, Georgia, Missouri, and Alabama. The transaction became effective on February 1, 2013.

Other strategic options that we may consider in addition to further potential acquisitions include redeeming all or a portion of the unsecured notes and reinvesting certain proceeds in the Infusion Services and Home Health Services operating segments, subject to the terms of our revolving credit facility and the indenture governing our the senior unsecured notes.

The Pharmacy Services Asset Sale discussed above caused us to perform a further strategic assessment of our business and operations in order to align our corporate structure with our remaining business operations. As a result of the reassessment and subsequent realignment, we have focused on expanding revenue opportunities and lowering corporate overhead as well as

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redeploying our resources strategically. These actions have resulted in write-downs of certain long−lived assets, employee severance, retention bonus payments and accelerated recognition of expense associated with certain of our contractual obligations. The impact of these efforts included a reduction in salaries, benefits, rent and other facility costs. The redeployment of resources following the Asset Sale has better positioned us for growth in our strategic areas of operation; however, the impact of these actions on our future Consolidated Financial Statements cannot be estimated.

Regulatory Matters Update

Approximately 33% of revenue for the year ended December 31, 2012 was derived directly from Medicare, state Medicaid programs or other government payors. We also provide services to beneficiaries of Medicare, Medicaid and other government-sponsored healthcare programs through managed care entities. Medicare Part D, for example, is administered through managed care entities. In the normal course of business, the Company and our customers are subject to legislative and regulatory changes impacting the level of reimbursement received from the Medicare and state Medicaid programs.

State Medicaid Programs

In 2011 and 2012, increased Medicaid spending, combined with slow state revenue growth, led many states to institute measures aimed at controlling spending growth. Spending cuts have taken many forms including reducing eligibility and benefits, eliminating certain types of services, and provider reimbursement reductions. In addition, some states are moving beneficiaries to managed care programs in an effort to reduce costs.

No single state Medicaid program represents greater than 4% of our consolidated revenue for the year ended December 31, 2012 and no individual state Medicaid reimbursement reduction to us as a provider is expected to have a material effect on our Consolidated Financial Statements. We are continually assessing the impact of the state Medicaid reimbursement cuts as states propose, finalize and implement various cost-saving measures. We incurred a 4.25% reimbursement cut in 2011 from TennCare, the state of Tennessee Medicaid program, for certain home health services, and incurred a second 4.25% TennCare rate cut in the Home Health Services segment effective January 1, 2012. In May 2012, the second rate cut was adjusted to 2.50%, which was retroactively effective beginning on January 1, 2012. These reimbursement rate cuts decreased revenue by approximately $3.0 million.

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

Medicare

Federal efforts to reduce Medicare spending are expected to continue in 2013. Congress first passed the Patient Protection and Affordable Care Act ("PPACA"), and the Health Care and Education Reconciliation Act of 2010, which amended PPACA. In August 2011, Congress passed a deficit reduction agreement that created a Super Committee that was tasked with proposing legislation by November 23, 2011. Because the Super Committee did not act, automatic Medicare cuts were scheduled to go into effect January 1, 2013. However, Congress passed legislation extending the time for such cuts by two months. Unless Congress takes additional action, Medicare reimbursement to providers will be reduced overall by 2% beginning April 1, 2013. The reductions in Medicare reimbursement could have an adverse effect on our results of operations, although the impact cannot yet be predicted. There may also be other impacts from the automatic spending reductions that we cannot predict. For example, staff at CMS and Medicare administrative contractors may be reduced, which could result in delays in claims processing.

Thus far, we have been impacted by CMS rule revisions which reduced reimbursement rates applicable to the home health division of our business. In October 2011, CMS issued a final rule to update and revise Medicare home health rates for calendar year 2012. The 2012 final rule reduced our Home Health segment revenue and gross profit by $1.9 million on an annual basis compared to 2011. In November 2012, CMS issued a final rule for home health agency reimbursement for 2013 that would result in a 0.01% decrease in reimbursement. We estimate that this rule will have a limited impact on revenue.

Critical Accounting Estimates

Our Consolidated Financial Statements have been prepared in accordance with United States generally accepted accounting principles ("GAAP"). In preparing our financial statements, we are required to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. We evaluate our estimates and judgments on an ongoing basis. We base our estimates and judgments on historical experience and on various other factors that we believe to be

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reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that may not be readily apparent from other sources. Our actual results may differ from these estimates, and different assumptions or conditions may yield different estimates. The following discussion highlights what we believe to be the critical accounting estimates and judgments made in the preparation of our Consolidated Financial Statements.

The following discussion is not intended to be a comprehensive list of all the accounting estimates or judgments made in the preparation of our financial statements and in many cases the accounting treatment of a particular transaction is specifically dictated by GAAP, with no need for management's judgment in its application. See our audited Consolidated Financial Statements and notes thereto appearing elsewhere in this Annual Report, which contain a description of our accounting policies and other disclosures required by GAAP.

Revenue Recognition

We generate revenue principally through the sale of prescription drugs and nursing services. Prescription drugs are dispensed through a pharmacy owned by us. Fee-for-service agreements include: (i) pharmacy agreements, where we dispense prescription medications through our pharmacy facilities and (ii) PBM agreements, where prescription medications are dispensed through pharmacies participating in our retail pharmacy network.

Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") Subtopic 605-25, Revenue Recognition: Multiple-Element Arrangements ("ASC 605-25"), addresses situations in which there are multiple deliverables under one revenue arrangement with a customer and provides guidance in determining whether multiple deliverables should be recognized separately or in combination. We provide a variety of therapies to patients. For infusion-related therapies, we frequently provide multiple deliverables of drugs and related nursing services. After applying the criteria from ASC 605-25, we concluded that separate units of accounting exist in revenue arrangements with multiple deliverables. If the drug is shipped, the drug revenue is recognized at the time of shipment, and nursing revenue is recognized on the date of service. The Company allocates revenue consideration based on the relative fair value as determined by the Company's best estimate of selling price to separate the revenue where there are multiple deliverables under one revenue arrangement.

Revenue generated under PBM agreements is classified as either gross or net based on whether we are acting as a principal or an agent in the fulfillment of prescriptions through our retail pharmacy network. When we independently have a contractual obligation to pay a network pharmacy provider for benefits provided to its Plan Sponsors' members, and therefore are the "primary obligor" as defined in ASC Topic 605, Revenue Recognition ("ASC 605"), we include payments (which include the drug ingredient cost) from these Plan Sponsors as revenue and payments to the network pharmacy providers as cost of revenue. These transactions require us to pay network pharmacy providers, assume credit risk of Plan Sponsors and act as a principal. If we merely act as an agent, and consequently administer Plan Sponsors' network pharmacy contracts, we do not have the primary obligation to pay the network pharmacy and assume credit risk and as such record only the administrative fees (and not the drug ingredient cost) as revenue.

Revenue generated under discount card agreements is recognized when the discount card is used to purchase a prescription drug. The revenue is based on contractual rates per transaction. Broker fees associated with the marketing of the discount cards are incurred and recognized at the time the card is used and classified as selling, general and administrative expense in the Consolidated Statements of Operations.

In our Infusion/Home Health Services segment, we also recognize infusion nursing revenue as the estimated net realizable amounts from patients and Plan Sponsors for services rendered and products provided. This revenue is recognized as the treatment plan is administered to the patient and is recorded at amounts estimated to be received under reimbursement or payment arrangements with payors.

Under the Medicare Prospective Payment System program, home health net revenue is recorded based on a reimbursement rate which varies based on the severity of the patient's condition, service needs and certain other factors. Revenue is recognized ratably over a 60-day episode period and is subject to adjustment during this period if there are significant changes in the patient's condition during the treatment period or if the patient is discharged but readmitted to another agency within the same 60-day episodic period. Medicare cash receipts under the prospective payment system are initially recognized as deferred revenue and are subsequently recognized as revenue over the 60-day episode period.

Allowance for Doubtful Accounts

The allowance for doubtful accounts is based on estimates of losses related to receivable balances. The risk of collection varies based upon the product, the payor (commercial health insurance and government) and the patient's ability to pay the amounts

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not reimbursed by the payor. We estimate the allowance for doubtful accounts based upon several factors including the age of the outstanding receivables, the historical experience of collections, adjusting for current economic conditions and, in some cases, evaluating specific customer accounts for the ability to pay. Collection agencies are employed and legal action is taken when we determine that taking collection actions is reasonable relative to the probability of receiving payment on amounts owed. Management judgment is used to assess the collectability of accounts and the economic ability of our customers to pay. Judgment is also used to assess trends in collections and the effects of systems and business process changes on our expected collection rates. The Company reviews the estimation process quarterly and makes changes to the estimates as necessary. When it is determined that a customer account is uncollectible, that balance is written off against the existing allowance.

The following table sets forth the aging of our December 31, 2012 and December 31, 2011 net accounts receivable (net of allowance for contractual adjustments and prior to allowance for doubtful accounts), aged based on date of service and categorized based on the three primary overall types of accounts receivable characteristics (in thousands):

As of December 31, 2012

	0 - 180 days	Over 180 days	Total
Government	$41,124	$2,744	$43,868
Commercial (3)	75,389	26,137	101,526
Patient	1,784	4,137	5,921
	$118,297	$33,018	151,315
Allowance for doubtful accounts			(22,212)
Total			$129,103

As of December 31, 2011

	0 - 180 days	Over 180 days	Total
Government (1)	$36,498	$5,477	$41,975
Commercial (1)(2)	175,730	21,504	197,234
Patient	6,348	2,583	8,931
	$218,576	$29,564	248,140
Allowance for doubtful accounts			(22,728)
Total			$225,412

(1) Government includes $2.5 million and commercial includes $0.9 million of accounts receivable and allowance for doubtful accounts related to the termination of the Centers for Medicare & Medicaid Competitive Acquisition Program ("CAP") contract as of December 31, 2011.

(2) In prior years, commercial included one pharmacy network agreement under which various Plan Sponsors were served and which Plan Sponsors account for, in the aggregate, receivables that accounted for 21% of the Company's total accounts receivable balance as of December 31, 2011. This contract was transferred to Walgreen Co. as part of the Pharmacy Services Asset Sale. At December 31, 2012 there was no remaining balance associated with this Pharmacy Services contract.

(3) Commercial balances declined $95.7 million during the year ended December 31, 2012 due to the collection of outstanding Pharmacy related balances retained following the sale of the related operations. The commercial balance greater than 180 days old increased by $4.6 million primarily because of the remaining Pharmacy related balances that have not yet been collected. At December 31, 2012 the remaining Pharmacy Services gross accounts receivable balance was $12.8 million and the related allowance for doubtful accounts was $8.0 million.

Allowance for Contractual Discounts

We are reimbursed by Plan Sponsors for products and services we provide. Payments for medications and services covered by Plan Sponsors are generally less than billed charges. We monitor revenue and receivables from Plan Sponsors on an account-specific basis and record an estimated contractual allowance for certain revenue and receivable balances at the revenue recognition date to properly account for anticipated differences between amounts billed and amounts reimbursed. Accordingly, the total revenue and receivables reported in our financial statements are recorded at the amounts expected to be received from these payors. Since billing functions for a portion of our revenue are largely computerized, which enables on-line adjudication (i.e., submitting charges to third-party payors electronically, with simultaneous feedback of the amount the primary insurance plan expects to pay) at the time of sale to record net revenue, exposure to estimating contractual allowance adjustments is limited. For the remaining portion of our revenue, the contractual allowance is estimated based on several criteria, including unbilled and/or initially rejected claims, historical trends based on actual claims paid, current contract and reimbursement terms, and changes

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in customer base and payor/product mix. Contractual allowance estimates are adjusted to actual amounts as cash is received and claims are settled. We do not believe these changes in estimates are material.

Amounts due to Plan Sponsors

Payables to Plan Sponsors primarily represent payments received from Plan Sponsors in excess of the contractually required reimbursement. These amounts are refunded to Plan Sponsors. These payables also include the sharing of manufacturers' rebates with Plan Sponsors.

Income Taxes

As part of the process of preparing our Consolidated Financial Statements, management is required to estimate income taxes in each of the jurisdictions in which we operate. We account for income taxes under ASC Topic 740, Income Taxes ("ASC 740"). ASC 740 requires the use of the asset and liability method of accounting for income taxes. Under this method, deferred taxes are determined by calculating the future tax consequences attributable to differences between the financial accounting and tax bases of existing assets and liabilities. A valuation allowance is recorded against deferred tax assets when, in the opinion of management, it is more likely than not that we will not be able to realize the benefit from our deferred tax assets. A valuation allowance is reversed when sufficient evidence exists that we will be able to realize the benefits of our deferred tax assets.

As of December 31, 2012, the Company has a full valuation allowance of $39.7 million recorded against its deferred tax assets. We will maintain this valuation allowance until an appropriate level of profitability is sustained or we are able to develop tax planning strategies that enable us to conclude that it is more likely than not that our deferred tax assets are realizable. As of December 31, 2012, the Company has deferred tax liabilities of $11.3 million relating to indefinite-lived goodwill and intangibles. These deferred tax liabilities cannot be used as a future source of taxable income because of the indefinite nature of the assets and therefore cannot be used to offset the deferred tax assets that require a valuation allowance. The deferred tax liability for these indefinite-lived goodwill and intangibles will continue to increase as the Company continues to amortize the tax deductible amounts of these assets. The tax amortization related to these assets will increase the deferred tax liability as well as create tax expense in future years until the full valuation allowance is reversed or the asset is fully amortized for tax purposes.

We file income tax returns, including returns for our subsidiaries, as prescribed by Federal tax laws and the tax laws of the state and local jurisdictions in which we operate. Our uncertain tax positions are related to tax years that remain subject to examination and are recognized in the financial statements when the recognition threshold and measurement attributes of ASC 740 are met. Interest and penalties related to unrecognized tax benefits are recorded as income tax expense.

Goodwill and Intangible Assets

In accordance with ASC Topic 350, Intangibles – Goodwill and Other ("ASC 350"), we evaluate goodwill and indefinite lived intangible assets for impairment on an annual basis and whenever events or circumstances exist that indicate that the carrying value of goodwill may no longer be recoverable.

The goodwill valuation is based on a two-step process. The first step compares the fair value of a reporting unit with its carrying amount, including goodwill. If the first step indicates that the fair value of the reporting unit is less than its carrying amount, the second step must be performed which determines the implied fair value of reporting unit goodwill. The measurement of possible impairment is based upon the comparison of the implied fair value of reporting unit to its carrying value. We use a third party valuation specialist to assist in the annual impairment valuation.

As of December 31, 2012, our reporting units include goodwill of $304.3 million in the Infusion reporting unit; goodwill of $33.8 million and indefinite lived assets of $15.4 million in the Home Health Services reporting unit; and goodwill of $12.7 million in the PBM Services reporting unit. The goodwill of the Infusion and Home Health reporting units was primarily recorded as a result of the acquisition of CHS in March 2010. In performing an annual evaluation of goodwill, a reporting unit fair value is determined based on discounted future cash flows and a market-based comparison to industry peers. Significant estimates used in a fair value determination include future forecasted earnings and the working capital requirements of the business to generate estimated cash flows. Our estimates could be materially impacted by factors such as competitive forces, changes in growth trends and specific industry conditions, with the potential for a corresponding adverse effect on financial condition and operating results potentially resulting in impairment of the goodwill. None of the reporting units are more susceptible to general economic conditions than others, however our Home Health reporting unit is more susceptible to government reimbursement changes. If future cash flows do not achieve estimated levels due to further rate cuts in Medicaid or Medicare or other changes impacting operating performance, goodwill of the Home Health Services reporting unit could be impaired. Also, the cash flow model used to determine fair value is sensitive to the discount rate used. We performed a sensitivity analysis on the discount rate and determined that the

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discount rate used could increase by a factor of 50.0% and the goodwill of our Infusion and PBM Services reporting segments would not be impaired. However, the goodwill of the Home Health Services reporting unit would be impaired if there is a need to use a higher discount rate in the analysis. Carrying values are determined based on the specific assets and liabilities of each reporting unit and allocations of corporate assets, liabilities and expenses.

As of December 31, 2012, indefinite lived intangible assets included $9.6 million in certificates of need and $5.8 million of trademarks acquired in the CHS transaction. These intangible assets are evaluated for impairment using techniques similar to the goodwill valuation described above, based largely upon discounted cash flows. If future cash flows do not achieve estimated levels, intangible assets could become impaired in future periods. Like goodwill, the cash flow model used to determine fair value is sensitive to the discount rate used. We performed a sensitivity analysis on the discount rate and determined that the discount rate used could increase by a factor of 50.0% and the indefinite lived intangible assets would not be impaired.

Impairment of Long Lived Assets

We evaluate whether events and circumstances have occurred that indicate that the remaining estimated useful life of long-lived assets may warrant revision or that the remaining balance of an asset may not be recoverable in accordance with the provisions of ASC Topic 360, Property, Plant and Equipment (“ASC 360”). The measurement of possible impairment of property, plant and equipment is based on the ability to recover the balance of assets from expected future operating cash flows on an undiscounted basis. Impairment losses, if any, would be determined based on the present value of the cash flows using discount rates that reflect the inherent risk of the underlying business.

Accounting for Stock-Based Compensation

Compensation cost for all share-based payments are based on the grant-date fair value estimated in accordance with the provisions of ASC Topic 718, Compensation – Stock Compensation (“ASC 718”). The fair value of each option award is estimated on the date of grant using a binomial option-pricing model that uses the following assumptions: (i) expected volatility is based on the historical volatility of our stock, (ii) the risk-free interest rate for periods within the contractual life of the option is based on the U.S. Treasury yield curve in effect at the time of the grant, and (iii) the expected life of options granted is derived from previous history of stock exercises from the grant date and represents the period of time that options granted are expected to be outstanding. We use historical data to estimate option exercise and employee termination assumptions under the valuation model. The fair value of the award is amortized to expense on a straight line basis over the requisite service period. We expense restricted stock awards based on vesting requirements, including time elapsed, market conditions, and/or performance conditions. Because of these requirements, the weighted average period for which the expense is recognized varies. We expense stock appreciation right ("SAR") awards based on vesting requirements. In addition, because they are settled with cash, the fair value of the SAR awards are revalued on a quarterly basis.

Off-Balance Sheet Arrangements

Investment in Equity of Unconsolidated Affiliate

In accordance with the applicable accounting guidance for the consolidation of variable interest entities, the Company analyzes its variable interests to determine if an entity in which it has a variable interest is a variable interest entity. The Company's analysis includes both quantitative and qualitative reviews. The Company bases its quantitative analysis on the forecasted cash flows of the entity, and its qualitative analysis on its review of the design of the entity, its organizational structure, including decision making ability, and relevant financial agreements. The Company also uses its qualitative analysis to determine if it must consolidate a variable interest entity as its primary beneficiary.

The Company has an affiliate equity investment in a variable interest entity that has developed a platform that facilitates the flow, management and sharing of vital health and medical information with stakeholders across the healthcare ecosystem. The Company concluded that the entity is a variable interest entity because the equity investment at risk is not sufficient to permit the entity to finance its activities without additional support from other parties. The Company has determined that it is not the primary beneficiary as power to direct the activities that most significantly impact economic performance of the entity is held by another stakeholder, and therefore does not consolidate the entity. The Company recorded its initial net investment in the variable interest entity of $6.9 million and subsequent working capital contributions in the investments in and advances to unconsolidated affiliate line on the accompanying Consolidated Balance Sheets using the equity method of accounting. The maximum exposure to loss as a result of its involvement with the variable interest entity is $19.0 million, which represents the current book value and additional commitments made to fund future potential working capital needs.

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Reclassifications

Certain prior period amounts have been reclassified to conform to the current year presentation due primarily to the new segment structure. Such reclassifications had no material effect on our previously reported Consolidated Financial Statements.

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Results of Operations

The following discussion is based on the Consolidated Financial Statements of the Company. It compares our annual results of operations with the prior year results of operations.

Year ended December 31, 2012 vs. December 31, 2011

	Year Ended December 31, (in thousands)							
	2012			2011			Change	
Revenue	$662,637			$554,506			$108,131	
Gross profit	$224,960	33.9	%	$215,415	38.8	%	$9,545	
Income from operations	$13,288	2.0	%	$25,553	4.6	%	$(12,265	)
Interest expense, net	$26,067	3.9	%	$25,542	4.6	%	$525	
(Loss) income before income taxes	$(12,779	) (1.9	)%	$11	—	%	$(12,790	)
Net loss from continuing operations	$(8,340	) (1.3	)%	$(424	) (0.1	)%	$(7,916	)
Net income from discontinued operations	$73,047	11.0	%	$8,296	1.5	%	$64,751	

Revenue. Revenue for the year ended December 31, 2012 was $662.6 million compared to revenue of $554.5 million for the year ended December 31, 2011.

Infusion Services segment revenue for the year ended December 31, 2012 was $481.6 million, compared to revenue of $374.3 million for the same period in 2011, an increase of $107.3 million, or 28.6%. Product revenue increased $105.9 million, or 29.0%. Infusion service revenue increased $1.3 million, or 15.1%.

Home Health Services segment revenue for the year ended December 31, 2012 was $69.2 million compared to revenue of $69.6 million for the same period in 2011, a decrease of $0.4 million, or 0.6%. This reduction is primarily due to the decline in Medicare reimbursement rates.

PBM Services segment revenue for the year ended December 31, 2012 was $111.9 million compared to revenue of $110.6 million for the same period in 2011, an increase of $1.3 million, or 1.2%. This increase is due primarily to an increase in discount card programs sales.

Cost of Revenue and Gross Profit. Cost of revenue for the year ended December 31, 2012 was $437.7 million compared to $339.1 million for the same period in 2011. Gross profit for the year ended December 31, 2012 was $225.0 million compared to $215.4 million for the same period in 2011, an increase of $9.6 million, or 4.5%. Gross profit as a percentage of revenue decreased to 33.9% in the year ended December 31, 2012 from 38.8% in the year ended December 31, 2011. The net increase in gross profit was due to organic growth and gross profit contributed by InfuScience partially offset by a decrease in average gross profit percentage. The decline in gross profit as a percentage of revenue is due to a higher mix of lower margin chronic product sales which resulted from our infusion relationship with certain payers and the shift of administration of these products to the home or alternate site from hospital outpatient clinics and physician offices.

Selling, General and Administrative Expenses. Selling, general and administrative expenses ("SG&A") for the year ended December 31, 2012 were $184.5 million, or 27.8% of total revenue, compared to $167.1 million, or 30.1% of total revenue, for the same period in 2011. The increase in SG&A was primarily due additional employee and facility related costs necessary to support the significant growth in infusion revenues, combined with the addition of InfuScience's operations.

Bad Debt Expense. For the year ended December 31, 2012, bad debt expense was $14.0 million, or 2.1% of revenue, compared to $11.4 million, or 2.1% of revenue, for the same period in 2011.

Acquisition and Integration Expenses. During the year ended December 31, 2012 we incurred acquisition and integration expenses of $4.0 million associated with the acquisitions of InfuScience and HomeChoice Partners. We did not incur acquisition and integration related expenses during the year ended December 31, 2011.

Restructuring and Other Expenses. We incurred restructuring and other expenses of approximately $5.1 million and $7.9 million during the years ended December 31, 2012 and December 31, 2011. During the year ended December 31, 2012 these expenses included approximately $3.0 million of transitional expenses (e.g., training, redundant salaries and wages, and retention

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bonuses for certain critical personnel), $1.1 million of employee severance and other benefit-related costs, $0.5 million of third-party consulting costs, and $0.5 million of other costs. Restructuring and other expenses during the year ended December 31, 2011 consisted of approximately $2.9 million of third-party consulting costs, $1.9 million of employee severance and other benefit-related costs related to workforce reductions, $1.6 million of facility-related costs and $1.5 million of transitional expenses. Restructuring and other expenses include expenses resulting from the execution of our strategic assessment and related restructuring plans, consisting primarily of employee severance and other benefit-related costs, third-party consulting costs, facility-related costs, and certain other costs. During the year ended December 31, 2012 they also include $0.8 million for certain state sales tax liabilities related to an acquired company for which prior period tax amounts were identified and recorded in 2012.

The Company anticipates that additional restructuring will occur and thus we may incur significant additional charges such as the write down of certain long-lived assets, employee severance, other restructuring type charges, temporary redundant expenses, potential cash bonus payments and potential accelerated payments or termination costs for certain of its contractual obligations, which impact the Company's future Consolidated Financial Statements.

Amortization of Intangibles. During the year ended December 31, 2012, we recorded amortization of intangible assets of $4.0 million compared to $3.4 million for the prior year. The increase in amortization is in large part related to the intangible assets recorded as a result of the acquisition of InfuScience.

Interest Expense, Net. Net interest expense was $26.1 million for the year ended December 31, 2012, compared to $25.5 million for the same period in 2011. Interest expense for the year ended December 31, 2012 included $24.2 million of interest expense related to our $225.0 million of Senior Unsecured Notes and $2.8 million related to the Senior Secured Revolving Credit Facility. Interest expense for the year ended December 31, 2011 included $24.1 million of interest expense, related to our $225.0 million of Senior Unsecured Notes and $4.4 million related to the $150.0 million Senior Secured Revolving Credit Facility.

Income Tax Expense (Benefit). Income tax expense for the year ended December 31, 2012 was a benefit of $(4.4) million on pre-tax net loss of $12.8 million. The income tax benefit in 2012 includes the tax benefit from the pre-tax loss from continuing operations since we had pre-tax income from discontinued operations. The benefit from the pre-tax loss from continuing operations is used before the deferred tax assets from prior years are used to reduce the taxable gain generated from discontinued operations. Our income tax expense was $0.4 million for the year ended December 31, 2011 on a pre-tax net income of $11,000. The income tax expense in 2011 includes tax expense for the tax amortization associated with the indefinite-lived assets and state taxes offset by changes in tax contingencies during the year. The change in the effective tax rate is primarily due to the tax benefit from the pre-tax loss in 2012.

Net Loss and Loss Per Share from Continuing Operations. Net loss from continuing operations for the year ended December 31, 2012 was $8.3 million, or $0.15 per basic and diluted share. Net loss was $0.4 million, or $0.01 per basic and diluted share, for the same period in the preceding year. The reduction in net income from continuing operations resulted from a lower gross profit percentage on revenues due to product mix, and from incremental operating expenses needed to support the growth in revenue volume.

Net Income and Income Per Share from Discontinued Operations. Net income from discontinued operations for the year ended December 31, 2012 was $73.0 million, or $1.30 per basic and diluted share. This reflects a gain of $115.0 million before taxes from the Pharmacy Services Asset Sale offset by one-time charges of approximately $13.4 million as a result of the transaction, a net loss from the operations of the traditional and specialty pharmacy mail operations and community retail pharmacy stores for the period ended May 4, 2012 of ($1.5) million, and additional costs of $18.7 million, including incremental bad debt expense of $9.6 million, associated with the subsequent resolution of retained receivables and working capital liabilities relating to the operations subject to the sale. Net income from discontinued operations for the year ended December 31, 2011 was $8.3 million reflecting the net

income related to the operations of the traditional and specialty pharmacy mail operations and community retail pharmacy stores, net of corporate SG&A expenses directly associated with the operations. Income tax expense of $6.1 million and $0.9 million for the years ended December 31, 2012 and 2011, respectively have also been allocated to discontinued operations. Similarly, $0.8 million and $2.8 million of interest expense have been allocated to discontinued operations for the years ended December 31, 2012 and 2011, respectively.

Also impacting net income per share from discontinued operations, the Company has entered into a final settlement resolving a previously disclosed lawsuit. Following responses to government subpoenas and discussions with the government, in May 2011 the Company was advised of a qui tam lawsuit filed under seal in federal court in Minnesota in 2006 and naming the Company as defendant. The complaint alleged violations of healthcare statutes and regulations by the Company and predecessor companies dating back to 2000. The Company entered into a final settlement under which it paid the states $0.6 million and the federal government $4.4 million, resolving all issues alleged in the complaint and the government's investigation in exchange for a release and dismissal of the claims. A related qui tam relator's employment termination claim and her lawyer's statutory legal fee claim

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were also resolved. During the year ended December 31, 2011, the Company recorded a legal settlement expense of $4.8 million related to this settlement. During the year ended December 31, 2012, the Company recorded additional legal settlement expense of $0.8 million to account for the final settlement amount. The legal settlement expenses were included in income (loss) from discontinued operations, net of income taxes in the accompanying Unaudited Consolidated Statements of Operations. As of December 31, 2012 there was no remaining liability and as of December 31, 2011, there was a liability of $4.8 million, included in accrued expenses and other current liabilities in the accompanying Consolidated Balance Sheets related to the settlement.

Year ended December 31, 2011 vs. December 31, 2010

	Year Ended December 31, (in thousands)						
	2011			2010			Change
Revenue	$554,506			$430,707			$123,799
Gross profit	$215,415	38.8	%	$160,536	37.3	%	$54,879
Income from operations	$25,553	4.6	%	$7,539	1.8	%	$18,014
Interest expense, net	$25,542	4.6	%	$23,560	5.5	%	$1,982
Income before income taxes	$11	—	%	$(18,975)	(4.4)	%	$18,986
Net (loss) income from continuing operations	$(424)	(0.1)	%	$(67,675)	(15.7)	%	$67,251
Net income from discontinued operations	$8,296	1.5	%	$(1,467)	(0.3)	%	$9,763

Revenue. Revenue for the year ended December 31, 2011 was $554.5 million compared to revenue of $430.7 million for the year ended December 31, 2010.

Infusion Services segment revenue for the year ended December 31, 2011 was $374.3 million, compared to revenue of $315.7 million for the same period in 2010, an increase of $58.8 million, or 18.6%. Product revenue increased $58.8 million, or 19.2%, as a result of incremental first quarter revenue contributed by the legacy Critical Homecare Solutions, Inc. (“CHS”) business, which was acquired March 25, 2010. Service revenue decreased $0.3 million, or 2.9%, due to reduced Medicare and TennCare reimbursement rates.

Home Health Service segment revenues increased $13.4 million or 23.8% due to a full year of CHS revenue in the year ended December 31, 2011. This compares with only nine months of revenue included in the year ended December 31, 2010.

PBM Services revenue for the year ended December 31, 2011 was $110.6 million compared to revenue of $58.7 million for the same period in 2010, an increase of $51.9 million, or 88.4%. This was primarily due to revenue on new contracts and the expansion of the number of patients served on existing contracts during the period. Revenue also increased in the discount card operations.

Cost of Revenue and Gross Profit. Cost of revenue for the year ended December 31, 2011 was $339.1 million compared to $270.2 million for the same period in 2010. Gross profit for the year ended December 31, 2011 was $215.4 million compared to $160.5 million for the same period in 2010, an increase of $54.9 million, or 34.2%. Gross profit as a percentage of revenue increased to 38.8% in the year ended December 31, 2011 from 37.3% in the year ended December 31, 2010. The increase in gross profit percentage from 2010 to 2011 was primarily the result of the acquisition of CHS and purchasing synergies generated post-acquisition.

Selling, General and Administrative Expenses. Selling, general and administrative expenses for the year ended December 31, 2011 were $167.1 million, or 30.1% of total revenue, compared to $133.4 million, or 31.0% of total revenue, for the same period in 2010. The increase in SG&A was primarily due to $11.6 million of additional expense

related to our expanded operations after acquiring CHS, and an increase of $20.7 million in brokers' fees related to growth in our discount card programs.

Bad Debt Expense. For the year ended December 31, 2011, bad debt expense was $11.4 million, or 2.1% of revenue, compared to $7.2 million, or 1.7% of revenue, for the same period in 2010. This $4.2 million increase in bad debt expense is largely due to the increase in revenue.

Acquisition and Integration Expenses. During the year ended December 31, 2010, we recorded $5.9 million of costs related to the acquisition of CHS. These costs were primarily related to legal, audit and financial advisory fees associated with the acquisition of CHS. We did not incur acquisition and integration expenses during the year ended December 31, 2011.

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Restructuring and Other Expenses. As a result of the strategic assessment and related restructuring plans, we incurred restructuring expenses of approximately $7.9 million in the year ended December 31, 2011 and $4.0 million during the year ended December 31, 2010. Restructuring expenses in fiscal 2011 primarily consisted of approximately $2.9 million in third-party consulting costs, $1.9 million of employee severance and benefit-related costs, $1.6 million in facility-related costs and $1.5 million of other transitional costs. Restructuring expenses in fiscal 2010 primarily consisted of approximately $2.3 million related to employee severance and other benefit-related costs, $1.2 million of third-party consulting costs, and $0.5 million of other transitional costs.

Amortization of Intangibles. During the year ended December 31, 2011, we recorded amortization of intangible assets of $3.4 million as compared to $2.5 million in the year ended December 31, 2010. The amortization was on intangible assets recorded as a result of the 2010 CHS acquisition.

Interest Expense, Net. Net interest expense was $25.5 million for the year ended December 31, 2011, as compared to $23.6 million for the same period in 2010. The increase in interest expense was due the inclusion of a full year of interest expense related to the new debt structure implemented in March 2010.

Income Tax Expense. Income tax expense of $0.4 million was recorded for the year ended December 31, 2011 on a pre-tax net gain of $11,000. This compares with an income tax expense of $48.7 million in 2010 on a pre-tax loss of $19.0 million. The income tax expense in 2011 includes the tax amortization associated with the indefinite-lived assets and state taxes, which were offset by changes in tax contingencies during the year. The income tax expense in 2010 includes the establishment of a valuation allowance recorded on deferred tax assets of $54.0 million.

Net Loss and Loss Per Share from Continuing Operations. Net loss from continuing operations for the year ended December 31, 2011 was $0.4 million or $0.01 per basic and diluted share as compared with a net loss for the year ended December 31, 2010 totaling $67.7 million, or $1.34 per basic or diluted share. The next loss from continuing operations in the year ended December 31, 2010 was primarily a result of the establishment of a $54.0 million valuation reserve for deferred tax assets.

Net Income (Loss) and Income (Loss) Per Share from Discontinued Operations. Net income (loss) from discontinued operations for the years ended December 31, 2011 and 2010 was $8.3 million and ($1.5) million, respectively reflecting the net income related to the operations of the traditional and specialty pharmacy mail operations and community retail pharmacy stores, net of corporate SG&A expenses directly associated with the operations. During the year ended December 31, 2010, we recorded $3.9 million of legal settlement costs. These costs were the result of an independent arbitration award against the Company in a lawsuit brought by JPD, Inc. and James P. DiCello, the sellers of Northland Medical Pharmacy (“Northland”), which was purchased in late 2005 by Chronimed Holdings, Inc. (“Chronimed”), a wholly-owned subsidiary of the Company.

Non-GAAP measures. The following table reconciles GAAP net loss from continuing operations to Consolidated Adjusted EBITDA and Segment Adjusted EBITDA. EBITDA is net (loss) income from continuing operations adjusted for net interest expense, loss on extinguishment of debt, income tax expense, depreciation, amortization and stock-based compensation expense. Adjusted EBITDA excludes acquisition and integration expense, restructuring and other expense, and the write-off of receivables related to the CAP contract.

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

Non-GAAP financial measures have limitations as analytical tools and should not be considered in isolation or as a substitute for our financial results prepared in accordance with GAAP. The Company encourages investors to review

these reconciliations. The Company qualifies its use of non-GAAP financial measures with cautionary statements as to their limitations.

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	Years Ended December 31, 2012	2011	2010
	(in thousands)		
Results of Operations:			
Adjusted EBITDA by Segment before corporate overhead:			
Infusion Services	$36,764	$35,128	$37,853
Home Health Services	5,401	5,954	4,839
PBM Services	25,659	30,122	18,549
Total Segment Adjusted EBITDA	67,824	71,204	61,241
Corporate overhead	(26,755)	(23,308)	(29,830)
Consolidated Adjusted EBITDA	41,069	47,896	31,411
Interest expense, net	(26,067)	(25,542)	(23,560)
Loss on extinguishment of debt	—	—	(2,954)
Income tax benefit (expense)	4,439	(435)	(48,700)
Depreciation	(8,513)	(6,591)	(5,379)
Amortization of intangibles	(3,957)	(3,376)	(2,522)
Stock-based compensation expense	(6,122)	(4,467)	(3,320)
Acquisition and integration expenses	(4,046)	—	(5,924)
Restructuring and other expenses	(5,143)	(7,909)	(3,985)
Bad debt expense related to contract termination	—	—	(2,742)
Net loss from continuing operations, net of taxes	$(8,340)	$(424)	$(67,675)

Infusion Services segment Adjusted EBITDA increased during the year ended December 31, 2012 as a result of our organic growth and from the acquisition of InfuScience , partially offset by increased costs to service the growth in lower margin chronic therapies and the added costs of converting our Lake Success, NY and Columbus, OH specialty pharmacy locations to infusion pharmacies but which are not yet operating at ultimate efficiency. The Company also incurred increased costs during 2012 related to various retained corporate support services that had been previously allocated to support the businesses that were sold.

Home Health Services segment Adjusted EBITDA declined due to a decrease in home health reimbursement rates from certain government payors.

PBM Services segment Adjusted EBITDA declined due to a reduction in revenues resulting in part from a rate reduction on the discount card business.

Non-GAAP adjusted EPS. In an effort to provide better transparency into the operational results of the business and better comparability to other market participants, we have identified non-operating (non-GAAP) categories of earnings per share (Non-GAAP Adjusted EPS) from continuing operations. Non-GAAP Adjusted EPS is a measure that excludes the effects of restructuring and other expenses, certain acquisition-related charges such as transaction costs and acquisition integration expenses, amortization of intangibles, and stock-based compensation expense. The company considers these costs to be outside the operational performance of the business. The tables below provide a reconciliation of the company's net loss from continuing operations, net of income taxes, and basic and diluted loss per common share from continuing operations as reported under GAAP to its Adjusted EPS presentation, which is a non-GAAP measure. The Company's calculation of Non-GAAP Adjusted EPS, as presented, may differ from similarly titled measures reported by other companies.

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	Years Ended December 31, 2012 [1, 4]	2011 [2, 5]	2010 [3,6]
Net loss from continuing operations, net of income taxes	(8,340)	(424)	(67,675)
Non-GAAP adjustments:			
Restructuring and other expenses	3,099	4,798	2,461
Acquisition and integration expenses	2,438	—	3,658
Amortization of intangibles	2,384	2,048	1,557
Stock-based compensation expense	3,689	2,710	2,050
Non-GAAP net income (loss) from continuing operations	3,270	9,132	(57,949)
Loss per share from continuing operations, basic and diluted	(0.15)	(0.01)	(1.34)
Non-GAAP adjustments:			
Restructuring and other expenses	0.06	0.09	0.05
Acquisition and integration expenses	0.04	—	0.07
Amortization of intangibles	0.04	0.04	0.03
Stock-based compensation expense	0.07	0.05	0.04
Non-GAAP earnings (loss) per share from continuing operations, basic and diluted	0.06	0.17	(1.15)
Weighted average shares outstanding, basic	56,239	54,505	50,374
Weighted average shares outstanding, diluted	57,001	55,150	50,374

[1] For the year ended December 31, 2012, non-GAAP net income from continuing operations adjustments are net of tax, calculated using an annual effective tax rate method. The tax expense netted against restructuring and other expenses, acquisition and integration expenses, amortization of intangibles, and stock-based compensation expense was $2,044, $1,608, 1,573 and $2,433, respectively.

[2] For the year ended December 31, 2011, non-GAAP net income from continuing operations adjustments are net of tax, calculated using an annual effective tax rate method. The tax expense netted against restructuring and other expenses, amortization of intangibles, and stock-based compensation expense was $3,111, $1,328, and $1,757, respectively.

[3] For the year ended December 31, 2010 non-GAAP net income from continuing operations adjustments are net of tax, calculated using an annual effective tax rate method. The tax expense netted against restructuring and other expenses, acquisition and integration expenses, amortization of intangibles, and stock-based compensation expense was $1,524, $2,266, $965 and $1,270, respectively.

[4] For the year ended December 31, 2012, Non-GAAP Adjusted EPS per basic and diluted share from continuing operations adjustments are net of tax, calculated using an annual effective tax rate method. The tax expense per common and diluted share netted against restructuring and other expenses, acquisition and integration expenses, amortization of intangibles, and stock-based compensation expense was $(0.04), $(0.03), $(0.03), and $(0.04) per share, respectively.

[5] For the year ended December 31, 2011, Non-GAAP Adjusted EPS per basic and diluted share from continuing operations adjustments are net of tax, calculated using an annual effective tax rate method. The tax expense per basic and diluted share netted against restructuring and other expenses, amortization of intangibles, and stock-based compensation expense were $(0.06), $(0.02), and $(0.03) per share, respectively.

[6] For the year ended December 31, 2010, Non-GAAP Adjusted EPS per basic and diluted share from continuing operations adjustments are net of tax, calculated using an annual effective tax rate method. The tax expense per common and diluted share netted against restructuring and other expenses, acquisition and integration expenses, amortization of intangibles, and stock-based compensation expense was $(0.03), $(0.04), $(0.02), and $(0.03) per share, respectively.

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Liquidity and Capital Resources

We utilize funds generated from operations for general working capital needs, capital expenditures and acquisitions.

Net cash provided by operating activities of continuing operations totaled $49.9 million during the year ended December 31, 2012 compared to $3.1 million during the year ended December 31, 2011. This inflow of cash from operating activities related to continuing operations for the year ended December 31, 2012 was due to $101.3 million of collections on receivables offset by $48.2 million in payments on accounts payable, largely due to the conversion to cash of Pharmacy Services related receivables and payables retained upon the sale of certain of the unit's assets.

Net cash used in investing activities associated with continuing operations during the year ended December 31, 2012 was $67.6 million primarily due to the $41.4 million invested to acquire InfuScience combined with a $10.7 million investment in an affiliated variable interest entity. There were also $11.0 million invested in purchases of property and equipment. This compared to a use of cash in investing activities for continuing operations during 2011 totaling $8.3 million, primarily related to purchases of property and equipment.

Net cash used in financing activities during the year ended December 31, 2012 of $58.6 million reflected the payment of the outstanding balance on the line of credit at the time of the Pharmacy Services Asset Sale. Net cash used in financing activities during the year ended December 31, 2011 of $17.1 million reflected a reduction in the balance of the line of credit during the year.

Net cash provided by operating activities from continuing operations totaled $3.1 million during the year ended December 31, 2011 compared to $33.6 million used during the year ended December 31, 2010. This $38.6 million increase in cash provided by continuing operating activities compared to the prior year was due to a decrease in working capital requirements of $13.2 million and a reduction in net loss from continuing operations of $23.5 million in net income, adjusted for non-cash items such as the reversal of deferred tax valuation allowance, depreciation and amortization of intangibles.

Net cash used in investing activities related to continuing operations during the year ended December 31, 2011 was $8.3 million compared to $104.2 million during the same period in 2010. This $95.9 million decrease was primarily related to the acquisitions of CHS and DS Pharmacy during 2010.

Net cash used in financing activities during the year ended December 31, 2011 was $17.1 million compared to $130.0 million provided by financing activities during the same period in 2010. This $147.0 million decrease was primarily due to the prior year borrowings used to finance the CHS acquisition, partially offset by the prior year payoffs of the long-term debt assumed in the CHS acquisition and our prior line of credit.

At December 31, 2012, we had working capital of $127.2 million compared to $71.7 million at December 31, 2011. The increase was primarily due to the Pharmacy Services Asset sale, partially offset by the purchase of InfuScience.

Under the terms of the senior unsecured notes, upon a major asset sale such as the sale, of our Pharmacy Services assets., we are obligated to use proceeds from the sale to reduce debt under the amended and restated facility or reinvest the proceeds in the business. If we do not use the sale proceeds within 360 days, we are required to make a tender offer to redeem a portion of the senior unsecured notes, based on defined criteria. We may also use the sale proceeds under certain terms to redeem a portion of the senior unsecured notes prior to the one year anniversary date of the sale. As of March 5, 2013, we have utilized sufficient proceeds to reduce the line of credit and to invest in Infusion acquisitions. As such, there is no requirement for us to make a tender offer to redeem a portion of the senior unsecured notes.

We believe that funds available under the senior secured revolving credit facility and cash expected to be generated from operating activities, will be sufficient to fund our anticipated working capital, information technology systems investments, scheduled interest repayments and other cash needs for at least the next twelve months, based on historical levels.

We also intend to pursue additional joint venture arrangements, business acquisitions and other transactions designed to expand our business, with borrowings under the senior secured revolving credit facility, other future indebtedness or, if appropriate, the private and/or public sale or exchange of our debt or equity securities.

The Senior Secured Revolving Credit Facility matures on March 25, 2015 and initially had an available line of credit totaling $150.0 million. The amount of borrowings which may be made under the Senior Secured Revolving Credit Facility is based on a borrowing base comprised of specified percentages of eligible receivables and eligible inventory, up to a maximum available line of credit and subject to certain liquidity and reserve requirements. If the amount of borrowings outstanding under the revolving credit facility exceeds the borrowing base then in effect, the Company will be required to repay such borrowings in an amount

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sufficient to eliminate such excess. Interest on advances is based on a Eurodollar rate plus an applicable margin of 3.5%, with the Eurodollar rate initially having a floor of 1.25%. In the event of any default, the interest rate may be increased to 2.0% over the rate applicable to such loans. The facility also carries a non-utilization fee of 0.50% per annum, payable monthly, on the unused portion of the credit line. The facility includes $5.0 million of availability for letters of credit and $10.0 million of availability for swing line loans. Initially we were required to maintain a balance of not less than $30.0 million.

On July 3, 2012, the Company entered into a Third Amendment to the Second Amended and Restated Credit Agreement, by and among the Company, as borrower, all of its subsidiaries as guarantors thereto, the lenders, Healthcare Finance Group, LLC, an administrative agent, and the other parties thereto. The amendment reduced revolving commitments from $150 million to $125 million; eliminated the minimum revolving balance requirement; increased the basket limitation for loans and advances to third parties and investments in permitted joint ventures to $60 million; removed the dollar limitation on permitted acquisitions so long as the proposed acquisition meets the pro forma and other conditions; lowered the LIBOR floor to 1.00% from 1.25%; and modified the definition of the term “Consolidated EBITDA”. As of December, 2012, there were no borrowings under the senior secured revolving credit facility. We are in compliance with all covenants as of December 31, 2012 and as of the date of filing of this report.

The weighted average interest rate on our short term borrowings during the year ended December 31, 2012 was 4.69%. The weighted average interest rate on our short term borrowings during the year ended December 31, 2011 was 4.66%.

The $225.0 million senior unsecured notes are due October 1, 2015. The interest rate on the senior unsecured notes is 10.25% and is paid semi-annually, in arrears, on April 1 and October 1 of each year.

At December 31, 2012, the Company had Federal net operating loss (“NOL”) carry forwards of approximately $49.6million, $26.6 million of which is subject to an annual limitation, which will begin expiring in 2026 and later. Of the Company’s $49.6 million of Federal NOLs, $14.6 million will be recorded in additional paid-in capital when realized. These NOLs are related to the exercise of non-qualified stock options and restricted stock grants. The Company has post-apportioned state NOL carry forwards of approximately $97.2 million, the majority of which will begin expiring in 2017 and later.

At December 31, 2010, there was $4.3 million of cash on deposit as collateral for certain letters of credit ("LC") from commercial banks obtained in the ordinary course of business. During the year ended December 31, 2011, we were refunded the $4.3 million in cash and accepted a reduction of our availability on the line of credit to satisfy the collateral requirements. At December 31, 2012 availability on the line of credit was reduced by $3.5 million as collateral deposit outstanding for letters of credit.

The following table sets forth our contractual obligations affecting cash in the future as of December 31, 2012 (in thousands):

	Payments Due in Period				
Contractual Obligations	Total	Less than 1 Year	1-3 Years	4-5 Years	After 5 Years
Long-term debt (1)	$288,486	$23,063	$265,423	$—	$—
Operating lease obligations	30,538	6,481	10,827	8,178	5,052
Capital lease obligations (1)	1,457	1,017	417	23	—
Purchase commitment	29,359	29,359	—	—	—
Total	$349,840	$59,920	$276,667	$8,201	$5,052

(1) Includes both principal and interest payments.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

Exposure to market risk for changes in interest rates relates to our outstanding debt. At December 31, 2012, we had $226.4 million of long-term debt, of which $0.5 million was subject to variable interest rates. We are exposed to interest rate risk primarily through our borrowing activities under the Revolving Credit Facility, discussed in Item 6 of this Report. A one percent increase in current market interest rates would not have a material impact on our annual net interest expense. We do not use financial instruments for trading or other speculative purposes and are not a party to any derivative financial instruments at this time.

Management does not believe that our exposure to interest rate market risk is material at this time because the variable interest rate negotiated in the Revolving Credit Facility is subject to a rate floor which is above current market rates. Market rates can

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increase and not cause an increase in our variable interest rate. Our Revolving Credit Facility agreement provides for the use of interest rate swaps as a strategy to manage interest rate market risk. We regularly assess the significance of interest rate market risk as part of our treasury operations and as circumstances change and will enter into interest rate swaps as appropriate.

At December 31, 2012, the carrying values of accounts receivable, accounts payable, claims payable, payables to Plan Sponsors and others approximate fair value due to their short-term nature. We had no borrowings under our Revolving Credit Facility at December 31, 2012. We believe the carrying value of our long-term debt under our Revolving Credit Facility approximates fair market value.

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Item 8. Financial Statements and Supplementary Data

Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders
BioScrip, Inc.

We have audited the accompanying consolidated balance sheets of BioScrip, Inc. and subsidiaries as of December 31, 2012 and 2011, and the related consolidated statements of operations, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2012. Our audits also included the financial statement schedule listed in the Index at Item 15. These financial statements and schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of BioScrip, Inc. and subsidiaries at December 31, 2012 and 2011 and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2012, in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), BioScrip, Inc.'s internal control over financial reporting as of December 31, 2012, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated March 14, 2013, expressed an unqualified opinion thereon.

Minneapolis, Minnesota
March 14, 2013

/s/ Ernst & Young LLP

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

	December 31, 2012	December 31, 2011
ASSETS		
Current assets		
Cash and cash equivalents	$62,101	$—
Receivables, less allowance for doubtful accounts of $22,212 and $22,728 at December 31, 2012 and December 31, 2011, respectively	129,103	225,412
Inventory	34,034	17,997
Prepaid expenses and other current assets	10,189	10,184
Current assets from discontinued operations	—	38,876
Total current assets	235,427	292,469
Property and equipment, net	23,721	26,951
Goodwill	350,810	312,387
Intangible assets, net	17,446	19,622
Deferred financing costs	2,877	3,992
Investments in and advances to unconsolidated affiliate	10,042	—
Other non-current assets	2,053	1,552
Non-current assets from discontinued operations	—	20,129
Total assets	$642,376	$677,102
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities		
Current portion of long-term debt	$953	$66,161
Accounts payable	34,438	79,155
Claims payable	7,411	11,766
Amounts due to plan sponsors	18,173	25,219
Accrued interest	5,803	5,825
Accrued expenses and other current liabilities	41,491	32,648
Total current liabilities	108,269	220,774
Long-term debt, net of current portion	225,426	227,298
Deferred taxes	10,291	10,295
Other non-current liabilities	4,981	3,456
Total liabilities	348,967	461,823
Stockholders' equity		
Preferred stock, $.0001 par value; 5,000,000 shares authorized; no shares issued or outstanding	—	—
Common stock, $.0001 par value; 125,000,000 shares authorized; shares issued: 59,600,713 and 57,800,791, respectively; shares outstanding: 57,026,957 and 55,109,038, respectively	6	6
Treasury stock, shares at cost: 2,582,520 and 2,638,421, respectively	(10,311)	(10,461)
Additional paid-in capital	388,798	375,525
Accumulated deficit	(85,084)	(149,791)
Total stockholders' equity	293,409	215,279
Total liabilities and stockholders' equity	$642,376	$677,102

See accompanying Notes to the Consolidated Financial Statements.

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

	Years Ended December 31,		
	2012	2011	2010
Product revenue	$471,506	$365,526	$306,688
Service revenue	191,131	188,980	124,019
Total revenue	662,637	554,506	430,707
Cost of product revenue	325,271	238,072	199,749
Cost of service revenue	112,406	101,019	70,422
Total cost of revenue	437,677	339,091	270,171
Gross profit	224,960	215,415	160,536
Selling, general and administrative expenses	184,491	167,136	133,381
Bad debt expense	14,035	11,441	7,185
Acquisition and integration expenses	4,046	—	5,924
Restructuring and other expenses	5,143	7,909	3,985
Amortization of intangibles	3,957	3,376	2,522
Income from operations	13,288	25,553	7,539
Interest expense, net	26,067	25,542	23,560
Loss on extinguishment of debt	—	—	2,954
Income (loss) from continuing operations, before income taxes	(12,779)	11	(18,975)
Tax (benefit) provision	(4,439)	435	48,700
Net loss from continuing operations, net of income taxes	(8,340)	(424)	(67,675)
Net income from discontinued operations, net of income taxes	73,047	8,296	(1,467)
Net income (loss)	$64,707	$7,872	$(69,142)
(Loss) income per common share:			
Basic loss from continuing operations	$(0.15)	$(0.01)	$(1.34)
Basic income from discontinued operations	$1.30	$0.15	$(0.03)
Basic income (loss)	$1.15	$0.14	$(1.37)
Diluted loss from continuing operations	$(0.15)	$(0.01)	$(1.34)
Diluted income from discontinued operations	1.30	0.15	(0.03)
Diluted income (loss)	1.15	0.14	(1.37)
Weighted average common shares outstanding:			
Basic	56,239	54,505	50,374
Diluted	56,239	54,505	50,374

See accompanying Notes to the Consolidated Financial Statements.

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BIOSCRIP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(in thousands)

	Common Stock	Treasury Stock	Additional Paid-in Capital	Accumulated Deficit	Total Stockholders' Equity
Balance December 31, 2009	$4	$(10,367)	$254,677	$(88,521)	$155,793
Exercise of employee stock compensation plans	—	—	4,116	—	4,116
Income tax shortfall from stock option plan	—	—	(596)	—	(596)
Surrender of stock to satisfy minimum tax withholding	—	(129)	1	—	(128)
Compensation under employee stock compensation plans	—	—	3,374	—	3,374
Equity consideration to former CHS owners	2	—	106,682	—	106,684
Net income	—	—	—	(69,142)	(69,142)
Balance December 31, 2010	6	(10,496)	368,254	(157,663)	200,101
Exercise of employee stock compensation plans	—	—	3,198	—	3,198
Surrender of stock to satisfy minimum tax withholding	—	(189)	—	—	(189)
Issuance of treasury stock for restricted stock vesting	—	224	(224)	—	—
Compensation under employee stock compensation plans	—	—	4,297	—	4,297
Net income	—	—	—	7,872	7,872
Balance December 31, 2011	6	(10,461)	375,525	(149,791)	215,279
Exercise of employee stock compensation plans	—	—	8,611	—	8,611
Surrender of stock to satisfy minimum tax withholding	—	(174)	—	—	(174)
Issuance of treasury stock for restricted stock vesting	—	324	(324)	—	—
Compensation under employee stock compensation plans	—	—	4,986	—	4,986
Net income	—	—	—	64,707	64,707
Balance December 31, 2012	$6	$(10,311)	$388,798	$(85,084)	$293,409

See accompanying Notes to the Consolidated Financial Statements.

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

	Years Ended December 31,		
	2012	2011	2010
Cash flows from operating activities:			
Net income (loss)	$64,707	$7,872	$(69,142)
Less: Income from discontinued operations, net of income taxes	73,047	8,296	(1,467)
Loss from continuing operations, net of income taxes	(8,340)	(424)	(67,675)
Adjustments to reconcile net loss from continuing operations to net cash provided by (used in) operating activities:			
Depreciation	8,513	6,591	5,379
Amortization of intangibles	3,957	3,376	2,522
Amortization of deferred financing costs	1,261	1,055	1,813
Change in deferred income tax	(4)	1,153	47,333
Compensation under stock-based compensation plans	6,122	4,467	3,320
Loss on disposal of fixed assets	156	201	285
Changes in assets and liabilities, net of acquired business:			
Receivables, net of bad debt expense	101,230	(31,690)	(4,321)
Inventory	(15,249)	(2,497)	(1,196)
Prepaid expenses and other assets	3,726	11,211	(19,284)
Accounts payable	(48,200)	(1,659)	2,944
Claims payable	(4,354)	8,729	(1,030)
Amounts due to plan sponsors	(7,046)	5,437	6,079
Accrued interest	(22)	59	5,766
Accrued expenses and other liabilities	8,112	(2,945)	(15,494)
Net cash provided by (used in) operating activities from continuing operations	49,862	3,064	(33,559)
Net cash (used in) provided by operating activities from discontinued operations	(22,978)	23,905	12,140
Net cash provided by (used in) operating activities	26,884	26,969	(21,419)
Cash flows from investing activities:			
Purchases of property and equipment, net	(10,986)	(7,853)	(6,730)
Cash consideration paid for asset acquisitions	(43,046)	(463)	—
Cash consideration paid to CHS, net of cash acquired	—	—	(92,464)
Cash consideration paid to DS Pharmacy	(2,935)	—	(4,969)
Cash consideration paid for unconsolidated affiliate, net of cash acquired	(10,652)	—	—
Net cash used in investing activities from continuing operations	(67,619)	(8,316)	(104,163)
Net cash provided by (used in) investing activities from discontinued operations	161,499	(1,591)	(4,120)
Net cash provided by (used in) investing activities	93,880	(9,907)	(108,283)
Cash flows from financing activities:			
Cash consideration paid for Option Health earn-out	—	—	(1,000)
Proceeds from new credit facility, net of fees paid to issuers	—	—	319,000
Borrowings on line of credit	1,244,050	1,773,644	407,277
Repayments on line of credit	(1,307,872)	(1,791,058)	(356,430)
Repayments of capital leases	(3,278)	(2,635)	(348)
Principal payments on CHS long-term debt, paid at closing	—	—	(128,952)
Principal payments on long-term debt	—	—	(100,000)

Repayment of note payable	—	—	(2,250)
Deferred and other financing costs	—	(22)	(11,583)
Net proceeds from exercise of employee stock compensation plans	8,611	3,198	4,116
Surrender of stock to satisfy minimum tax withholding	(174)	(189)	(128)
Net cash (used in) provided by financing activities from continuing operations	(58,663)	(17,062)	129,702
Net cash provided by financing activities from discontinued operations	—	—	—
Net cash (used in) provided by financing activities	(58,663)	(17,062)	129,702

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Net change in cash and cash equivalents	62,101	—	—
Cash and cash equivalents - beginning of period	—	—	—
Cash and cash equivalents - end of period	$62,101	$—	$—
DISCLOSURE OF CASH FLOW INFORMATION:			
Cash paid during the period for interest	$25,589	$27,528	$20,116
Cash paid during the period for income taxes	$3,137	$1,042	$2,565
DISCLOSURE OF NON-CASH TRANSACTIONS:			
Capital lease obligations incurred to acquire property and equipment	$20	$6,631	$671

See accompanying Notes to the Consolidated Financial Statements.

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BIOSCRIP, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
NOTE 1-- NATURE OF BUSINESS

Corporate Organization and Business

BioScrip, Inc. and subsidiaries (the “Company” or “BioScrip”) is a national provider of home infusion and other home care services and pharmacy benefit management ("PBM") services that partners with patients, physicians, hospitals, healthcare payors and pharmaceutical manufacturers to provide clinical management solutions and the delivery of cost-effective access to prescription medications and home health services. The Company's services are designed to improve clinical outcomes to patients with chronic and acute healthcare conditions while controlling overall healthcare costs.

As a result of the Company entering into a purchase agreement on February 1, 2012 with respect to the sale of its traditional and specialty pharmacy mail operations and community retail pharmacy stores (see Note 3), the Company reevaluated its segments in accordance with the provisions of Financial Accounting Standards Board ("FASB")Accounting Standards Codification (“ASC”) Topic 280, Segment Reporting (“ASC 280”). Based on its review, the Company changed its operating and reportable segments from “Infusion/Home Health Services” and “Pharmacy Services” to its new operating and reportable segments: “Infusion Services", "Home Health Services” and “PBM Services”. These three new operating and reportable segments reflect how the Company's chief operating decision maker reviews the Company's results in terms of allocating resources and assessing performance.

The Infusion Services operating and reportable segment provides services consisting of home infusion therapy, respiratory
therapy and the provision of durable medical equipment, products and services. Infusion services include the dispensing and administering of infusion-based drugs, which typically requires additional nursing and clinical management services, equipment to administer the correct dosage and patient training designed to improve patient outcomes. Home infusion services also include the dispensing of self-injectible therapies.

The Home Health Services operating and reportable segment provides services that include the provision of skilled nursing services and therapy visits, private duty nursing services, hospice services, rehabilitation services and medical social services to patients primarily in their home.

The PBM Services operating and reportable segment consists of integrated PBM services, which primarily consists of discount card programs. The discount card programs provide a cost effective alternative for individuals who may be uninsured, underinsured or may have restrictive coverage that disallows reimbursement for certain medications. Under these discount programs, individuals who present a discount card at one of our participating network pharmacies receive prescription medications at a discounted price compared to the retail price. In addition, in our capacity as a pharmacy benefit manager, we have fully funded prescription benefit programs where we reimburse our network pharmacies and third party payors in turn reimburse us based on Medi-Span reported pricing for those claims fulfilled for their plan participants.

The Company's platform provides broad service capabilities and the ability to deliver clinical management services that offer patients a high-touch, community-based and home-based care environment. The Company's core services are provided in coordination with, and under the direction of, a patient's physician. The Company's home health professionals, including pharmacists, nurses, respiratory therapists and physical therapists, work with the physician to develop a plan of care suited to the patient's specific needs. Whether in the home, physician office, ambulatory infusion center or other alternate sites of care, the Company provides products, services and condition-specific clinical management programs tailored to improve the care of individuals with complex health conditions such as

gastrointestinal abnormalities, infectious diseases, cancer, pain management, multiple sclerosis, organ transplants, bleeding disorders, rheumatoid arthritis, immune deficiencies and heart failure.

Basis of Presentation

The Company's Consolidated Financial Statements have been prepared in accordance with U.S. generally accepted accounting principles ("GAAP").

Reclassifications

Certain prior period amounts have been reclassified to conform to the current year presentation due primarily to the new segment structure.

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NOTE 2-- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Consolidation

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

Variable Interest Entity

In accordance with the applicable accounting guidance for the consolidation of variable interest entities, the Company analyzes its variable interests to determine if an entity in which it has a variable interest is a variable interest entity. The Company's analysis includes both quantitative and qualitative reviews. The Company bases its quantitative analysis on the forecasted cash flows of the entity and its qualitative analysis on its review of the design of the entity, its organizational structure, including decision making ability, and relevant financial agreements. The Company also uses its qualitative analysis to determine if it must consolidate a variable interest entity as its primary beneficiary.

The Company has an affiliate equity investment in a variable interest entity that has developed a platform that facilitates the flow, management and sharing of vital health and medical information with stakeholders across the healthcare ecosystem. The Company concluded that the entity is a variable interest entity because the equity investment at risk is not sufficient to permit the entity to finance its activities without additional support from other parties. The Company has determined that it is not the primary beneficiary as power to direct the activities that most significantly impact economic performance of the entity is held by another stakeholder, and therefore does not consolidate the entity. The Company recorded its initial net investment in the variable interest entity of $6.9 million and subsequent working capital contributions in the investments in and advances to unconsolidated affiliate line on the accompanying Consolidated Balance Sheets using the equity method of accounting. The maximum exposure to loss as a result of its involvement with the variable interest entity is $19.0 million, which represents the current book value and additional commitments made to fund future potential working capital needs.

Use of Estimates

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

Cash and Cash Equivalents

Highly liquid investments with a maturity of three months or less when purchased are classified as cash equivalents.

Receivables
Receivables include amounts due from government sources, such as Medicare and Medicaid programs, PBMs, Managed Care Organizations and other commercial insurance (“Plan Sponsors”); amounts due from patient co-payments; amounts due from pharmaceutical manufacturers for rebates; and service fees resulting from the distribution of certain drugs through retail pharmacies.

Allowance for Doubtful Accounts

The allowance for doubtful accounts is based on estimates of losses related to receivable balances. The risk of collection varies based upon the product, the payor (commercial health insurance and government) and the patient’s

ability to pay the amounts not reimbursed by the payor. We estimate the allowance for doubtful accounts based upon several factors including the age of the outstanding receivables, the historical experience of collections, adjusting for current economic conditions and, in some cases, evaluating specific customer accounts for the ability to pay. Collection agencies are employed and legal action is taken when we determine that taking collection actions is reasonable relative to the probability of receiving payment on amounts owed. Management judgment is used to assess the collectability of accounts and the economic ability of our customers to pay. Judgment is also used to assess trends in collections and the effects of systems and business process changes on our expected collection rates. The Company reviews the estimation process quarterly and makes changes to the estimates as necessary. When it is determined that a customer account is uncollectible, that balance is written off against the existing allowance.

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The following table sets forth the aging of our December 31, 2012 and December 31, 2011 net accounts receivable (net of allowance for contractual adjustments and prior to allowance for doubtful accounts), aged based on date of service and categorized based on the three primary overall types of accounts receivable characteristics (in thousands):

As of December 31, 2012

	0 - 180 days	Over 180 days	Total
Government	$41,124	$2,744	$43,868
Commercial	75,389	26,137	101,526
Patient	1,784	4,137	5,921
	$118,297	$33,018	151,315
Allowance for doubtful accounts			(22,212)
Total			$129,103

As of December 31, 2011

	0 - 180 days	Over 180 days	Total
Government (1)	$36,498	$5,477	$41,975
Commercial (1)(2)	175,730	21,504	197,234
Patient	6,348	2,583	8,931
	$218,576	$29,564	248,140
Allowance for doubtful accounts			(22,728)
Total			$225,412

(1) Government includes $2.5 million and commercial includes $0.9 million of accounts receivable and allowance for doubtful accounts related to the termination of the Centers for Medicare & Medicaid Competitive Acquisition Program (“CAP”) contract as of December 31, 2011.

(2) In prior years, commercial included one pharmacy network agreement under which various Plan Sponsors were served and which Plan Sponsors account for, in the aggregate, receivables that accounted for 21% of the Company's total accounts receivable balance as of December 31, 2011. This contract was transferred to Walgreen Co. as part of the Pharmacy Services Asset Sale. At December 31, 2012 there was no remaining balance associated with this Pharmacy Services contract.

(3) Commercial balances declined $95.7 million during the year ended December 31, 2012 due to the collection of outstanding Pharmacy related balances retained following the sale of the related operations. The commercial balance greater than 180 days old increased by $4.6 million primarily because of the remaining Pharmacy related balances that have not yet been collected. At December 31, 2012 the remaining Pharmacy Services gross accounts receivable balance was $12.8 million and the related allowance for doubtful accounts was $8.0 million.

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Allowance for Contractual Discounts

The Company is reimbursed by Plan Sponsors for products and services the Company provides. Payments for medications and services covered by Plan Sponsors are generally less than billed charges. The Company monitors revenue and receivables from Plan Sponsors on an account-specific basis and records an estimated contractual allowance for certain revenue and receivable balances at the revenue recognition date to properly account for anticipated differences between amounts billed and amounts reimbursed. Accordingly, the total revenue and receivables reported in our financial statements are recorded at the amounts expected to be received from these payors. Since billing functions for a portion of the Company's revenue are largely computerized, which enables on-line adjudication (i.e., submitting charges to third-party payors electronically, with simultaneous feedback of the amount the primary insurance plan expects to pay) at the time of sale to record net revenue, exposure to estimating contractual allowance adjustments is limited. For the remaining portion of the Company's revenue, the contractual allowance is estimated based on several criteria, including unbilled and/or initially rejected claims, historical trends based on actual claims paid, current contract and reimbursement terms, and changes in customer base and payor/product mix. Contractual allowance estimates are adjusted to actual amounts as cash is received and claims are settled. The Company does not believe these changes in estimates are material.

Inventory

Inventory is recorded at the lower of cost or market. Cost is determined using the first-in, first-out method. Inventory consists principally of purchased prescription drugs and related supplies. Included in inventory is a reserve for inventory waste and obsolescence.

Property and Equipment

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

Asset	Useful Life
Computer hardware and software	3 - 5 years
Office equipment	3 - 5 years
Vehicles	5 years
Medical equipment	2 - 5 years
Furniture and fixtures	5 - 7 years

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

Costs relating to the development of software for internal purposes are charged to expense until technological feasibility is established in accordance with FASB ASC Topic 350, Intangibles – Goodwill and Other (“ASC 350”). Thereafter, the remaining software production costs up to the date placed into production are capitalized and included as Property and Equipment. Depreciation of the capitalized amounts commences on the date the asset is ready for its intended use and is calculated using the straight-line method over the estimated useful life of the software.

Amounts due to Plan Sponsors

Amounts due to Plan Sponsors primarily represent payments received from Plan Sponsors in excess of the contractually required reimbursement. These amounts are refunded to Plan Sponsors. These payables also include the sharing of manufacturers' rebates with Plan Sponsors.

Rebates

Manufacturers' rebates are part of each of the Company's segments. Rebates are generally volume-based incentives that are earned and recorded upon purchase of the inventory. Rebates are recorded as a reduction of both inventory and cost of goods sold.

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PBM rebates are recorded on historical PBM results and trends and are revised on a regular basis depending on the Company's latest forecasts, as well as information received from rebate sources. Should actual results differ, adjustments will be recorded in future earnings when the adjustment becomes known. In some instances, rebate payments are shared with the Company's Plan Sponsors. PBM rebates earned by the Company are recorded as a reduction of cost of goods sold. PBM rebates shared with clients are recorded as a reduction of revenue consistent with the sales incentive provisions of ASC Topic 605, Revenue Recognition ("ASC 605").

Revenue Recognition

The Company generates revenue principally through the sale of prescription drugs and nursing services. Prescription drugs are dispensed either through a pharmacy participating in the Company's pharmacy network or a pharmacy owned by the Company. Fee-for-service agreements include: (i) pharmacy agreements, where we dispense prescription medications through the Company's pharmacy facilities and (ii) PBM agreements, where prescription medications are dispensed through pharmacies participating in the Company's retail pharmacy network.

FASB ASC Subtopic 605-25, Revenue Recognition: Multiple-Element Arrangements ("ASC 605-25"), addresses situations in which there are multiple deliverables under one revenue arrangement with a customer and provides guidance in determining whether multiple deliverables should be recognized separately or in combination. The Company provides a variety of therapies to patients. For infusion-related therapies, the Company frequently provides multiple deliverables of drugs and related nursing services. After applying the criteria from ASC 605-25, the Company concluded that separate units of accounting exist in revenue arrangements with multiple deliverables. Drug revenue is recognized at the time the drug is shipped, and nursing revenue is recognized on the date of service. The Company allocates revenue consideration based on the relative fair value as determined by the Company's best estimate of selling price to separate the revenue where there are multiple deliverables under one revenue arrangement.

Revenue generated under PBM agreements is classified as either gross or net based on whether the Company is acting as a principal or an agent in the fulfillment of prescriptions through our retail pharmacy network. When the Company independently has a contractual obligation to pay a network pharmacy provider for benefits provided to its Plan Sponsors' members, and therefore is the "primary obligor" as defined in FASB ASC 605, Revenue Recognition ("ASC 605") the Company includes payments (which include the drug ingredient cost) from these Plan Sponsors as revenue and payments to the network pharmacy providers as cost of revenue. These transactions require the Company to pay network pharmacy providers, assume credit risk of Plan Sponsors and act as a principal. If the Company merely acts as an agent, and consequently administers Plan Sponsors' network pharmacy contracts, the Company does not have the primary obligation to pay the network pharmacy and assume credit risk, and as such, records only the administrative fees (and not the drug ingredient cost) as revenue.

Revenue generated under discount card agreements is recognized when the discount card is used to purchase a prescription drug. The revenue is based on contractual rates per transaction. Broker fees associated with the marketing of the discount cards are incurred and recognized at the time the card is used and classified as selling, general and administrative expense in the Consolidated Statements of Operations.

In the Company's Infusion Services and Home Health Services segments, the Company also recognizes nursing revenue as the estimated net realizable amounts from patients and Plan Sponsors for services rendered and products provided. This revenue is recognized as the treatment plan is administered to the patient and is recorded at amounts estimated to be received under reimbursement or payment arrangements with payors.

Under the Medicare Prospective Payment System program, net revenue is recorded based on a reimbursement rate which varies based on the severity of the patient's condition, service needs and certain other factors. Revenue is recognized ratably over a 60-day episode period and is subject to adjustment during this period if there are significant

changes in the patient's condition during the treatment period or if the patient is discharged but readmitted to another agency within the same 60-day episodic period. Medicare cash receipts under the prospective payment system are initially recognized as deferred revenue and are subsequently recognized as revenue over the 60-day episode period. The process for recognizing revenue under the Medicare program is based on certain assumptions and judgments, the appropriateness of the clinical assessment of each patient at the time of certification, and the level of adjustments to the fixed reimbursement rate relating to patients who receive a limited number of visits, have significant changes in condition or are subject to certain other factors during the episode.

Cost of Revenue

Cost of revenue includes the costs of prescription medications, pharmacy claims, fees paid to pharmacies, shipping and other direct and indirect costs associated with pharmacy management and administration, claims processing operations, and nursing

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services, offset by volume and prompt pay discounts received from pharmaceutical manufacturers and distributors and total manufacturer rebates.

Intangible Assets

The Company amortizes intangible assets with a finite useful life over its estimated useful life, and an intangible asset with an indefinite useful life is not amortized. Trademarks, trade names, customer relationships and license and marketing related intangibles are amortized on a straight line basis, which approximates the benefit provided by the utilization of the assets.

Impairment of Long Lived Assets

The Company evaluates whether events and circumstances have occurred that indicate the remaining estimated useful life of long lived assets, including intangible assets, may warrant revision or that the remaining balance of an asset may not be recoverable. The measurement of possible impairment is based on the ability to recover the balance of assets from expected future operating cash flows on an undiscounted basis. Impairment losses, if any, are determined based on the fair value of the asset, calculated as the present value of related cash flows using discount rates that reflect the inherent risk of the underlying business.

Goodwill

In accordance with ASC 350, the Company evaluates goodwill for impairment on an annual basis and whenever events or circumstances exist that indicate that the carrying value of goodwill may no longer be recoverable. The impairment evaluation is based on a two-step process. The first step compares the fair value of a reporting unit with its carrying amount, including goodwill. If the first step indicates that the fair value of the reporting unit is less than its carrying amount, the second step must be performed which determines the implied fair value of reporting unit goodwill. The measurement of possible impairment is based upon the comparison of the implied fair value of reporting unit to its carrying value.

Fair Value Measurements

Fair value measurements are categorized into one of three levels based on the lowest level of significant input used: Level 1 (unadjusted quoted prices in active markets); Level 2 (observable market inputs available at the measurement date, other than quoted prices included in Level 1); and Level 3 (unobservable inputs that cannot be corroborated by observable market data).

Lease Accounting

The Company accounts for operating leasing transactions by recording rent expense on a straight-line basis over the expected life of the lease, starting on the date it gains possession of leased property. The Company includes tenant improvement allowances and rent holidays received from landlords, and the effect of any rent escalation clauses, as adjustments to straight-line rent expense over the expected life of the lease.

Capital lease transactions are reflected as a liability at the inception of the lease based on the present value of the minimum lease payments or, if lower, the fair value of the property. Assets recorded under capital leases are depreciated in the same manner as owned property.

Income Taxes

As part of the process of preparing the Company's Consolidated Financial Statements, management is required to estimate income taxes in each of the jurisdictions in which it operates. The Company accounts for income taxes under ASC Topic 740, Income Taxes ("ASC 740"). ASC 740 requires the use of the asset and liability method of accounting for income taxes. Under this method, deferred taxes are determined by calculating the future tax consequences attributable to differences between the financial accounting and tax bases of existing assets and liabilities. A valuation allowance is recorded against deferred tax assets when, in the opinion of management, it is more likely than not that the Company will not be able to realize the benefit from its deferred tax assets.

The Company files income tax returns, including returns for its subsidiaries, as prescribed by Federal tax laws and the tax laws of the state and local jurisdictions in which it operates. The Company's uncertain tax positions are related to tax years that remain subject to examination and are recognized in the Consolidated Financial Statements when the recognition threshold and

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measurement attributes of ASC 740 are met. Interest and penalties related to unrecognized tax benefits are recorded as income tax expense.

Financial Instruments

The Company's financial instruments consist mainly of cash and cash equivalents, receivables, accounts payable, accrued interest and its line of credit. The carrying amounts of cash and cash equivalents, receivables, accounts payable, accrued interest and its line of credit approximate fair value due to their fully liquid or short-term nature. The estimated fair value of the Company's senior unsecured notes, which is calculated using level 1 inputs and was based on current market rates for debt of the same risk and maturities, was more than the carrying value by approximately $42.1 million on December 31, 2012.

Accounting for Stock-Based Compensation

The Company accounts for stock-based employee compensation expense under the provisions of ASC Topic 718, Compensation – Stock Compensation ("ASC 718"). At December 31, 2012, the Company has two stock-based employee compensation plans pursuant to which incentive stock options ("ISOs"), non-qualified stock options ("NQSOs"), stock appreciation rights ("SARs"), restricted stock, performance shares and performance units may be granted to employees and non-employee directors. Option and stock awards are typically settled by issuing authorized but unissued shares of the Company.

The Company estimates the fair value of each stock option award on the measurement date using a binomial option-pricing model. The fair value of the award is amortized to expense on a straight line basis over the requisite service period. The Company expenses restricted stock awards based on vesting requirements, including time elapsed, market conditions and/or performance conditions. Because of these requirements, the weighted average period for which the expense is recognized varies. The Company expenses stock appreciation right awards ("SARs") based on vesting requirements. In addition, because they are settled with cash, the fair value of the SAR awards are revalued on a quarterly basis.

Income (Loss) Per Share

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

	Year Ended December 31,		
	2012	2011	2010
Numerator:			
Loss from continuing operations, net of income taxes	$(8,340)	$(424)	$(67,675)
Income from discontinued operations, net of income taxes	73,047	8,296	(1,467)
Net income (loss)	$64,707	$7,872	$(69,142)
Denominator - Basic:			
Weighted average number of common shares outstanding	56,239	54,505	50,374
Basic Earnings Per Common Share:			
Basic loss from continuing operations	$(0.15)	$(0.01)	$(1.34)
Basic income from discontinued operations	1.30	0.15	(0.03)
Basic income (loss) per common share	$1.15	$0.14	$(1.37)
Denominator - Diluted:			
Weighted average number of common shares outstanding	56,239	54,505	50,374

Common share equivalents of outstanding stock options and restricted awards	—	—	—
Total diluted shares outstanding	56,239	54,505	50,374
Diluted Earnings Per Common Share:			
Diluted loss from continuing operations	$(0.15)	$(0.01)	$(1.34)
Diluted income from discontinued operations	1.30	0.15	(0.03)
Diluted income (loss) per common share	$1.15	$0.14	$(1.37)

The computation of diluted shares for the years ended December 31, 2012, December 31, 2011 and December 31, 2010 excludes the effect of 3.4 million warrants with an exercise price of $10 issued in connection with the acquisition of CHS as their

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inclusion would be anti-dilutive to earning per common share from continuing operations. In addition, the computation of diluted shares for the years ended December 31, 2012, December 31, 2011 and 2010 excludes the effect of 2.8 million, 4.6 million and 7.3 million, respectively, of other common stock equivalents as their inclusion would be anti-dilutive to earning per common share from continuing operations. ASC Topic 260, Earnings Per Share, requires that income from continuing operations be used as the basis for determining whether the inclusion of common stock equivalents would be anti-dilutive.

Recent Accounting Pronouncements

In May 2011, the FASB issued Accounting Standards Update ("ASU") 2011-04, Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRS (“ASU 2011-04”). ASU 2011-04 generally aligns the principles for fair value measurements and the related disclosure requirements under U.S. GAAP and International Financial Reporting Standards. From a U.S. GAAP perspective, the amendments are largely clarifications, but some could have a significant effect on certain companies. A number of new disclosures also are required. Except for certain disclosures, the guidance applies to public and nonpublic companies and is to be applied prospectively. The Company adopted ASU 2011-04 on January 1, 2012. The adoption of this statement did not have a material effect on the Company's Consolidated Financial Statements.

In September 2011, the FASB issued ASU 2011-08, Testing Goodwill for Impairment (“ASU 2011-08”). ASU 2011-08 allows an entity to first assess qualitative factors to determine whether it is necessary to perform the two-step quantitative goodwill impairment test. Under these amendments, an entity would not be required to calculate the fair value of a reporting unit unless the entity determines, based on a qualitative assessment, that it is more likely than not that its fair value is less than its carrying amount. The amendments include a number of events and circumstances for an entity to consider in conducting the qualitative assessment. The amendments were effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011. The adoption of this statement did not have a material effect on the Company's Consolidated Financial Statements.

In July 2012, the FASB issued ASU 2012-02, Testing Indefinite-Lived Intangible Assets for Impairment (“ASU 2012-02”). ASU 2012-02 allows an entity to first assess qualitative factors to determine whether it is necessary to perform a quantitative impairment test. Under this amendment, an entity would not be required to calculate the fair value of the indefinite-lived intangible asset unless the entity determines, based on a qualitative assessment, that it is more likely than not that its fair value is less than its carrying amount. The amendments include a number of events and circumstances for an entity to consider in conducting the qualitative assessment. ASU 2012-02 is effective for annual and interim impairment tests performed for fiscal years beginning after September 15, 2012. Early adoption is permitted. The Company is currently evaluating the impact of adopting ASU 2012-02 on its Unaudited Consolidated Financial Statements.

NOTE 3-- DISCONTINUED OPERATIONS

On February 1, 2012, the Company entered into a Community Pharmacy and Mail Business Purchase Agreement (the “Asset Purchase Agreement”) by and among Walgreen Co. and certain subsidiaries (collectively, the "Buyers") and the Company and certain subsidiaries (collectively, the "Sellers") with respect to the sale of certain assets, rights and properties (the “Pharmacy Services Asset Sale”) relating to the Sellers' traditional and specialty pharmacy mail operations and community retail pharmacy stores.

Pursuant to the terms of the Asset Purchase Agreement, the Company received a total purchase price of approximately $173.8 million during 2012, including approximately $158.8 million at closing on May 4, 2012 (which included

monies received for the inventories on hand attributable to the operations subject to the Pharmacy Services Asset Sale), and subsequent additional purchase price payments of $15.0 million based on events related to the Buyer's retention of certain business after closing. Similarly, the Company may be required to refund up to approximately $6.4 million of the cash received to the Buyers under certain circumstances. Any gain associated with this contingency will be recorded when the final amount retained or refunded is known. The $173.8 million purchase price excluded all accounts receivable and working capital liabilities relating to the operations subject to the sale, which were retained by the Company. Approximately $50.8 million of these net assets were converted to cash subsequent to the sale. Approximately $4.8 million of these net assets remained at December 31, 2012.

As a result of the Pharmacy Services Asset Sale, the Company recognized a pretax gain of $115.0 million, net of transaction costs of $5.6 million during the year ended December 31, 2012. The Company also recognized approximately $13.4 million of impairment costs, employee severance and other benefit-related costs, and facility-related costs as a result of the transaction in the year ended December 31, 2012, resulting in a net gain of approximately $101.6 million. See Note 7 - Property and Equipment, for further information on the impairment. The impairment costs, employee severance and other benefit-related costs, facility-

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related costs, and other one-time charges are included in income (loss) from discontinued operations, net of income taxes on the Consolidated Statements of Operations. As of December 31, 2012, there were accruals of $0.1 million related to these costs in accrued expenses and other current liabilities on the Consolidated Balance Sheets. The company allocated tax expense of $6.1 million to discontinued operations' pre-tax income of $79.2 million for the year ended December 31, 2012. The allocated $6.1 million tax expense is less than the statutory rate because the Company used $24.1 million of deferred tax assets that previously had a full valuation allowance. The use of the deferred tax assets significantly reduced the amount of gain that was subject to federal and state income tax.

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The accrual activity consisted of the following (in thousands):

	Impairment Costs	Employee Severance and Other Benefits	Facility-Related Costs	Other Costs	Total
Liability balance as of December 31, 2011	$—	$—	$ —	$—	$—
Expenses	5,839	5,279	1,071	1,198	13,387
Cash payments	—	(5,234)	(82)	(3,133)	(8,449)
Non-cash charges	(5,839)	—	(989)	2,024	(4,804)
Liability balance as of December 31, 2012	$—	$45	$ —	$89	$134

In addition, the Company and its subsidiaries and certain subsidiaries of the Buyers entered into an agreement concurrently
with the Asset Purchase Agreement which provided that BioScrip ceased to be the sole fulfillment pharmacy for customers who came through the drugstore.com website. The agreement provided for a cash payment of $3.0 million to the Company and the payment of $2.9 million to the Buyers related to contingent consideration from the Company's 2010 acquisition of the prescription pharmacy business of DS Pharmacy, Inc. both of which occurred during the three months ended March 31, 2012.

The transaction included the sale of 27 community pharmacy locations and certain assets of three community pharmacy locations and three traditional and specialty mail service operations, which constituted all of the Company's operations in the community pharmacy and mail order lines of business. Two mail order locations which were not transferred as part of the Pharmacy Services Asset Sale have been redeployed to provide infusion pharmacy services. The assets of the components of the businesses that were transferred are included in discontinued operations on the accompanying Consolidated Balance Sheets at December 31, 2011. On May 4, 2012, the carrying value of the assets included in the Pharmacy Services Asset Sale was as follows (in thousands):

Inventory	$30,560
Prepaid expenses and other current assets	299
Total current assets	30,859
Property and equipment, net	1,592
Goodwill	11,754
Intangible assets, net	2,503
Total assets	$46,708

During the three months ended June 30, 2012, as a result of the divestiture process, the Company's management commenced an assessment of the Company's continuing operations in order to align its corporate structure with its remaining operations. As part of these efforts, the Company has incurred and expects to incur additional charges such as the write down of certain long-lived assets, employee severance, other restructuring type charges, temporary redundant expenses, potential cash bonus payments and potential accelerated payments or terminated costs for certain of its contractual obligations, which may impact the Company's future Consolidated Financial Statements.

The operating results of the traditional and specialty pharmacy mail operations and community pharmacies for the years ended December 31, 2012, 2011 and 2010 are summarized below. These results include costs directly attributable to the components of the businesses which were divested. Operating expense includes bad debt expense of $12.9 million, $7.2 million and $12.1 million for the years ended December 31, 2012, 2011 and 2010, respectively

associated with receivables retained from the divested business. Interest expense of $0.8 million, $2.8 million and $4.1 million were allocated to discontinued operations for the years ended December 31, 2012, 2011, and 2010, respectively, based upon the portion of the borrowing base associated with discontinue operations. Income tax expense of $6.1 million, $0.9 million and $1.0 million for the years ended December 31, 2012, 2011 and 2010, respectively have also been allocated to discontinued operations. These adjustments have been made for all periods presented. Depreciation expense was no longer incurred on fixed assets included in the disposal group as of February 1, 2012, the date the Company entered into the Asset Purchase Agreement.

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Discontinued Operations Results
(in thousands)

	Years Ended December 31,		
	2012	2011	2010
Revenue	$466,747	$1,263,520	$1,207,916
Gross profit	29,844	96,888	99,881
Operating expense	51,543	84,940	91,627
Loss on extinguishment of debt	—	—	6,607
Gain on sale, before income taxes	101,624	—	—
Income from discontinued operations, net of income taxes	$73,047	$8,296	$(1,467)

NOTE 4-- ACQUISITIONS

InfuScience, Inc.

On July 31, 2012, the Company acquired 100 percent of InfuScience, Inc. (“InfuScience”) for a cash payment of $38.3 million. The purchase price could increase to $41.4 million based on the results of operations during the 24 month period following the closing. InfuScience acquires, develops and operates businesses providing alternate site infusion pharmacy services. The contingent consideration of $3.0 million remains in an escrow account at December 31, 2012. It is recorded at fair value on a recurring basis using level 3 inputs using discounted future cash flows. Through this acquisition BioScrip has added five infusion centers located in Eagan, Minnesota; Omaha, Nebraska; Chantilly, Virginia; Charleston, South Carolina; and Savannah, Georgia. As of December 31, 2012 there is a liability of $3.1 million recorded for the potential increase in purchase price.

Assets and Liabilities Acquired

The transaction has been accounted for as a business combination under the acquisition method of accounting. The following table summarizes the estimated fair values of the assets acquired and liabilities assumed as of the acquisition date. Due to the timing of this acquisition, these amounts are provisional and subject to change. The Company will finalize these amounts as it obtains the information necessary to complete the measurement process. Any changes resulting from facts and circumstances that existed as of the acquisition date may result in retrospective adjustments to the provisional amounts recognized at the acquisition date. These changes could be significant. The Company will finalize these amounts no later than one year from the acquisition date.

	Amounts Recognized as of Acquisition Date (in thousands)
Cash	$23
Accounts receivable	4,938
Inventories	586

Other current assets	371
Property and equipment	751
Identifiable intangible assets	400
Other non-current assets	349
Current liabilities	(4,422)
Total identifiable net assets	2,996
Goodwill	38,423
Total assets and total consideration transferred	$41,419

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The excess of the purchase price over the fair value of the tangible and identifiable intangible assets acquired and liabilities assumed in the acquisition was allocated to goodwill. The value of goodwill represented the value the Company expected to be created by combining the various operations of InfuScience with the Company's operations, including the ability to cross-sell their respective services on a national basis with an expanded footprint in home infusion. The InfuScience acquisition is included in the Company's Infusion Services segment. Of the goodwill recorded in the InfuScience acquisition, $7.7 million was deductible for tax purposes.

Intangible Assets

The following table summarizes the identifiable intangible assets acquired (in thousands):

	Weighted-Average Useful Lives (Months)	Amounts Recognized as of Acquisition Date (in thousands)
InfuScience customer relationships	5	400
Total identifiable intangible assets acquired	5	$400

Impact of Acquisition on the Consolidated Financial Statements

The revenues of InfuScience for the period from the acquisition date to December 31, 2012 were $16.5 million, and the net loss was $0.2 million.

Expenses incurred to integrate InfuScience and other acquisitions are recorded in acquisitions and integration expenses and restructuring and other expenses. These costs include legal and financial advisory fees associated with acquisitions; integration costs to convert to common policies, procedures, and information systems; and, transitional costs such as training, redundant salaries, and retention bonuses for certain critical personnel.

DS Pharmacy, Inc.

On July 29, 2010, the Company acquired the prescription pharmacy business and assets of DS Pharmacy, Inc. (“DS Pharmacy”), a wholly-owned subsidiary of drugstore.com, inc. The acquisition provided the Company with an expanded presence in on-line pharmacy and a six year license of drugstore.com capabilities, trademarks and trade names. In connection with the acquisition, the Company and drugstore.com entered into a Transitional Services Agreement and a Services Agreement pursuant to which, for a period of six years following the closing of the acquisition, drugstore.com will provide the Company with marketing services. The Company paid $5.0 million in cash upon closing and an additional earn-out in cash based on the results of operations during the twelve month period following the closing. As of December 31, 2011 there was a liability of $2.9 million, which represented the estimated fair value of the earn-out payment included in accrued expenses and other current liabilities on the Consolidated Balance Sheets.

On February 1, 2012, the Company and its subsidiaries, and DS Pharmacy, Inc. and drugstore.com, inc., both then subsidiaries of Walgreens Parent, entered into an agreement providing that the Company will cease to be the sole fulfillment pharmacy for customers who come through the drugstore.com website. The Services Agreement with DS Pharmacy was terminated and the contingent consideration of $2.9 million was paid to DS Pharmacy.

During the year ended December 31, 2010, the Company incurred $0.7 million of integration related costs. These costs were primarily related to overtime and temporary wage costs incurred to secure prescriptions, verify insurance and enter customer information into the system as part of the DS Pharmacy acquisition and integration. The costs were recognized in the acquisition and integration expenses line of the Consolidated Statements of Operations.

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Assets and Liabilities Acquired

The following table sets forth the fair value of the assets acquired and liabilities assumed as a result of the acquisition of DS Pharmacy (in thousands):

Inventory	$469	
Property and equipment	76	
Tangible assets acquired		$545
Intangible assets acquired		8,669
Total assets and total consideration		$9,214

Intangible Assets

The following table summarizes the identifiable intangible assets acquired (in thousands):

	Estimated Useful Life	Fair Value
Customer list	6 months	$270
Transitional services contract	1 year	1,040
License and marketing related intangibles	6 years	7,359
		$8,669

Critical Homecare Solutions Holdings, Inc.

On March 25, 2010, the Company acquired 100 percent of Critical Homecare Solutions Holdings, Inc. ("CHS"), a leading provider of comprehensive home infusion and home health services to patients suffering from acute and chronic conditions. CHS' home infusion business provides for the dispensing and administration of infusion pharmaceuticals, biopharmaceuticals, nutrients and related services and equipment to patients principally in the home. Its home nursing service operations provide nursing and therapy visits as well as private duty nursing services to patients in the home. The Company's acquisition of CHS added 35 infusion pharmacies servicing 22 states, including 16 ambulatory treatment centers, and 33 nursing locations to the Company's existing platform.

Consideration

The following table sets forth the consideration transferred in connection with the acquisition of CHS and the aggregate purchase price allocation as of March 25, 2010 (in thousands):

Fair value of equity consideration:	
BioScrip common stock issued (13.1 million shares)	$91,614
BioScrip warrants issued (3.4 million warrants)	12,268
Rollover options (716,086 options)	2,802
Cash paid to CHS stockholders	99,626
Total consideration conveyed to CHS stockholders	$206,310
Cash paid for merger related expenses incurred by CHS	14,566
Assumption and repayment of CHS debt	128,952
Total amounts paid to execute the merger of CHS	$349,828

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Assets and Liabilities Acquired

The following table sets forth the fair value of the assets acquired and liabilities assumed as a result of the acquisition of CHS (in thousands):

Cash and cash equivalents	$7,162	
Receivables	38,289	
Deferred taxes	6,228	
Other current assets	4,993	
Property and equipment	6,462	
Other assets	2,778	
Total assets acquired		65,912
Accounts payable	(3,334)	
Notes payable	(2,250)	
Amounts due to plan sponsors	(8,763)	
Accrued expenses and other current liabilities	(34,002)	
Deferred tax liabilities	(7,144)	
Total liabilities assumed		(55,493)
Tangible assets acquired, net		$10,419
Intangible assets acquired		25,200
Debt assumed		(128,952)
Goodwill		299,643
Total consideration conveyed to CHS stockholders		$206,310

The excess of the purchase price over the fair value of the tangible and identifiable intangible assets acquired and liabilities assumed in the acquisition was allocated to goodwill. The value of goodwill represented the value the Company expected to be created by combining the various operations of CHS with the Company's operations, including the ability to cross-sell their respective services on a national basis with an expanded footprint in home infusion. The CHS acquisition is included in the Company's Infusion/Home Health Services segment. Of the goodwill recorded in the CHS acquisition, $21.1 million was deductible for tax purposes.

Intangible Assets

The following table summarizes the identifiable intangible assets acquired (in thousands):

	Estimated Useful Life	Fair Value
Trademarks/trade names	various	$8,400
Infusion customer relationships	3 years	7,200
Certificates of need	indefinite	9,600
		$25,200

Impact of Acquisition on the Consolidated Financial Statements

The Company has consolidated the results of CHS with its own financial results for the periods beginning March 26, 2010. The impact of the inclusion of CHS' operating results from March 26, 2010 through December 31, 2010 with the Company's Consolidated Statements of Operations for the year ended December 31, 2010 included $207.2 million of revenue, $95.6 million of gross profit and $27.1 million of income from operations. Income from operations for

CHS does not include the allocation of corporate expenses that were previously incurred by CHS and have since been transferred to BioScrip corporate expenses as part of the integration.

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During the year ended December 31, 2010, the Company incurred $6.4 million of acquisition related costs, primarily related to legal, audit and financial advisory fees associated with the acquisition of CHS. The costs were recognized in the acquisition and integration expenses line of the Consolidated Statements of Operations.

Pro forma Results

The following table sets forth the unaudited pro forma combined results of operations as if the InfuScience acquisition had occurred on the same terms as of January 1, 2012 and 2011 and the DS Pharmacy and CHS acquisitions had occurred on the same terms as of January 1, 2010. Pro forma adjustments have been made related to amortization of intangibles, interest expense, and income tax expense. The pro forma financial information does not reflect revenue opportunities and cost savings which the Company expected to realize as a result of the acquisitions or estimates of charges related to the integration activity. The pro forma results for the years ended December 31, 2012, and 2010 include $4.0 million, and $5.9 million of acquisition related costs incurred by the Company, respectively. There were no acquisition and integration expenses in the year ended December 31, 2011. Amounts are in thousands, except for earnings per share.

	Years Ended December 31,		
	2012	2011	2010
Revenue	$685,295	$589,333	$491,476
Net loss from continuing operations	$(9,030)	$(1,523)	$(67,095)
Basic loss per common share from continuing operations	$(0.16)	$(0.03)	$(1.26)
Diluted loss per common share from continuing operations	$(0.16)	$(0.03)	$(1.26)

The unaudited pro forma information is not necessarily indicative of what the Company's consolidated results of operations actually would have been had the InfuScience acquisition been completed on January 1, 2011 and had the DS Pharmacy and CHS acquisitions been completed on January 1, 2010. In addition, the unaudited pro forma information does not purport to project the future results of operations of the Company.

NOTE 5-- GOODWILL AND INTANGIBLE ASSETS

As a result of the Company entering into the Asset Purchase Agreement with respect to the Pharmacy Services Asset Sale, the Company reevaluated its operating and reportable segments. Based on its review, the Company changed its operating and reportable segments from “Infusion/Home Health Services” and “Pharmacy Services” to its new operating and reportable segments: “Infusion Services", "Home Health Services” and “PBM Services”. The Company has assigned goodwill to the new segments based on relative fair market value of the segment assets as measured by discounted future cash flows.

Goodwill consisted of the following as of December 31, 2012 and December 31, 2011 (in thousands):

	December 31, 2012	December 31, 2011
Infusion	$304,282	$265,859
Home Health Services	33,784	33,784
PBM Services	12,744	12,744

Total	$350,810	$312,387

There were no impairment losses related to goodwill or intangible assets recognized during the years ended December 31, 2012, 2011 and 2010.

The changes in the carrying amount of goodwill by operating and reportable segment for the years ended December 31, 2012 and 2011 are as follows (in thousands):

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	Infusion Services	Home Health Services	PBM Services	Total
Balance as of December 31, 2010	$265,859	$33,784	$12,744	$312,387
Balance as of December 31, 2011	$265,859	$33,784	$12,744	$312,387
Goodwill related to InfuScience Acquisition	38,423	—	$—	38,423
Balance as of December 31, 2012	$304,282	$33,784	$12,744	$350,810

Intangible assets consisted of the following as of December 31, 2012 and December 31, 2011 (in thousands):

		December 31, 2012		
	Estimated Useful Life	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Indefinite Lived Assets				
Certificates of need	indefinite	$9,600	$—	$9,600
Nursing trademarks	indefinite	5,800	—	5,800
		15,400	—	15,400
Definite Lived Assets				
Infusion customer relationships	5 months - 3 years	9,300	(7,447)	1,853
Infusion trademarks	3 years	2,600	(2,407)	193
		11,900	(9,854)	2,046
		$27,300	$(9,854)	$17,446

		December 31, 2011		
	Estimated Useful Life	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Indefinite Lived Assets				
Certificates of need	indefinite	$9,600	$—	$9,600
Nursing trademarks	indefinite	5,800	—	5,800
		15,400	—	15,400
Definite Lived Assets				
Infusion customer relationships	6 months - 3 years	7,519	(4,359)	3,160
Infusion trademarks	3 years	2,600	(1,538)	1,062
		10,119	(5,897)	4,222
		$25,519	$(5,897)	$19,622

Total amortization of intangible assets was $4.0 million, $3.4 million, and $2.5 million for the years ended December 31, 2012, 2011 and 2010, respectively. Amortization expense is expected to be the following (in thousands):

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2013	$2,046
2014 and beyond	—
Total	$2,046

NOTE 6-- RESTRUCTURING AND OTHER EXPENSES

Restructuring and other expenses include expenses resulting from the execution of our strategic assessment and related restructuring plans, consisting primarily of employee severance and other benefit-related costs, third-party consulting costs, facility-related costs, and certain other costs. It also includes other transitional costs such as training, redundant salaries, and retention bonuses for certain critical personnel.

In the fourth quarter of 2010, the Company commenced a strategic assessment of its business and operations ("Restructuring Phase I"). This assessment focused on expanding revenue opportunities and lowering corporate overhead, including workforce and benefit reductions and facility rationalization. In addition to addressing corporate overhead, the strategic assessment examined the Company's market strengths and opportunities and compared the Company's position to that of its competitors. As a result of the assessment, the Company focused its growth on investments in the Infusion and Home Health Services segments and elected to pursue offers for its traditional and specialty pharmacy mail operations and community retail pharmacy stores. Accordingly, the Company consummated the Pharmacy Services Asset Sale relating to its traditional and specialty pharmacy mail operations and community retail pharmacy stores.

During the three months ended June 30, 2012, as a result of the divestiture process, the Company's management team commenced an assessment of the Company's continuing operations in order to align its corporate structure with its remaining operations ("Restructuring Phase II").

The Company anticipates that additional restructuring will occur and thus we may incur significant additional charges such as the write down of certain long-lived assets, employee severance, other restructuring type charges, temporary redundant expenses, potential cash bonus payments and potential accelerated payments or termination costs for certain of its contractual obligations, which impact the Company's future Consolidated Financial Statements.

Restructuring Phase I

As a result of the execution of the strategic assessment and related restructuring plan, the Company incurred restructuring expenses of approximately $0.2 million, $6.4 million and $3.5 million during the years ended December 31, 2012, December 31, 2011 and December 31, 2010, respectively. Restructuring expenses during the year ended December 31, 2012 consisted of approximately $0.3 million of third-party consulting costs offset by $0.1 million of facility-related expense adjustments. Restructuring expenses during the year ended December 31, 2011 consisted of approximately $2.9 million of third-party consulting costs and $1.9 million of severance and other benefit-related costs related to workforce reductions, and $1.6 million of facility-related costs. Restructuring expenses during year ended December 31, 2010 consisted of approximately $2.3 million of employee severance and other benefit-related costs related to workforce reductions and $1.2 million of third-party consulting costs.

Since inception of the strategic assessment and related restructuring plan, the Company has incurred approximately $10.1 million in total expenses, including $4.4 million of third-party consulting costs, $4.2 million of employee severance and other benefit-related costs related to workforce reductions, and $1.5 million of facility-related costs. A large part of the third-party consulting costs and other costs were associated with the analysis of our assets and their long-term strategic value relative to other assets in which we could invest. The result of this assessment process culminated in the Pharmacy Asset Sale (see Note 4 for further information on the Sale).

The restructuring costs are included in restructuring and other expenses on the Consolidated Statements of Operations. As of December 31, 2012, there are restructuring accruals of $1.0 million related to Phase I included in accrued expenses and other current liabilities and other non-current liabilities on the Consolidated Balance Sheets. The restructuring accrual activity consisted of the following (in thousands):

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	Employee Severance and Other Benefits	Consulting Costs	Facility-Related Costs	Other Costs	Total
Liability balance as of December 31, 2011	$2,109	$50	$ 1,289	$—	$3,448
Expenses	6	270	(61)	—	215
Cash payments	(1,952)	(300)	(387)	—	(2,639)
Liability balance as of December 31, 2012	$163	$20	$ 841	$—	$1,024

Restructuring Phase II

As a result of Restructuring Phase II, the Company incurred restructuring expenses of approximately $1.9 million during the year ended December 31, 2012. The Company did not incur restructuring expense related to Phase II during 2011 or 2010. Restructuring expenses during the year ended December 31, 2012 consisted of approximately $1.1 million of employee severance and other benefit related costs associated with workforce reductions, $0.3 million of third-party consulting costs, and $0.5 million in other costs.

The restructuring costs are included in restructuring and other expenses on the Consolidated Statements of Operations. As of December 31, 2012, there are restructuring accruals of $0.7 million related to Phase II included in accrued expenses and other current liabilities and other non-current liabilities on the Consolidated Balance Sheets. The restructuring accrual activity consisted of the following (in thousands):

	Employee Severance and Other Benefits	Consulting Costs	Facility-Related Costs	Other Costs	Total
Liability balance as of December 31, 2011	$—	$—	$ —	$—	$—
Expenses	1,125	262	—	541	1,928
Cash payments	(566)	(117)	—	(541)	(1,224)
Liability balance as of December 31, 2012	$559	$145	$ —	$—	$704

Other transitional costs totaled $3.0 million, $1.5 million and $0.5 million in the years ended December 31, 2012, 2011 and 2010, respectively. During the year ended December 31, 2012 they also include $0.8 million for certain state sales taxes associated with prior year sales.

NOTE 7-- PROPERTY AND EQUIPMENT

Property and equipment consisted of the following (in thousands):

	December 31,	
	2012	2011
Computer and office equipment, including equipment acquired under capital leases	$14,443	$15,684
Software capitalized for internal use	9,939	15,520
Vehicles, including equipment acquired under capital leases	1,540	1,701
Medical equipment	16,466	14,698
Work in progress	4,315	2,813

Furniture and fixtures	3,219	3,626
Leasehold improvements	7,164	6,507
	57,086	60,549
Less: Accumulated depreciation	(33,365)	(33,598)
Property and equipment, net	$23,721	$26,951

Work in progress for 2012 and 2011 includes $1.3 million and $2.0 million, respectively, of costs related to software capitalized for internal use.

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Depreciation expense, including expense related to assets under capital lease, for the years ended December 31, 2012, 2011 and 2010 was $8.5 million, $6.6 million, and $5.4 million, respectively. Depreciation expense for the years ended December 31, 2012, 2011 and 2009 includes $1.3 million, $0.8 million, and $0.8 million, respectively, related to costs related to software capitalized for internal use.

Impairment

The Company assesses the impairment of its assets whenever events or changes in circumstances indicate that the carrying value may not be recoverable. As a result of the Pharmacy Services Asset Sale (see Note 2 - Discontinued Operations), the Company evaluated certain facilities that were retained by the Company following the divestiture. As a result of the evaluation, the Company determined that a triggering event occurred during the three months ended June 30, 2012, giving rise to the need to assess the recoverability of certain of our assets previously used in the specialty pharmacy mail operations and community retail pharmacy operations, which consisted primarily of software capitalized for internal use, leasehold improvements and work in progress. Based on our analysis, we recorded a $5.8 million impairment charge in income (loss) from discontinued operations, net of income taxes on the Consolidated Statements of Operations.

NOTE 8-- DEBT

As of December 31, 2012 the Company’s long-term debt consisted of the following obligations (in thousands):

Senior unsecured notes	$225,000
Capital leases	1,379
	226,379
Less - obligations maturing within one year	953
Long term debt - net of current portion	$225,426

Senior Secured Revolving Credit Facility

On December 28, 2010, the Company entered into a credit agreement (the “Senior Secured Revolving Credit Facility”), among the Company and all of its subsidiaries and Healthcare Finance Group, LLC (“HFG”). The Senior Secured Revolving Credit Facility matures on March 25, 2015 and initially had an available line of credit totaling $150.0 million. The amount of borrowings which may be made under the Senior Secured Revolving Credit Facility is based on a borrowing base comprised of specified percentages of eligible receivables and eligible inventory, up to a maximum available line of credit and subject to certain liquidity and reserve requirements. If the amount of borrowings outstanding under the revolving credit facility exceeds the borrowing base then in effect, the Company will be required to repay such borrowings in an amount sufficient to eliminate such excess. Interest on advances is based on a Eurodollar rate plus an applicable margin of3.5%, with the Eurodollar rate initially having a floor of 1.25%. In the event of any default, the interest rate may be increased to 2.0% over the rate applicable to such loans. The facility also carries a non-utilization fee of 0.50% per annum, payable monthly, on the unused portion of the credit line. The facility includes $5.0 million of availability for letters of credit and $10.0 million of availability for swing line loans. Initially we were required to maintain a balance of not less than $30.0 million.

On July 3, 2012, the Company entered into a Third Amendment to the Second Amended and Restated Credit Agreement, by and among the Company, as borrower, all of its subsidiaries as guarantors thereto, the lenders, Healthcare Finance Group, LLC, an administrative agent, and the other parties thereto, which amended the Senior Secured Revolving Credit Facility. The amendment reduced revolving commitments from $150 million to $125 million; eliminated the minimum revolving balance requirement; increased the basket limitation for loans and

advances to third parties and investments in permitted joint ventures to $60 million; removed the dollar limitation on permitted acquisitions so long as the proposed acquisition meets the pro forma and other conditions; lowered the LIBOR floor to 1.00% from 1.25%; and modified the definition of the term “Consolidated EBITDA”. As of December, 2012, there were no borrowings under the Senior Secured Revolving Credit Facility, as amended.

The Company's obligations under the Senior Secured Revolving Credit Facility, as amended, have been guaranteed by the Company's subsidiaries and secured by first priority security interests in substantially all of the Company's and subsidiary guarantors' assets (including the capital stock of our subsidiaries). The Senior Secured Revolving Credit Facility, as amended, includes customary affirmative and negative covenants and events of default, as well as financial covenants relating to minimum liquidity, minimum fixed charge coverage ratio and accounts receivable turnover. Negative covenants include limitations on

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additional debt, liens, negative pledges, investments, dividends, stock repurchases, asset sales and affiliate transactions. Events of default include non-performance of covenants, breach of representations, cross-default to other material debt, bankruptcy and insolvency, material judgments and changes in control. The Company is in compliance with all covenants as of December 31, 2012 and as of the date of filing of this report.

The weighted average interest rate on our short term borrowings during the year ended December 31, 2012 was 4.69%. The weighted average interest rate on our short term borrowings during the year ended December 31, 2011 was 4.66%.

Senior Unsecured Notes

In connection with the acquisition of CHS, on March 25, 2010, the Company issued $225.0 million aggregate principal amount of 10¼% senior unsecured notes (“Senior Unsecured Notes”) due October 1, 2015 in an unregistered offering pursuant to Rule 144A and Regulation S under the Securities Act of 1933. The Company pays interest on the notes semi-annually, in arrears, on April 1 and October 1 of each year. These notes are fully and unconditionally guaranteed, jointly and severally, on a senior unsecured basis by the Company's existing and future direct and indirect subsidiaries. As of December 31, 2012, the Company did not have any independent assets or operations and, as a result, its direct and indirect subsidiaries (other than minor subsidiaries), each being 100% owned by the Company, were fully and unconditionally, jointly and severally, providing guarantees on a senior unsecured basis to the Senior Unsecured Notes. As noted above, the Company and each of its guarantor subsidiaries are subject to restrictive covenants under the Senior Secured Revolving Credit Facility. The Senior Secured Revolving Credit Facility ranks senior in priority to each subsidiary's guarantee of the notes and could restrict the Company's ability to obtain funds from the guarantor subsidiaries. As of December 31, 2012, the carrying amount of the Company's Senior Unsecured Notes was $225.0 million, and the estimate of the fair value of the Senior Unsecured Notes, calculated using Level 1 inputs using current market rates for debt of the same risk and maturities, was $267.1 million.

On June 22, 2010, the Company filed an Offer to Exchange (the “Exchange Offer”) the original unregistered notes with new registered notes, as contemplated in the original note offering. The Senior Unsecured Notes are substantially identical to the original notes except some of the transfer restrictions, registration rights and additional interest provision relating to the original notes do not apply. On July 13, 2010, the Company's planned registration of the notes became effective. The Exchange Offer expired on August 12, 2010, and the new registered notes commenced trading publicly on August 16, 2010.

On or after April 1, 2013, the Company may redeem some or all of the Senior Unsecured Notes at the pre-determined redemption prices plus accrued and unpaid interest to the date of redemption. The redemption premium percentages for notes redeemed are as follows: (a) on or after April 1, 2013, 105.125% of the principal amount, and (b) on or after October 1, 2014, 100.000% of the principal amount. Prior to April 1, 2013, the Company may redeem up to 35% of the aggregate principal amount of the notes at the premium of 110.250% of the principal amount thereof, plus accrued and unpaid interest and liquidated damages, if any, to the redemption date, with the net cash proceeds of certain equity offerings. In addition, the Company may, at its option, redeem some or all of the Senior Unsecured Notes at any time prior to April 1, 2013, by paying a premium.

Debt Issuance Costs and Other Fees

Total debt issuance costs related to the Senior Secured Revolving Credit Facility and Senior Unsecured Notes were $4.4 million and $5.2 million as of December 31, 2012 and 2011, respectively. These costs are being amortized over the term of the Senior Secured Revolving Credit Facility and Senior Unsecured Notes.

Loss on Extinguishment of Debt

In connection with the Senior Secured Revolving Credit Facility agreement that was signed on December 28, 2010, the Company terminated its then existing $100 million term loan that was outstanding at that time. The Company incurred a loss on extinguishment of debt of $3.0 million in connection with these transactions, consisting of the write-off of deferred financing costs associated with the term loan and fees paid to the lender. Additionally, $6.6 million of loss was allocated to discontinued operations.

Interest Expense

Net interest expense was $26.1 million, $25.5 million, and $23.6 million, and for the years ended December 31, 2012, 2011, and 2010, respectively. Interest expense for the year ended December 31, 2012 included $24.2 million of interest expense related to the Senior Unsecured Notes and $2.8 million related to the Senior Secured Revolving Credit Facility. Interest expense for the year ended December 31, 2011 included $24.1 million of interest expense related to the Senior Unsecured Notes and $4.4 million related to the Senior Secured Revolving Credit Facility. Interest expense for the year ended December 31, 2010 included $24.4

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million of interest expense related to the Senior Secured Revolving Credit Facility, as amended, and Senior Unsecured Notes issued in March 2010 and $2.3 million related to a bridge loan finance fee.

NOTE 9-- COMMITMENTS AND CONTINGENCIES

Legal Proceedings

On March 31, 2009, Professional Home Care Services, Inc., or PHCS, which is one of the subsidiaries we acquired through our acquisition of CHS, was sued by Alexander Infusion, LLC, a New York-based home infusion company, in the Supreme Court of the State of New York. The complaint alleges principally breach of contract arising in connection with PHCS's failure to consummate an acquisition of Alexander Infusion after failing to satisfy the conditions to PHCS's obligation to close. Alexander Infusion has sued for $3.5 million in damages. We believe Alexander Infusion's claims to be without merit and intend to continue to defend against the allegations vigorously. Furthermore, under the Merger Agreement, subject to certain limits, the former CHS Stockholders agreed to indemnify us in connection with any losses arising from claims made in respect of the acquisition agreement entered into between PHCS and Alexander Infusion.

As was previously disclosed, following responses to government subpoenas and discussions with the government, in May 2011, the Company was advised of a qui tam lawsuit filed under seal in federal court in Minnesota in 2006 and naming the Company as defendant. The complaint alleged violations of healthcare statutes and regulations by the Company and predecessor companies dating back to 2000. The Company has entered into a final settlement resolving all issues alleged in the complaint and the government's investigation in exchange for a release and dismissal of the claims.

Government Regulation

Various federal and state laws and regulations affecting the healthcare industry do or may impact the Company's current and planned operations, including, without limitation, federal and state laws prohibiting kickbacks in government health programs, federal and state antitrust and drug distribution laws, and a wide variety of consumer protection, insurance and other state laws and regulations. While management believes the Company is in substantial compliance with all existing laws and regulations material to the operation of its business, such laws and regulations are subject to rapid change and often are uncertain in their application. As controversies continue to arise in the healthcare industry (for example, the efforts of Plan Sponsors and pharmacy benefit managers to limit formularies, alter drug choice and establish limited networks of participating pharmacies), federal and state regulation and enforcement priorities in this area can be expected to increase, the impact of which cannot be predicted.

From time to time, the Company responds to subpoenas and requests for information from governmental agencies. The Company cannot predict with certainty what the outcome of any of the foregoing might be. While the Company believes it is in substantial compliance with all laws, rules and regulations that affects its business and operations, there can be no assurance that the Company will not be subject to scrutiny or challenge under one or more existing laws or that any such challenge would not be successful. Any such challenge, whether or not successful, could have a material effect upon the Company's Consolidated Financial Statements. A violation of the Federal anti-kickback statute, for example, may result in substantial criminal penalties, as well as suspension or exclusion from the Medicare and Medicaid programs. Moreover, the costs and expenses associated with defending these actions, even where successful, can be significant. Further, there can be no assurance the Company will be able to obtain or maintain any of the regulatory approvals that may be required to operate its business, and the failure to do so could have a material effect on the Company's Consolidated Financial Statements.

Legal Settlements

Following responses to government subpoenas and discussions with the government, in May 2011, we were advised of a qui tam lawsuit filed under seal in federal court in Minnesota in 2006 and naming us as defendant. The complaint alleged violations of healthcare statutes and regulations by the Company and predecessor companies dating back to 2000. The Company entered into a final settlement under which we paid the states $0.6 million and the federal government $4.4 million resolving all issues alleged in the complaint and the government's investigation in exchange for a release and dismissal of the claims. A related qui tam relator's employment termination claim and her lawyer's statutory legal fee claim were also resolved. During the year ended December 31, 2011, the Company recorded a legal settlement expense of $4.8 million related to the settlement. During the year ended December 31, 2012, the Company recorded additional legal settlement expense of $0.8 million to account for the final settlement amount. The legal settlement expenses were included in income from discontinued operations, net of income taxes in the accompanying Consolidated Statements of Operations. As of December 31, 2012 there was no remaining liability and as

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of December 31, 2011, there was a liability of $4.8 million, included in accrued expenses and other current liabilities in the accompanying Consolidated Balance Sheets related to the settlement.

During the year ended December 31, 2010, we recorded $3.9 million of legal settlement costs. These costs were the result of an independent arbitration award against the Company in a lawsuit brought by JPD, Inc. and James P. DiCello, the sellers of Northland Medical Pharmacy (“Northland”), which was purchased in late 2005 by Chronimed Holdings, Inc. (“Chronimed”), a wholly-owned subsidiary of the Company.

PBM Services Payment Delay

The Company has a large PBM Services customer that had become approximately two months behind payment terms as of September 30, 2012 for a total amount owed to the Company of $7.8 million (of which $0.3 million was due to the Company for PBM services rendered) ("the $7.8M Obligation"). The customer remitted full payment to the Company and fully satisfied the $7.8M Obligation in December, 2012. This customer has also provided the Company with a release of any and all claims it may have against the Company that relate to PBM services rendered, including those relating to the $7.8M Obligation.

Leases

The Company leases its facilities and certain equipment under various operating leases with third parties. The majority of these leases contain escalation clauses that increase base rent payments based upon either the Consumer Price Index or an agreed upon schedule.

In addition, the Company utilizes capital leases agreements with third parties to obtain certain assets such as telecommunications equipment and vehicles. Interest rates on capital leases are both fixed and variable and range from 3% to 7%.

As of December 31, 2012, future minimum lease payments under operating and capital leases were as follows (in thousands):

	Operating Leases	Capital Leases	Total
2013	$6,481	$1,017	$7,498
2014	5,826	225	6,051
2015	5,001	192	5,193
2016	4,414	23	4,437
2017	3,764	—	3,764
2018 and thereafter	5,052	—	5,052
Total	$30,538	$1,457	$31,995

Rent expense for leased facilities and equipment was approximately $6.2 million, $6.3 million, and $5.2 million for the years ended December 31, 2012, 2011 and 2010, respectively.

Letters of Credit

At December 31, 2010, there was $4.3 million of cash on deposit as collateral for certain letters of credit from commercial banks obtained in the ordinary course of business. The collateral was included in prepaid expenses and other current assets on the Consolidated Balance Sheets. During the year ended December 31, 2011, the Company was refunded the $4.3 million and elected to fulfill the requirement for collateral by reducing the availability under the line of credit. As of December 31, 2012 and as of December 31, 2011, the availability on the line was reduced by $3.5

million to fulfill these collateral requirements.

Purchase Commitments

As of December 31, 2012, the Company had commitments to purchase prescription drugs from drug manufacturers of approximately $29.4 million in 2013. These purchase commitments are made at levels expected to be used in the normal course of business.

NOTE 10-- OPERATING AND REPORTABLE SEGMENTS

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As a result of the Company entering into the Asset Purchase Agreement on February 1, 2012 with respect to the sale of its traditional and specialty pharmacy mail operations and community retail pharmacy stores, the Company reevaluated its operating and reportable segments in accordance with the provisions of ASC 280. Based on its review, the Company changed its operating and reportable segments from “Infusion/Home Health Services” and “Pharmacy Services” to its new operating and reportable segments: “Infusion Services", "Home Health Services” and “PBM Services”. These three new operating and reportable segments reflect how the Company's chief operating decision maker reviews the Company's results in terms of allocating resources and assessing performance. Prior period disclosures reflect the change in reportable segments.

The Infusion Services operating and reportable segment provides services consisting of home infusion therapy, respiratory therapy and the provision of durable medical equipment, products and services. Infusion services include the dispensing and administering of infusion-based drugs, which typically require additional nursing and clinical management services, equipment to administer the correct dosage and patient training designed to improve patient outcomes. Home infusion services also include the dispensing of self-injectable therapies.

The Home Health Services operating and reportable segment provides services including the provision of skilled nursing services and therapy visits, private duty nursing services, hospice services, rehabilitation services and medical social services to patients primarily in their home.

The PBM Services operating and reportable segment consists of integrated pharmacy benefit management ("PBM") services, which primarily consists of discount card programs. The discount card programs provide a cost effective alternative for individuals who may be uninsured, underinsured or may have restrictive coverage that disallows reimbursement for certain medications. Under these discount programs, individuals who present a discount card at one of the Company's participating network pharmacies receive prescription medications at a discounted price compared to the retail price. In addition, in the Company's capacity as a pharmacy benefit manager, it has fully funded prescription benefit programs where the Company reimburses its network pharmacies and third party payors in turn reimburse the Company based on Medi-Span reported pricing for those claims fulfilled for their plan participants.

The Company's chief operating decision maker evaluates segment performance and allocates resources based on Segment Adjusted EBITDA. Segment Adjusted EBITDA is defined as income (loss) from continuing operations, net of income taxes adjusted for net interest expense, income tax expense (benefit), depreciation, amortization of intangibles and stock-based compensation expense and prior to the allocation of certain corporate expenses. Segment Adjusted EBITDA excludes acquisition and integration expenses; restructuring and other expense; and other expenses related to the Company's strategic assessment. Segment Adjusted EBITDA is a measure of earnings that management monitors as an important indicator of operating and financial performance. The accounting policies of the operating and reportable segments are consistent with those described in the Company's summary of significant accounting policies.

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Segment Reporting Information
(in thousands)

	Years Ended December 31,		
	2012	2011	2010
Results of Operations:			
Revenue:			
Infusion Services - product revenue	$471,506	$365,526	$306,688
Infusion Services - service revenue	10,080	8,756	1,000 9,019
Total Infusion Services revenue	481,586	374,282	315,707
Home Health Services - service revenue	69,190	69,635	56,264
PBM Services - service revenue	111,861	110,589	58,736
Total revenue	$662,637	$554,506	$430,707
Adjusted EBITDA by Segment before corporate overhead:			
Infusion Services	$36,764	$35,128	$37,853
Home Health Services	5,401	5,954	4,839
PBM Services	25,659	30,122	18,549
Total Segment Adjusted EBITDA	67,824	71,204	61,241
Corporate overhead	(26,755)	(23,308)	(29,830)
Interest expense, net	(26,067)	(25,542)	(23,560)
Loss on extinguishment of debt	—	—	(2,954)
Income tax benefit (expense)	4,439	(435)	(48,700)
Depreciation	(8,513)	(6,591)	(5,379)
Amortization of intangibles	(3,957)	(3,376)	(2,522)
Stock-based compensation expense	(6,122)	(4,467)	(3,320)
Acquisition and integration expenses	(4,046)	—	(5,924)
Restructuring and other expenses	(5,143)	(7,909)	(3,985)
Bad debt expense related to contract termination	—	—	(2,742)
Net loss from continuing operations, net of income taxes	$(8,340)	$(424)	$(67,675)
Supplemental Operating Data			
Capital Expenditures:			
Infusion Services	$6,685	$4,826	$2,967
Home Health Services	171	170	276
PBM Services	—	—	—
Corporate unallocated	4,130	2,857	3,487
Total	$10,986	$7,853	$6,730
Depreciation Expense:			
Infusion Services	$4,347	$5,242	$3,156
Home Health Services	111	48	64
PBM Services	—	—	—
Corporate unallocated	4,055	1,301	2,159

Total	$8,513	$6,591	$5,379

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Total Assets			
Infusion Services	$438,623	$353,999	$322,577
Home Health Services	62,403	64,672	92,821
PBM Services	36,354	40,418	26,118
Corporate unallocated	95,813	24,348	19,581
Assets from discontinued operations	—	59,005	73,022
Assets associated with discontinued operations, not sold	9,183	134,660	129,869
Total	$642,376	$677,102	$663,988
Goodwill			
Infusion Services	$304,282	$265,859	$265,859
Home Health Services	33,784	33,784	33,784
PBM Services	12,744	12,744	12,744
Total	$350,810	$312,387	$312,387

NOTE 11-- CONCENTRATION OF RISK

Customer and Credit Risk

The Company provides trade credit to its customers in the normal course of business. One payor accounted for approximately 18%, 13% and 15% of revenue during the years ended December 31, 2012, 2011 and 2010, respectively. The majority of the revenue is related to the Infusion Services segment.

Therapy Revenue Risk

The Company sells products related to the Immune Globulin (IVIG) therapy, which represented 19%, 25% and 18% of revenue during the years ended December 31, 2012, 2011 and 2010, respectively. The revenue is related to the Infusion Services segment.

NOTE 12-- INCOME TAXES

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

	For the Years Ended December 31,		
	2012	2011	2010
Current			
Federal	$(3,759)	$(167)	$299
State	(676)	(122)	91
Total current	(4,435)	(289)	390
Deferred			
Federal	121	632	43,241
State	(125)	92	5,069
Total deferred	(4)	724	48,310
Total tax (benefit) provision	$(4,439)	$435	$48,700

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

	December 31,	
	2012	2011
Deferred tax assets:		
Reserves not currently deductible	$11,771	$16,325
Net operating loss carryforwards	16,287	13,749
Goodwill and intangibles (tax deductible)	7,278	18,377
Accrued expenses	3,055	1,705
Stock based compensation	3,717	4,087
Other	1,778	1,671
Subtotal deferred tax assets	43,886	55,914
Deferred tax liabilities:		
Property basis differences	(3,144)	(3,312)
Indefinite-lived goodwill and intangibles	(11,306)	(10,673)
Less: valuation allowance	(39,727)	(52,224)
Net deferred tax liability	$(10,291)	$(10,295)

During the fourth quarter of 2010, the Company concluded that it was more likely than not that its deferred tax assets would not be realized. Accordingly, a valuation allowance of $56.2 million was recorded against all of the Company's deferred tax assets as of December 31, 2010. The Company continually assesses the necessity of a valuation allowance. Based on this assessment, the Company concluded that a valuation allowance, in the amount of $39.7 million and $52.2 million, was required as of December 31, 2012 and 2011, respectively. If the Company determines in a future period that it is more likely than not that part or all of the deferred tax assets will be realized, the Company will reverse part or all of the valuation allowance.

At December 31, 2012, the Company had federal net operating loss (“NOL”) carry forwards of approximately $49.6 million, of which $26.6 million is subject to an annual limitation, which will begin expiring in 2026 and later. Of the Company’s $49.6 million of Federal NOLs, $14.6 million will be recorded in additional paid-in capital when realized as these NOLs are related to the exercise of non-qualified stock options and restricted stock grants. The Company has post-apportioned state NOL carry forwards of approximately $97.2 million, the majority of which will begin expiring in 2017 and later.

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

	2012	2011	2010
Tax (benefit) provision at statutory rate	$(4,473)	$4	$(6,641)
State tax (benefit) provision, net of federal taxes	(587)	36	(517)
Non-deductible transaction costs	—	—	725
Penalties	—	78	—
Change in tax contingencies	(633)	(675)	552
Valuation allowance changes affecting income tax expense	1,104	778	53,982
Other	150	214	599
Tax (benefit) provision	$(4,439)	$435	$48,700

As of December 31, 2012, the Company had $2.8 million of total gross unrecognized tax benefits, $1.1 million of which, if recognized, would favorably affect the effective income tax rate in future periods. A reconciliation of the beginning and ending amount of gross unrecognized tax benefits is as follows (in thousands):

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	2012	2011	2010
Unrecognized tax benefits balance at January 1,	$2,605	$2,869	$1,948
Gross increases for tax positions of prior years	—	—	212
Gross increases for tax positions taken in current year	636	378	1,121
Settlements with taxing authorities	—	(212)	—
Lapse of statute of limitations	(487)	(430)	(412)
Unrecognized tax benefits balance at December 31,	$2,754	$2,605	$2,869

The Company's policy for recording interest and penalties associated with uncertain tax positions is to record such items as a component of income tax expense in the statement of operations. As of December 31, 2012 and December 31, 2011, the Company had approximately $0.3 million and $0.4 million of accrued interest related to uncertain tax positions, respectively.

The Company files income tax returns, including returns for its subsidiaries, with Federal, state and local jurisdictions. The Company's uncertain tax positions are related to tax years that remain subject to examination. As of December 31, 2012, U.S. tax returns for the years 2009 through 2012 remain subject to examination by Federal tax authorities. Tax returns for the years 2008 through 2012 remain subject to examination by state and local tax authorities for a majority of the Company's state and local filings.

NOTE 13-- TREASURY STOCK

During the years ended December 31, 2012, 2011 and 2010, 25,999, 25,273, and 31,467 shares, respectively, were surrendered to satisfy tax withholding obligations on the vesting of restricted stock awards. The Company holds a total of 2,582,520 shares of treasury stock acquired at December 31, 2012 under current and prior repurchase programs as well as forfeitures to satisfy tax obligations in the vesting of restricted stock awards.

NOTE 14-- WARRANTS

In March 2010, in connection with the acquisition of CHS, the Company issued 3.4 million of warrants exercisable for BioScrip common stock. The warrants have a five year term with an exercise price of $10.00 per share. They are exercisable at any time prior to the expiration date. The warrants also contain provisions whereby the number of shares to be issued upon exercise of the warrants will be increased if the Company were to execute certain dilutive transactions such as stock splits, stock dividends or the issuance of shares below 90% of market value at the time of issuance. The Company has determined that the warrants meet the conditions for equity classification in accordance with GAAP. Therefore, these warrants were classified as equity and included in additional paid-in capital.

As of December 31, 2012, 3.4 million warrants are outstanding, and none have been exercised.

The fair value of the warrants of $12.3 million was calculated using the Black-Scholes model. The Black-Scholes model used the following assumptions: volatility of 62%, risk free interest rate of 2.63%, dividend yield of 0% and expected term of five years. In addition, there was a discount applied for lack of marketability of 13.5%. This discount is considered appropriate because the warrants were not registered under the Securities Act of 1933, and the shares issued upon exercise of the warrants will be unregistered shares subject to transfer restrictions.

NOTE 15-- STOCK-BASED COMPENSATION

BioScrip Equity Incentive Plans

Under the Company's Amended and Restated 2008 Equity Incentive Plan (as amended and restated, the “2008 Plan”), the Company may issue, among other things, incentive stock options (“ISOs”), non-qualified stock options (“NQSOs”), stock appreciation rights ("SARs"), restricted stock, performance shares and performance units to employees and directors. While SARS are authorized under the 2008 Plan, they may also be issued outside of the plan. Under the 2008 Plan, 3,580,000 shares were originally authorized for issuance (subject to adjustment for grants made under the Company's 2001 Incentive Stock Plan (the “2001 Plan”) after January 1, 2008, as well as for forfeitures, expirations or awards that under the 2001 Plan otherwise settled in cash after the adoption thereof). Upon the effective date of the 2008 Plan, the Company ceased making grants under the 2001

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Plan. The 2008 Plan is administered by the Company's Management Development and Compensation Committee (the "Compensation Committee"), a standing committee of the Board of Directors. On June 10, 2010, the Company's stockholders approved an amendment to the 2008 Plan to increase the number of authorized shares of common stock available for issuance by 3,275,000 shares to 6,855,000 shares.

As of December 31, 2012, there were 2,028,726 shares that remained available for grant under the 2008 Plan.

BioScrip/CHS Equity Plan

Effective upon closing of the acquisition of CHS, the CHS 2006 Equity Incentive Plan was adopted by the Company and renamed the "BioScrip/CHS 2006 Equity Incentive Plan" (as amended and restated, the "BioScrip/CHS Plan"). There were 13,000,000 shares of CHS common stock originally authorized for issuance under the CHS 2006 Equity Incentive Plan, which were converted into 3,106,315 shares of BioScrip common stock, and adjusted using the exchange ratio defined by the merger agreement. The Board of Directors further amended the BioScrip/CHS Plan to provide for it to have substantially the same terms and provisions as the 2008 Plan.

Of the options authorized and outstanding under the BioScrip/CHS Plan on the date of the acquisition, 716,086 options were designated as "rollover" options. These rollover options were issued to the top five executives of CHS at the time of the acquisition, and otherwise remain subject to the term of the BioScrip/CHS Plan, as amended, and fully vested on the date of conversion. Under the terms of the BioScrip/CHS Plan, any shares of BioScrip common stock subject to rollover options that expire or otherwise terminate before all or any part of the shares subject to such options have been purchased as a result of the exercise of such options shall remain available for issuance under the BioScrip/CHS Plan.

The remaining 2,390,229 shares are authorized for issuance under the BioScrip/CHS Plan. These shares may be used for awards under the BioScrip/CHS Plan, provided that awards using such available shares are not made after the date that awards or grants could have been made under the terms of the pre-existing plan, and are only made to individuals who were not employees or directors of BioScrip or an affiliate or subsidiary of BioScrip prior to such acquisition. As of December 31, 2012, there were 1,719,528 shares that remained available under the Bioscrip/CHS Plan.

Annual Equity Grant

On March 8, 2012 and May 7, 2012 the Compensation Committee approved a grant of approximately 1.7 million NQSO awards and 0.1 million restricted stock awards to key employees, consultants and members of the board of directors consistent with the Compensation Committee's historic grant practices.

Stock Options

Options granted under the plans: (a) typically vest over a three-year period and, in certain instances, fully vest upon a change in control of the Company, (b) have an exercise price that may not be less than 100% of its fair market value on the date of grant (110% for ISOs granted to a stockholder who holds more than 10% of the outstanding stock of the Company), and (c) are generally exercisable for ten years (five years for ISOs granted to a stockholder holding more than 10% of the outstanding stock of the Company) after the date of grant, subject to earlier termination in certain circumstances.

The Company recognized compensation expense related to stock options of $4.6 million, $3.7 million, and $3.3 million, in the years ended December 31, 2012, 2011 and 2010, respectively. Compensation expense related to acceleration of vesting for terminated employees was $0.3 million during the year ended December 31, 2012.

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The fair value of each stock option award on the date of the grant was calculated using a binomial option-pricing model. Option expense is amortized on a straight-line basis over the requisite service period with the following weighted average assumptions:

	2012	2011	2010
Expected volatility	64.8 %	64.1 %	63.4 %
Risk-free interest rate	1.98 %	3.23 %	3.35 %
Expected life of options	5.8 years	5.2 years	5.7 years
Dividend rate	—	—	—
Fair value of options	4.00	2.53	4.09

Stock option activity for the 2008 Plan and the BioScrip/CHS Plan through December 31, 2012 was as follows:

	Options	Weighted Average Exercise Price	Aggregate Intrinsic Value (thousands)	Weighted Average Remaining Contractual Life
Balance, December 31, 2011	5,610,361	$5.94	$4,747.2	5.4 years
Granted	2,106,500	6.79		
Exercised	(1,728,186)	5.01		
Forfeited and expired	(1,103,460)	8.90		
Balance, December 31, 2012	4,885,215	$5.97	$23,462.8	7.8 years
Outstanding options less expected forfeitures at December 31, 2012	4,547,982	$5.96	$21,890.7	7.7 years
Exercisable at December 31, 2012	1,872,364	$5.36	$10,124.1	6.1 years

The weighted-average, grant-date fair value of options granted during the years ending December 31, 2012, 2011 and 2010 was $4.00, $2.53, and $4.09, respectively. The total intrinsic value of options exercised during the years December 31, 2012, 2011 and 2010 was $4.4 million, $2.5 million, and $3.1 million, respectively.

Cash received from option exercises under share-based payment arrangements for the years ended December 31, 2012, 2011, and 2010 was $8.7 million, $3.2 million, and $4.1 million, respectively.

The maximum term of stock options under these plans is ten years. Options outstanding as of December 31, 2012 expire on various dates ranging from April 2013 through November 2022. The following table outlines our outstanding and exercisable stock options as of December 31, 2012:

	Options Outstanding			Options Exercisable	
Range of Option Exercise Price	Outstanding Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life	Options Exercisable	Weighted Average Exercise Price
$1.71 - $4.24	671,960	$2.81	5.99 years	608,629	$2.66
$4.42 - $6.00	902,111	4.48	8.03 years	313,151	4.60
$6.04 - $6.62	1,958,751	6.60	8.53 years	272,420	6.52
$6.65 - $7.73	944,000	7.06	8.00 years	389,769	6.83
$7.95 - $9.56	408,393	8.90	6.21 years	288,395	8.82
	4,885,215	$5.97	7.79 years	1,872,364	$5.36

As of December 31, 2011 and 2010 the exercisable portion of outstanding options was approximately 3.3 million shares and 4.0 million shares, respectively.

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As of December 31, 2012 there was $7.0 million of unrecognized compensation expense related to unvested option grants. That expense is expected to be recognized over a weighted-average period of 2.0 years.

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

Restricted Stock

Under the 2008 Plan, stock grants subject solely to an employee's or director's continued service with the Company will not become fully vested less than (a) three years from the date of grant to employees and, in certain instances, may fully vest upon a change in control of the Company, and (b) one year from the date of grant for directors. Stock grants subject to the achievement of performance conditions will not vest less than one year from the date of grant where the vesting of stock grants is subject to performance measures. Such performance shares may vest after one year from grant. No such time restrictions applied to stock grants made under the Company's prior equity compensation plans.

The Company recognized compensation expense related to restricted stock awards of $0.4 million, $0.5 million, and $0.3 million for the years ended December 31, 2012, 2011 and 2010, respectively.

Since the Company records compensation expense for restricted stock awards based on the vesting requirements, which generally includes time elapsed, market conditions and/or performance conditions, the weighted average period over which the expense is recognized varies. Also, future equity-based compensation expense may be greater if additional restricted stock awards are made.

Restricted stock award activity through December 31, 2012 was as follows:

	Restricted Stock	Weighted Average Award Date Fair Value	Weighted Average Remaining Recognition Period
Balance December 31, 2011	225,232	$3.82	0.3 years
Granted	70,000	$7.52	
Awards Vested	(215,232)	$3.79	
Canceled	(10,000)	$4.42	
Balance December 31, 2012	70,000	$7.52	0.4 years

As of December 31, 2012, there was $0.2 million of unrecognized compensation expense related to unvested restricted stock awards. That expense is expected to be recognized over a weighted average period of 0.4 years. The total grant date fair market value of awards vested during the years ended December 31, 2012, 2011 and 2010 was $0.8 million, $0.6 million, and $0.5 million, respectively. The total intrinsic value of restricted stock awards vested during the years December 31, 2012, 2011 and 2010 was $2.3 million, $0.5 million, and $1.5 million, respectively.

Performance Units

Under the 2008 Plan, the Compensation Committee may grant performance units to key employees. The Compensation Committee will establish the terms and conditions of any performance units granted, including the performance goals, the performance period and the value for each performance unit. If the performance goals are satisfied, the Company would pay the key employee an amount in cash equal to the value of each performance unit at the time of payment. In no event may a key employee receive an amount in excess of $1.0 million with respect to

performance units for any given year. To date, no performance units have been granted under the 2008 Plan.

Stock Appreciation Rights

The Company has granted cash-based phantom stock appreciation rights, or SARs, which are independent of the Company's 2008 Equity Incentive Plan, with respect to 380,000 shares of the Company's common stock, par value $.0001 per share. The SARs will vest in three equal annual installments and will fully vest in connection with a Change of Control (as defined in the grantee's employment agreement). These SARs may be exercised, in whole or in part, to the extent each SAR has been vested and will receive in cash the amount, if any, by which the closing stock price on the exercise date exceeds the Grant Price. Upon the

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exercise of any SARs, as soon as practicable under the applicable Federal and state securities laws, the grantee may be required to use the net after-tax proceeds of such exercise to purchase shares of the Common Stock from the Company at the closing stock price of the Common Stock on that date and hold such shares of Common Stock for a period of not less than one year from the date of purchase, except that the grantee will not be required to purchase any shares of Common Stock if the SAR is exercised on or after a Change of Control of the Company. The grantee's right to exercise the SAR will expire on the earliest of (1) the tenth anniversary of the grant date, (2) under certain conditions as a result of termination of the grantee's employment, or (3) the date that the SAR is exercised in full.

SAR activity through December 31, 2012 was as follows:

	Stock Appreciation Right	Weighted Average Exercise Price	Weighted Average Remaining Recognition Period
Balance, December 31, 2011	300,000	5.27	2.1 years
Granted	180,000	7.85	
Exercised	(66,667)	4.42	
Canceled	(33,333)	4.42	
Balance, December 31, 2012	380,000	6.72	1.8 years

The SARs are recorded as a liability in other non-current liabilities in the accompanying Consolidated Balance Sheets. Compensation expense related to the SARS for the year ended December 31, 2012 was $1.1 million. Compensation expense recorded in the year ended December 31, 2011 related to the SARs was $0.3 million. As of December 31, 2012 there was $1.5 million of unrecognized compensation expense related to the SARs. That expense is expected to be recognized over a weighted-average period of 1.8 years. In addition, because they are settled with cash, the fair value of the SAR awards are revalued on a quarterly basis. During the year ended December 31, 2012 the Company paid $0.3 million related to the exercise of SAR awards.

NOTE 16-- DEFINED CONTRIBUTION PLANS

The Company maintains a deferred compensation plan under Section 401(k) of the Internal Revenue Code. Under the Plan, employees may elect to defer up to 50% of their salary, subject to Internal Revenue Service limits. The Company may make a discretionary matching contribution, which it elected not to do during the years ended December 31, 2012 and December 31, 2011. The Company recorded matching contributions in selling, general and administrative expenses of $2.0 million during the year ended December 31, 2010.

NOTE 17-- SELECTED QUARTERLY FINANCIAL DATA (UNAUDITED)

A summary of quarterly financial information for the years ended December 31, 2012 and 2011 is as follows (in thousands except per share data):

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	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
2012				
Revenue	$155,633	$155,901	$170,365	$180,738
Gross profit	$53,522	$53,041	$58,004	$60,393
Net loss from continuing operations	$(2,023)	$(4,293)	$(605)	$(1,419)
Net (loss) income from discontinued operations	$(680)	$76,059	$(10,931)	$8,599
Net (loss) income	$(2,703)	$71,766	$(11,536)	$7,180
Basic loss per share from continuing operations	$(0.04)	$(0.07)	$(0.01)	$(0.03)
Basic income (loss) per share from discontinued operations	$(0.01)	$1.35	$(0.19)	$0.15
Basic (loss) income per share	$(0.05)	$1.28	$(0.20)	$0.12
Diluted loss per share from continuing operations	$(0.04)	$(0.07)	$(0.01)	$(0.03)
Diluted income (loss) per share from discontinued operations	$(0.01)	$1.35	$(0.19)	$0.15
Diluted (loss) income per share	$(0.05)	$1.28	$(0.20)	$0.12
2011				
Revenue	$130,837	$131,575	$133,830	$158,264
Gross profit	$51,352	$51,830	$53,635	$58,598
Net (loss) income from continuing operations	$(1,015)	$(1,640)	$(334)	$2,565
Net income (loss) from discontinued operations	$3,956	$(686)	$882	$4,144
Net income (loss)	$2,941	$(2,326)	$548	$6,709
Basic (loss) income per share from continuing operations	$(0.02)	$(0.03)	$(0.01)	$0.05
Basic income (loss) per share from discontinued operations	$0.07	$(0.01)	$0.02	$0.07
Basic income (loss) per share	$0.05	$(0.04)	$0.01	$0.12
Diluted (loss) income per share from continuing operations	$(0.02)	$(0.03)	$(0.01)	$0.05
Diluted income (loss) per share from discontinued operations	$0.07	$(0.01)	$0.02	$0.07
Diluted income (loss) per share	$0.05	$(0.04)	$0.01	$0.12

NOTE 18-- SUBSEQUENT EVENTS

Subsequent to December 31, 2012, we acquired 100 percent of the ownership interest in HomeChoice Partners, Inc., a Delaware corporation (“HomeChoice”) pursuant to that Stock Purchase Agreement dated December 12, 2012 (the “Purchase Agreement”) by and among the Company, HomeChoice, DaVita HealthCare Partners Inc., a Delaware corporation and majority stockholder of HomeChoice, and the other stockholders of HomeChoice. The purchase price was $70 million, subject to adjustment based in part on the net working capital of HomeChoice at closing (the “Purchase Price”). The Purchase Price may also be increased in an amount up to $20 million if HomeChoice reaches certain performance milestones in the two years following the closing. The Company funded the acquisition with a combination of cash on hand and drawing on its revolving credit facility. The initial accounting for this transaction was not yet complete as of March 5. 2013.

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

None.

Item 9A. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

As of the end of the period covered by this Annual Report, we evaluated the effectiveness of the design and operation of our disclosure controls. This evaluation was performed under the supervision and with the participation of management including our Chief Executive Officer (“CEO”) and Chief Financial Officer (“CFO”). Disclosure controls are controls and procedures (as defined in the Exchange Act Rules 13d-15(e) and 15d-15(e)) designed to reasonably assure that information required to be disclosed in our reports filed under the Exchange Act, such as this Annual Report, is recorded, processed, summarized and reported within the

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time periods specified in the SEC's rules and forms. Disclosure controls are also designed to reasonably assure that such information is accumulated and communicated to our management, including the CEO and CFO, as appropriate, to allow timely decisions regarding required disclosure.

The evaluation of our disclosure controls included a review of the controls objectives and design, our implementation of the controls and the effect of the controls on the information generated for use in this Annual Report. Based upon the controls evaluation, our CEO and CFO have concluded that our disclosure controls as of December 31, 2012 were effective.

Management Report on Internal Control over Financial Reporting

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

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

Management excluded certain elements of internal control over financial reporting pertaining to the activities of InfuScience, which we acquired on July 31, 2012, as discussed in Note 4 of Notes to Consolidated Financial Statements. InfuScience revenue represented 2.5% of our consolidated total revenue for the year ended December 31, 2012. InfuScience total assets represented 1.2% of our consolidated total assets as of December 31, 2012.

Management assessed our internal control over financial reporting as of December 31, 2012, the end of our fiscal year. Management based its assessment on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. Management's assessment included an evaluation of such elements as the design and operating effectiveness of key financial reporting controls, process documentation, accounting policies and our overall control environment.

Based on management's assessment of internal control over financial reporting our management believes that as of December 31, 2012, our internal control over financial reporting was effective. Our independent registered public accounting firm, Ernst & Young LLP, has issued an attestation report on the Company's internal control over financial reporting which is included herein.

Inherent Limitations on Control Systems

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

Changes in Internal Control over Financial Reporting

During the fiscal year ended December 31, 2012 we closed on and continued with the resolution of our Pharmacy Services Asset Sale. Due to the size of this asset disposal, changes in operating processes have resulted in changes to our financial reporting processes. These changes have been assessed by management to ensure that there has been no adverse impact to the Company's internal control over financial reporting. Thus, there was no change in our internal control over financial reporting that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

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Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders
BioScrip, Inc.

We have audited BioScrip, Inc.'s internal control over financial reporting as of December 31, 2012, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). BioScrip, Inc.'s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

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

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

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

In our opinion, BioScrip, Inc. maintained, in all material respects, effective internal control over financial reporting as of December 31, 2012, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of BioScrip, Inc. and subsidiaries as of December 31, 2012 and 2011, and the related consolidated statements of operations, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2012 and our report dated March 14, 2013, expressed an unqualified opinion thereon.

Minneapolis, Minnesota
March 14, 2013

/s/ Ernst & Young LLP

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Item 9B. Other Information

None.

PART III

Item 10. Directors, Executive Officers and Corporate Governance

A list of our executive officers and biographical information appears in Part I of this Form 10-K. The remainder of the information required by this item is incorporated by reference from the information contained in our definitive proxy statement to be filed with the SEC on or before April 30, 2013 in connection with our 2013 Annual Meeting of Stockholders.

Item 11. Executive Compensation

The information required by this item is incorporated by reference from the information contained in our definitive proxy statement to be filed with the SEC on or before April 30, 2013 in connection with our 2013 Annual Meeting of Stockholders.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

The information required by this item is incorporated by reference from the information contained in our definitive proxy statement to be filed with the SEC on or before April 30, 2013 in connection with our 2013 Annual Meeting of Stockholders.

Item 13. Certain Relationships and Related Transactions, and Director Independence

The information required by this item is incorporated by reference from the information contained in our definitive proxy statement to be filed with the SEC on or before April 30, 2013 in connection with our 2013 Annual Meeting of Stockholders.

Item 14. Principal Accountant Fees and Services

The information required by this item is incorporated by reference from the information contained in our definitive proxy statement to be filed with the SEC on or before April 30, 2013 in connection with our 2013 Annual Meeting of Stockholders.

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PART IV

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

All other schedules not listed above have been omitted since they are not applicable or are not required.

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3. Exhibits

Exhibit Number	Description	Location
2.1	Agreement and Plan of Merger, dated as of January 24, 2010, by and among BioScrip, Inc., Camelot Acquisition Corp., Critical Homecare Solutions Holdings, Inc., Kohlberg Investors V, L.P., Kohlberg Partners V, L.P., Kohlberg Offshore Investors V, L.P., Kohlberg TE Investors V, L.P., KOCO Investors V, L.P., Robert Cucuel, Mary Jane Graves, Nitin Patel, Joey Ryan, Blackstone Mezzanine Partners II L.P., Blackstone Mezzanine Holdings II L.P., and S.A.C. Domestic Capital Funding, Ltd.	(1) (Exhibit 2.1)
2.2	Community Pharmacy and Mail Business Purchase Agreement, dated as of February 1, 2012, by and among Walgreen Co., Walgreen Mail Service, Inc., Walgreens Specialty Pharmacy, LLC, and Walgreen Eastern Co., Inc., the Company and subsidiaries of the Company listed on Annex A thereto.	(31) (Exhibit 2.1)
3.1	Second Amended and Restated Certificate of Incorporation.	(2) (Exhibit 4.1)
3.2	Amendment to the Second Amended and Restated Certificate of Incorporation.	(4) (Exhibit 3.1)
3.3	Amended and Restated By-Laws.	(3) (Exhibit 3.1)
4.1	Specimen Common Stock Certificate.	(5) (Exhibit 4.1)
4.2	Amended and Restated Rights Agreement, dated as of December 3, 2002 between the Company and American Stock Transfer and Trust Company, as Rights Agent.	(6) (Exhibit 4.1)
4.3	First Amendment, dated December 13, 2006, to the Amended and Restated Rights Agreement, dated as of December 3, 2002 (the “Rights Agreement”), between the Company and American Stock Transfer & Trust Company, as Rights Agent.	(7) (Exhibit 10.1)
4.4	Second Amendment, dated March 4, 2009, to the Rights Agreement, as amended on December 13, 2006, between the Company and American Stock Transfer & Trust Company, as Rights Agent.	(8) (Exhibit 10.1)
4.5	Third Amendment, dated as of January 24, 2010, to the Rights Agreement, as amended on December 13, 2006 and March 4, 2009, between the Company and American Stock Transfer & Trust Company LLC, as Rights Agent, as amended on December 13, 2006 and March 4, 2009.	(1) (Exhibit 4.1)
4.6	Indenture, dated as of March 25, 2010, by and among BioScrip, Inc., the guarantors party thereto and U.S. Bank National Association, as trustee (including Form of 101/4% Senior Note due 2015).	(26) (Exhibit 4.1)
4.7	Warrant Agreement, dated as of March 25, 2010, by and among BioScrip, Inc., Kohlberg Investors V, L.P., Kohlberg Partners V, L.P., Kohlberg Offshore Investors V, L.P., Kohlberg TE Investors V, L.P., KOCO Investors V, L.P., Robert Cucuel, Mary Jane Graves, Nitin Patel, Joey Ryan, Colleen Lederer, Blackstone Mezzanine Partners II L.P., Blackstone Mezzanine Holdings II L.P. and S.A.C. Domestic Capital Funding, Ltd.	(26) (Exhibit 4.2)
4.8	Form of Cash-only Stock Appreciation Right Agreement.	(28) (Exhibit 10.39)
10.1 Ù	MIM Corporation 1999 Cash Bonus Plan For Key Employees.	(38) (Exhibit 10.61)
10.2 Ù	Amended and Restated 2001 Incentive Stock Plan.	(11)
10.3 Ù	Amendment to the BioScrip, Inc. 2001 Incentive Stock Plan.	(32) (Exhibit 10.1)
10.4 Ù	2008 Amended and Restated Equity Incentive Plan.	(12)
10.5 Ù	BIOSCRIP/CHS 2006 Equity Incentive Plan, as Amended and Restated.	(33) (Exhibit 10.3)

10.6 Ù	Employment Letter, dated October 15, 2001, between the Company and Russell J. Corvese.	(13) (Exhibit 10.51)
10.7 Ù	Amendment, dated September 19, 2003, to Employment Letter Agreement between the Company and Russel J. Corvese.	(14) (Exhibit 10.46)
10.8 Ù	Amendment, dated December 1, 2004, to Employment Letter Agreement between the Company and Russel J. Corvese.	(15) (Exhibit 10.1)
10.9 Ù	Severance Agreement, dated August 24, 2006, by and between BioScrip, Inc. and Barry A. Posner.	(16) (Exhibit 10.1)

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10.10 Ù	Amendment No. 1 to Severance Agreement between BioScrip, Inc. and Barry A. Posner.	(18) (Exhibit 10.2)
10.11 Ù	Separation and Release Agreement dated as of October 6, 2011 between Barry A. Posner and BioScrip, Inc.	(34) (Exhibit 10.1)
10.12 Ù	Employment Letter Agreement, dated August 21, 2003, between MIM Corporation (now BioScrip, Inc.) and Scott Friedman.	(20) (Exhibit 10.1)
10.13 Ù	Amendment, dated October 14, 2004, to Employment Letter Agreement between MIM Corporation (now BioScrip, Inc.) and Scott Friedman.	(20) (Exhibit 10.2)
10.14 Ù *	Employment Offer Letter, dated as of June 21, 2007, by and between the Company and Pat Bogusz.	
10.15 Ù *	Amendment dated May 26, 2011, to the Employment Offer Letter by and between the Company and Pat Bogusz.	
10.16 Ù	Engagement Letter, dated as of January 31, 2011, by and between the Company and Mary Jane Graves.	(21) (Exhibit 10.1)
10.17 Ù	Employment Agreement, dated as of December 23, 2010, by and between BioScrip, Inc. and Richard M. Smith.	(22) (Exhibit 10.1)
10.18 Ù	Employment Offer Letter, dated as of November 29, 2010, by and between the Company and David W. Froesel, Jr.	(24) (Exhibit 10.1)
10.19 Ù	Severance Agreement, dated as of November 30, 2010, by and between the Company and David W. Froesel, Jr.	(24) (Exhibit 10.2)
10.20 Ù	Restrictive Covenant Agreement, dated as of November 29, 2010, by and between the Company and David W. Froesel, Jr.	(24) (Exhibit 10.3)
10.21 Ù	Separation Agreement dated as of November 1, 2010, by and between the Company and Richard H. Friedman.	(25) (Exhibit 10.1)
10.22	Letter of Credit Agreement dated July 8, 2009.	(19) (Exhibit 10.1)
10.23	Cash Collateral Agreement dated July 8, 2009.	(19) (Exhibit 10.2)
10.24 *	Second Amended and Restated Credit Agreement, dated as of March 17, 2011, by and among BioScrip, Inc., as borrower, all of its subsidiaries as subsidiary guarantors thereto, the lenders party thereto, Healthcare Finance Group, LLC, as administrative agent for the lenders, as collateral agent and as collateral manager for the secured parties, and the other entities party thereto.	
10.25	First Amendment to the Second Amended and Restated Credit Agreement	(35) (Exhibit 10.1)
10.26 *	Second Amendment to the Second Amended and Restated Credit Agreement.	
10.27	Third Amendment to the Second Amended and Restated Credit Agreement	(39) (Exhibit 10.2)
10.28	Amended and Restated Security Agreement, dated as of December 28, 2010, by and among BioScrip, Inc., as borrower, the other guarantors from time to time party thereto, as pledgors, assignors and debtors, and Healthcare Finance Group, LLC, in its capacity as collateral agent, as pledgee, assignee and secured party.	(23) (Exhibit 10.2)
10.29	Amended and Restated Collateral Management Agreement, dated as of December 28, 2010, by and among BioScrip, Inc., as borrower, the other loan parties from time to time party thereto and Healthcare Finance Group, LLC, in its capacity as collateral manager, as administrative agent.	(23) (Exhibit 10.3)
10.30	Intercreditor Agreement, dated as of March 25, 2010, by and between Jefferies Finance LLC, as agent for the first priority secured parties, and AmerisourceBergen Drug Corporation.	(26) (Exhibit 10.5)
10.31 #	Prime Vendor Agreement dated as of July 1, 2009 between AmerisourceBergen Drug Corporation, BioScrip, Inc. and the other parties thereto.	(30) (Exhibit 10.1)

10.32	First Amendment, dated as of March 25, 2010, to the Prime Vendor Agreement..	(26) (Exhibit 10.4)
10.33 #	Second Amendment, dated as of June 1, 2010 to the Prime Vendor Agreement.	(27) (Exhibit 10.1)
10.34 #	Third Amendment, dated as of August 1, 2010, to the Prime Vendor Agreement.	(36) (Exhibit 10.1)
10.35 #	Fourth Amendment, dated as of May 1, 2011, to the Prime Vendor Agreement.	(37) (Exhibit 10.2)
10.36 #	Fifth Amendment, dated as of January 1, 2012, to the Prime Vendor Agreement.	(29) (Exhibit 10.1)
10.37	Registration Rights Agreement, dated as of March 25, 2010, by and among BioScrip, Inc., the guarantors party thereto and Jefferies & Company, Inc.	(26) (Exhibit 10.6)

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10.38	Stockholders' Agreement, dated as of January 24, 2010, by and among BioScrip, Inc., Kohlberg Investors V, L.P., Kohlberg Partners V, L.P., Kohlberg Offshore Investors V, L.P., Kohlberg TE Investors V, L.P., KOCO Investors V, L.P., Robert Cucuel, Mary Jane Graves, Nitin Patel, Joey Ryan, Colleen Lederer, Blackstone Mezzanine Partners II L.P., Blackstone Mezzanine Holdings II L.P., and S.A.C. Domestic Capital Funding, Ltd.	(1) (Exhibit 10.1)
21.1 *	List of Subsidiaries.	
23.1 *	Consent of Ernst and Young LLP.	
31.1 *	Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.	
31.2 *	Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.	
32.1 *	Certification of Chief Executive Officer pursuant to 18 U.S. C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.	
32.2 *	Certification of Chief Financial Officer pursuant to 18 U.S. C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.	
101 **	The following financial information from BioScrip Inc.'s Annual Report on Form 10-K for the fiscal year ended December 31, 2012, formatted in XBRL (eXtensible Business Reporting Language): (i) Statements of Income for the fiscal years ended December 31, 2012, 2011 and 2010, (ii) Balance Sheets as of December 31, 2012 and 2011, (iii) Statements of Cash Flows for the fiscal years ended December 31, 2012, 2011 and 2010, and (iv) Notes to Financial Statements.	

(1)	Incorporated by reference to the indicated exhibit to the Company's Current Report on Form 8-K filed on January 27, 2010, SEC Accession No. 0000950123-10-005446.
(2)	Incorporated by reference to the indicated exhibit to the Company's Current Report on Form 8-K filed on March 17, 2005, SEC Accession No. 0000950123-05-003294.
(3)	Incorporated by reference to the indicated exhibit to the Company's Current Report on Form 8-K filed on July 30, 2009, SEC Accession no. 0001014739-09-000029.
(4)	Incorporated by reference to the indicated exhibit to the Company's Current Report on Form 8-K filed on June 10, 2010, SEC Accession no. 0000950123-10-057214.
(5)	Incorporated by reference to the indicated exhibit to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2005 filed with the SEC on March 31, 2006, SEC Accession no. 0000950123-06-004022.
(6)	Incorporated by reference to Post-Effective Amendment No. 3 to the Company's form 8-A/A dated December 4, 2002, SEC Accession No. 0001089355-02-000648.
(7)	Incorporated by reference to the indicated exhibit to the Company's Current Report on Form 8-K filed on December 14, 2006, SEC Accession No. 0000950123-06-015184.
(8)	Incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed with the SEC on March 4, 2009, Accession No. 0001014739-09-000006.
(9)	Incorporated by reference from the Company's definitive proxy statement for its 1999 annual meeting of stockholders filed with the Commission July 7, 1999SEC Accession No. 0001019056-99-000413.
(10)	Incorporated by reference from the Company's definitive proxy statement for its 2002 annual meeting of stockholders filed with the Commission April 30, 2002, SEC Accession No. 0001089355-02-000316.
(11)	Incorporated by reference from the Company's definitive proxy statement for its 2003 annual meeting of stockholders filed with the Commission April 30, 2003, SEC Accession No. 0001089355-03-000259

(12)	Incorporated by reference from the Company's definitive proxy statement for its 2010 annual meeting of stockholders filed with the Commission May 10, 2010, SEC Accession No. 0000950123-10-046953.
(13)	Incorporated by reference to the indicated exhibit to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2001, SEC Accession No. 0001089355-02-000248.
(14)	Incorporated by reference to the indicated exhibit to the Company's Annual Report on Form 10-K filed on for the fiscal year ended December 31, 2003, filed March 15, 2004, SEC Accession No. 001014739-04-000021.
(15)	Incorporated by reference to the indicated exhibit to the Company's Current Report on Form 8-K filed on December 1, 2004, SEC Accession No. 0001014739-04-000082.

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(16)	Incorporated by reference to the indicated exhibit to the Company's Current Report on Form 8-K filed on August 25, 2006, SEC Accession No. 0000950123-06-010723.
(17)	Incorporated by reference to the indicated exhibit to the Company's Current Report on Form 8-K filed on August 3, 2007, SEC Accession No. 0000950123-07-010803.
(18)	Incorporated by reference to the indicated exhibit to the Company's Current Report on Form 8-K filed on January 20, 2009 SEC Accession No. 0000950123-09-000854.
(19)	Incorporated by reference to the indicated exhibit to the Company's Current Report on Form 8-K filed on July 9, 2009 SEC Accession No. 0001014739-09-000023.
(20)	Incorporated by reference to the indicated exhibit to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2009 SEC Accession No. 0001014739-09-000031.
(21)	Incorporated by reference to the indicated exhibit to the Company's Current Report on Form 8-K filed on February 3, 2011 SEC Accession No. 0001014739-11-000004.
(22)	Incorporated by reference to the indicated exhibit to the Company's Current Report on Form 8-K/A filed on December 30, 2010 SEC Accession No. 0000950123-10-117687.
(23)	Incorporated by reference to the indicated exhibit to the Company's Current Report on Form 8-K filed on December 30, 2010 SEC Accession No. 0000950123-10-117583.
(24)	Incorporated by reference to the indicated exhibit to the Company's Current Report on Form 8-K filed on December 3, 2010 SEC Accession No. 0000950123-10-110784.
(25)	Incorporated by reference to the indicated exhibit to the Company's Current Report on Form 8-K filed on November 2, 2010 SEC Accession No. 0000950123-10-099147.
(26)	Incorporated by reference to the indicated exhibit to the Company's Current Report on Form 8-K filed on March 31, 2010 SEC Accession No. 0000950123-10-030906.
(27)	Incorporated by reference to the indicated exhibit to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2010, SEC Accession No. 0001014739-10-000025.
(28)	Incorporated by reference to the indicated exhibit to the Company's Annual Report on Form 10-K for the year ended December 31, 2010, SEC Accession No. 0001014739-11-000006.
(29)	Incorporated by reference to the exhibit indicated to the Company's current report on Form 8-K filed on January 26, 2012, accession No 0000950138-12-000025.
(30)	Incorporated by reference to the indicated exhibit to the Company's Amended Quarterly Report on Form 10-Q/A for the quarter ended September 30, 2009, SEC Accession No. 0001014739-09-000048.
(31)	Incorporated by reference to the indicated exhibit to the Company's current report on Form 8-K filed on February 3, 2012, accession No. 0001193125-12-038785.
(32)	Incorporated by reference to the indicated exhibit to the Company's current report on Form 8-K filed on August 10, 2011, accession No. 0001014739-11-000033.
(33)	Incorporated by reference to the indicated exhibit to the Company's current report on Form 8-K filed on May 2, 2011, accession No. 0001014739-11-000015.
(34)	Incorporated by reference the exhibit indicated to the Company's current report on Form 8-K filed on October 12, 2011, accession No. 0000950138-11-000539.
(35)	Incorporated by reference to the exhibit indicated to the Company's current report on Form 8-K filed on May 23, 2011, accession No. 0001014739-11-000022.
(36)	Incorporated by reference to the exhibit indicated to the Company's current report on Form 8-K filed on May 2, 2011, accession No. 0001014739-11-000015.
(37)	Incorporated by reference to the exhibit indicated to the Company's current report on Form 8-K filed on May 2, 2011, accession No. 0001014739-11-000015.
(38)	Incorporated by reference to the exhibit indicated to the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 1999, SEC Accession No. 0000891554-99-001010.
(39)	Incorporated by reference to the exhibit indicated to the Company's Current Report on Form 8-K filed on August 2, 2012, SEC Accession No. 0001193125-12-332145.

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

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Ù	Designates BioScrip, Inc.'s management contracts or compensatory plan or arrangement.
#	The Securities and Exchange Commission has granted confidential treatment of certain provisions of these exhibits. Omitted material for which confidential treatment has been granted has been filed separately with the Securities and Exchange Commission.

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, on March 14, 2013 .

BIOSCRIP INC.

/s/ Hai Tran
Hai Tran
Chief Financial Officer, Treasurer
and Principal Financial Officer

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

Signature	Title(s)	Date
/s/ Myron Z. Holubiak Myron Z. Holubiak	Non-Executive Chairman of the Board	March 14, 2013
/s/ Richard M. Smith Richard M. Smith	President and Chief Executive Officer (Principal Executive Officer) Director	March 14, 2013
/s/ Hai Tran Hai Tran	Chief Financial Officer and Treasurer	March 14, 2013
/s/ Charlotte W. Collins Charlotte W. Collins	Director	March 14, 2013
/s/ Samuel P. Frieder Samuel P. Frieder	Director	March 14, 2013
/s/ David R. Hubers David R. Hubers	Director	March 14, 2013
/s/ Richard L. Robbins Richard L. Robbins	Director	March 14, 2013
/s/ Stuart A. Samuels Stuart A. Samuels	Director	March 14, 2013
/s/ Gordon H. Woodward Gordon H. Woodward	Director	March 14, 2013

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Bioscrip, Inc. and Subsidiaries
Schedule II-- Valuation and Qualifying Accounts
(in thousands)

	Balance at Beginning of Period	Write-Off of Receivables	Charged to Costs and Expenses	Balance at End of Period
Year ended December 31, 2010				
Allowance for doubtful accounts	$11,504	$(14,420)	$19,337	$16,421
Year ended December 31, 2011				
Allowance for doubtful accounts	$16,421	$(12,347)	$18,654	$22,728
Year ended December 31, 2012				
Allowance for doubtful accounts	$22,728	$(27,482)	$26,966	$22,212

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

10.14 Ù	Employment Offer Letter, dated as of June 21, 2007, by and between the Company and Pat Bogusz.
10.15 Ù	Amendment dated May 26, 2011, to the Employment Offer Letter by and between the Company and Pat Bogusz.
10.24	Second Amended and Restated Credit Agreement, dated as of March 17, 2011, by and among BioScrip, Inc., as borrower, all of its subsidiaries as subsidiary guarantors thereto, the lenders party thereto, Healthcare Finance Group, LLC, as administrative agent for the lenders, as collateral agent and as collateral manager for the secured parties, and the other entities party thereto.
10.26	Second Amendment to the Second Amended and Restated Credit Agreement.
21.1	List of Subsidiaries
23.1	Consent of Ernst & Young LLP
31.1	Certification of Richard M. Smith pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification of Hai Tran pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1	Certification of Richard M. Smith pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2	Certification of Hai Tran pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101	The following financial information from BioScrip Inc.'s Annual Report on Form 10-K for the fiscal year ended December 31, 2012, formatted in XBRL (eXtensible Business Reporting Language): (i) Statements of Income for the fiscal years ended December 31, 2012, 2011 and 2010, (ii) Balance Sheets as of December 31, 2011 and 2010, (iii) Statements of Cash Flows for the fiscal years ended December 31, 2012, 2011 and 2010, and (iv) Notes to Financial Statements.

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