

Edgar Filing: CURATIVE HEALTH SERVICES INC - Form 11-K

CURATIVE HEALTH SERVICES INC

Form 11-K

June 30, 2003

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, DC 20549

FORM 11-K

(Mark One)

ANNUAL REPORT PURSUANT TO SECTION 15(d) OF THE SECURITIES EXCHANGE  
----- ACT OF 1934

For the fiscal year ended DECEMBER 31, 2002

OR

----- TRANSITION REPORT PURSUANT TO SECTION 15(d) OF THE SECURITIES  
----- EXCHANGE ACT OF 1934

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

COMMISSION FILE NUMBER: 000-19370

A. Full title of the plan and the address of the plan, if different from that of  
the issuer named below:

CURATIVE HEALTH SERVICES, INC. EMPLOYEE SAVINGS PLAN

B. Name of issuer of the securities held pursuant to the plan and the address of  
its principal executive office:

CURATIVE HEALTH SERVICES, INC.  
150 Motor Parkway  
Hauppauge, NY 11788

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Items 1 through 3

Not Applicable

Item 4

Financial Statements and Supplemental Schedule for Curative Health Services,  
Inc. Employee Savings Plan

Signature

Exhibits

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- 23.1 Consent of Independent Auditors
- 99.1 Certification of Chief Executive Officer pursuant to 18 U.S.C. ss.1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
- 99.2 Certification of Chief Financial Officer pursuant to 18 U.S.C. ss.1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

CURATIVE HEALTH SERVICES, INC. EMPLOYEE SAVINGS PLAN

FINANCIAL STATEMENTS AND SUPPLEMENTAL SCHEDULE

YEARS ENDED DECEMBER 31, 2002 AND 2001

WITH REPORT OF INDEPENDENT AUDITORS

Curative Health Services, Inc.  
Employee Savings Plan

Index to Financial Statements  
and Supplemental Schedule

Years ended December 31, 2002 and 2001

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All other schedules are omitted as they are not applicable or are not required based on the disclosure requirements of the Employee Retirement Income Security Act of 1974, as amended, and applicable regulations issued by the U.S. Department of Labor.

Report of Independent Auditors

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To the Administrator of the  
Curative Health Services, Inc. Employee Savings Plan

We have audited the accompanying statements of net assets available for plan benefits of the Curative Health Services, Inc. Employee Savings Plan (the "Plan") as of December 31, 2002 and 2001, and the related statements of changes in net assets available for plan benefits for the years then ended. These financial statements are the responsibility of the Plan's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the 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 net assets available for plan benefits of the Plan at December 31, 2002 and 2001, and the changes in its net assets available for plan benefits for the years then ended, in conformity with accounting principles generally accepted in the United States.

Our audits were performed for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying supplemental schedule of assets held at end of year as of December 31, 2002 is presented for purposes of additional analysis and is not a required part of the financial statements but is supplementary information required by the Department of Labor's Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974. This supplemental schedule is the responsibility of the Plan's management. This supplemental schedule has been subjected to the auditing procedures applied in our audits of the financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.

/s/ Ernst & Young LLP

May 28, 2003

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Curative Health Services, Inc.  
Employee Savings Plan

## Statements of Net Assets Available for Plan Benefits

	December 31	
	2002	2001
	-----	-----
Assets		
Investments, at fair value:		
Guaranteed Account	\$ 1,474,482	\$ 1,528,351
Money Market Account	774,443	798,659

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Bond and Mortgage Account	955,504	767,261
International Stock Account	746,151	881,025
Real Estate Account	477,415	455,293
Bond Emphasis Balanced Account	373,215	435,832
Principal Financial Group, Inc. Stock Account	564,061	558,475
Government Securities Account	477,483	405,651
Medium Company Value Account	1,390,580	1,540,382
Large Cap Stock Index Account	949,931	1,553,014
Large Company Blend Account	1,312,230	2,021,109
CHS Stock Account	2,673,661	2,007,809
American Century Income & Growth Account	50,570	-
Lifetime Strategic Income Account	14,623	-
Lifetime 2010 Account	45,613	-
Lifetime 2020 Account	3,616	-
Lifetime 2030 Account	15,565	-
Lifetime 2040 Account	13,742	-
Lifetime 2050 Account	489	-
American Century Small Cap Account	77,869	-
American Century Ultra Account	27,633	-
Fidelity Advisor Mid Cap Account	39,483	-
Fidelity Advisor Small Cap Account	10,377	-
Medium Company Blend Account	20,530	-
Small Company Blend Account	60,258	-
Janus Advisor Capital Appreciation Account	39,339	-
	-----	-----
Total investments	12,588,863	12,952,861
Participant loans	110,917	50,336
Participants' contributions receivable	1	21,915
	-----	-----
Net assets available for plan benefits	\$ 12,699,781	\$ 13,025,112
	=====	=====

See accompanying notes.

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Curative Health Services, Inc.  
Employee Savings Plan

Statements of Changes in Net Assets Available for Plan Benefits

	Year ended December 31	
	2002	2001
	-----	-----
Additions to net assets:		
Contributions:		
Employer	\$ 4,519	\$ 130,950
Participants	1,595,222	1,283,497
	-----	-----
Total contributions	1,599,741	1,414,447
Investment (loss) income:		
Interest and dividends	757,104	1,212,906
Net realized and unrealized depreciation in fair value of pooled investments	(827,486)	(738,630)
	-----	-----

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Total investment (loss) income	(70,382)	474,276
Transfer of assets into plan (Note 1)	262,596	-
Other income (Note 3)	246	448,504
	-----	-----
Total additions	1,792,201	2,337,227
Deductions from net assets:		
Benefits paid to participants	2,112,032	2,561,297
Administrative expenses	5,500	4,679
Other expenses	-	16
	-----	-----
Total deductions	2,117,532	2,565,992
	-----	-----
Net decrease	(325,331)	(228,765)
Net assets available for plan benefits at beginning of year	13,025,112	13,253,877
	-----	-----
Net assets available for plan benefits at end of year	\$ 12,699,781	\$ 13,025,112
	=====	=====

See accompanying notes.

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Curative Health Services, Inc.  
Employee Savings Plan

Notes to Financial Statements

December 31, 2002

1. Description of the Plan

The following description of the Plan provides general information. Participants should refer to the Summary Plan Description for a more complete description of the Plan's provisions.

General

The Plan is a defined contribution plan and is subject to the provisions of the Employee Retirement Income Security Act of 1974 ("ERISA").

Participation

Each employee who is hired before June 1, 1998 became a participant on the enrollment date coincident with or next following the employee's first day of employment. For employees hired on or after June 1, 1998, the general rule is that the employee becomes a participant in the Plan on the enrollment date coincident with or next following the date the employee completes two months of continuous service.

Contributions

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Employee contributions are from 401(k) salary deferrals, which are subject to the limits of the Plan. The employee 401(k) salary deferral shall be a percentage of not less than 1% and not greater than 15% of the annual eligible compensation. For the years ended December 31, 2002 and 2001, the participants' contributions amounted to approximately \$1,595,000 and \$1,283,000, respectively.

For the years ended December 31, 2002 and 2001, Curative Health Services, Inc.'s ("CHS" or the "Company") discretionary contributions amounted to approximately \$5,000 and \$131,000, respectively.

For the years ended December 31, 2002 and 2001, approximately \$72,000 and \$122,000, respectively, of nonvested account balances were forfeited. These forfeited amounts were used by the Company to offset Company contributions. At December 31, 2002, the Company has approximately \$89,000 of forfeitures that will be utilized to offset future Company contributions.

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### Curative Health Services, Inc. Employee Savings Plan

#### Notes to Financial Statements (continued)

##### 1. Description of the Plan (continued)

###### Transfer of Assets

During the year ended December 31, 2002, approximately \$263,000 of assets were transferred into the Plan. The transfer of these assets was related to the Company's acquisition of eBiocare.com, Inc. in 2001.

###### Administrative Expense

Certain expenses of administering the Plan are paid by the Company. Such expenses were approximately \$25,000 for 2002 and \$34,000 for 2001.

###### Participants' Accounts

Each participant's account is credited with the participant's contributions and an allocation of Plan earnings. The allocation of Plan earnings is based upon the balance the participant maintains in the selected account.

###### Vesting

Participants are immediately 100% vested in their own contributions and earnings thereon. Participants become 20% vested in benefits arising from Company contributions after two years of service, 40% vested after three years of service, 60% vested after four years of service, 80% vested after five years of service and 100% vested after six years of service.

###### Payment of Benefits

The value of a participant's account is payable to the participant upon retirement or disability or to the participant's beneficiary if death occurs during employment. The value of a participant's contributions and earnings thereon plus all vested matching contributions and earnings thereon are payable upon termination. Payment may be made as installment payments, a lump sum or in

the form of an annuity.

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Curative Health Services, Inc.  
Employee Savings Plan

Notes to Financial Statements (continued)

1. Description of the Plan (continued)

Loans

Effective November 1, 1994, the Plan adopted a provision whereby active participants can borrow from their Plan accounts once every 12 months at the prime lending rate plus 1% on the date of the loan (4.50% to 9.50% for loans outstanding as of December 31, 2002), provided participants have only one outstanding loan at a time and the participant's vested account balance in the Plan is at least \$2,000. The borrowing limit is the lesser of 50% of the participant's vested account balance or \$50,000 and must be repaid within five years.

Plan Termination

Although it has not expressed any intent to do so, the Company has the right under the Plan to terminate the Plan subject to the provisions of ERISA. In the event of termination, all participants' accounts shall become fully vested and distributed in accordance with the provisions of the Plan.

2. Significant Accounting Policies

The accounting records of the Plan are maintained on the accrual basis. The Plan maintains its records of investments at fair value, which equals the quoted market price on the last business day of the Plan year. Securities that have no quoted market price are stated at fair value as determined by the custodian. The Guaranteed Account is invested in unallocated insurance contracts, which are valued at contract value as estimated by the Plan's custodian, which approximates fair value. The average yield was approximately 5% and 6.4% in 2002 and 2001, respectively.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

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Curative Health Services, Inc.  
Employee Savings Plan

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## Notes to Financial Statements (continued)

### 2. Significant Accounting Policies (continued)

#### Reclassifications

Certain amounts in the 2001 financial statements have been reclassified to conform with the 2002 presentation.

### 3. Investments

The Plan's investments are held in custody by Principal Life Insurance Company except for the CHS stock account which is trustee by Bankers Trust Company. The participants of the Plan may elect to have their accounts invested in any combination (in 5% increments) of the following investment alternatives:

Guaranteed Account	Lifetime Strategic Income Account
Money Market Account	Lifetime 2010 Account
Bond and Mortgage Account	Lifetime 2020 Account
International Stock Account	Lifetime 2030 Account
Real Estate Account	Lifetime 2040 Account
Bond Emphasis Balanced Account	Lifetime 2050 Account
Principal Financial Group, Inc. Stock Account	American Century Small Cap Account
Government Securities Account	American Century Ultra Account
Medium Company Value Account	Fidelity Advisor Mid Cap Account
Large Cap Stock Index Account	Fidelity Advisor Small Cap Account
Large Company Blend Account	Medium Company Blend Account
CHS Stock Account	Small Company Blend Account
American Century Income & Growth Account	Janus Advisor Capital Appreciation Account

Investment earnings are automatically reinvested into the fund from which they were derived.

During 2001, Principal Financial Group, formerly a mutual holding company, became a publicly traded company and as such, compensated companies that gave up their voting rights. As a result, the Plan received approximately \$444,000, which was distributed to the Plan participants on a pro-rata basis and was recorded in the Principal Financial Group, Inc. Stock Account.

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Curative Health Services, Inc.  
Employee Savings Plan

Notes to Financial Statements (continued)

### 4. Income Tax Status

The Plan has received a determination letter from the Internal Revenue Service dated May 5, 2001, stating that the Plan is qualified under Section 401(a) of



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the Internal Revenue Code (the "Code") and, therefore, the related trust is exempt from taxation. The Plan has been amended since receiving the determination letter. Once qualified, the Plan is required to operate in conformity with the Code to maintain its qualification. The Plan Administrator believes the Plan is being operated in compliance with the applicable requirements of the Code and, therefore, believes that the Plan is qualified and the related trust is tax exempt. The Plan administrator has indicated that it will take the necessary steps, if any, to maintain the Plan's qualified status.

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### Supplemental Schedule

Curative Health Services, Inc.  
Employee Savings Plan

Form 5500, Schedule H, Line 4i - Schedule of Assets Held at End of Year

As of December 31, 2002

Identity of Issue, Borrower, Lessor or Similar Party	Description of Investment	Current Value
Principal Life Insurance Company*	Insurance Company General Guaranteed Interest	\$ 1,474,482
Principal Life Insurance Company*	Pooled Separate Accounts Money Market	774,443
Principal Life Insurance Company*	Pooled Separate Accounts Bond and Mortgage	955,504
Principal Life Insurance Company*	Pooled Separate Accounts Government Securities	477,483
Principal Life Insurance Company*	Pooled Separate Accounts Bond Emphasis Balanced	373,215
Principal Life Insurance Company*	Pooled Separate Accounts Large Cap Stock Index	949,931
Principal Life Insurance Company*	Pooled Separate Accounts Medium Company Value	1,390,580
Principal Life Insurance Company*	Pooled Separate Accounts Real Estate	477,415
Principal Life Insurance Company*	Pooled Separate Accounts Large Company Blend	1,312,230
Principal Life Insurance Company*	Pooled Separate Accounts Int'l Stock	746,151
Principal Life Insurance Company*	Pooled Separate Accounts Principal Financial Group Inc. Stock	564,061
Principal Life Insurance Company*	Pooled Separate Accounts American Century Inc & Growth	50,570

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Principal Life Insurance Company*	Pooled Separate Accounts Lifetime Strategic Income	14,623
Principal Life Insurance Company*	Pooled Separate Accounts Lifetime 2010	45,613
Principal Life Insurance Company*	Pooled Separate Accounts Lifetime 2020	3,616
Principal Life Insurance Company*	Pooled Separate Accounts Lifetime 2030	15,565

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Curative Health Services, Inc.  
Employee Savings Plan

Form 5500, Schedule H, Line 4i - Schedule of Assets Held at End of Year

As of December 31, 2002 (continued)

Identity of Issue, Borrower, Lessor or Similar Party	Description of Investment	Current Value
Principal Life Insurance Company*	Pooled Separate Accounts Lifetime 2040	\$ 13,742
Principal Life Insurance Company*	Pooled Separate Accounts Lifetime 2050	489
Principal Life Insurance Company*	Pooled Separate Accounts American Century Sm Cap Value	77,869
Principal Life Insurance Company*	Pooled Separate Accounts American Century Ultra	27,633
Principal Life Insurance Company*	Pooled Separate Accounts Fidelity Advisor Mid Cap	39,483
Principal Life Insurance Company*	Pooled Separate Accounts Fidelity Advisor Small Cap	10,377
Principal Life Insurance Company*	Pooled Separate Accounts Janus Advisor Cap Appreciation	39,339
Principal Life Insurance Company*	Pooled Separate Accounts Medium Company Blend	20,530
Principal Life Insurance Company*	Pooled Separate Accounts Small Company Blend	60,258
Curative Health Services, Inc.	Employer Security-Curative Common Stock	2,673,661
Plan Participants	Participant Loans (range of interest rates 4.50% to 9.50%)	110,917
		----- \$ 12,699,780 =====

\* Party-in-interest transactions.

This schedule should be read in conjunction with the accompanying financial statements and notes thereto.

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SIGNATURE

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

CURATIVE HEALTH SERVICES, INC. EMPLOYEE SAVINGS PLAN

Date: June 30, 2003

by: CURATIVE HEALTH SERVICES, INC.

/s/ Thomas Axmacher

-----  
Thomas Axmacher  
Plan Administrator

EXHIBIT 23.1

Consent of Independent Auditors

We consent to the incorporation by reference in the Registration Statement (Form S-8 No. 33-85188) pertaining to the Curative Health Services, Inc. Employee Savings Plan of our report dated May 28, 2003, with respect to the financial statements and schedule of the Curative Health Services, Inc. Employee Savings Plan included in this Annual Report (Form 11-K) for the year ended December 31, 2002.

/s/ Ernst & Young LLP

Melville, New York  
June 27, 2003

EXHIBIT 99.1

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

In connection with the Annual Report of Curative Health Services, Inc. Employee Savings Plan (the "Plan") on Form 11-K for the year ended December 31, 2002 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Joseph Feshbach, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to the best of my knowledge:

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1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the net assets available for benefits and changes in net assets available for benefits of the Plan.

/s/ Joseph Feshbach

-----  
Joseph Feshbach  
Chief Executive Officer  
June 30, 2003

A signed original of this written statement required by Section 906, or any other document authenticating, acknowledging, or otherwise adopting the signature that appears in typed form within the electronic version of this written statement required by Section 906, has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

EXHIBIT 99.2

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

In connection with the Annual Report of Curative Health Services, Inc. Employee Savings Plan (the "Plan") on Form 11-K for the year ended December 31, 2002 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Thomas Axmacher, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to the best of my knowledge:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the net assets available for benefits and changes in net assets available for benefits of the Plan.

/s/ Thomas Axmacher

-----  
Thomas Axmacher  
Chief Financial Officer  
June 30, 2003

A signed original of this written statement required by Section 906, or any other document authenticating, acknowledging, or otherwise adopting the

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signature that appears in typed form within the electronic version of this written statement required by Section 906, has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.