CORAM HEALTHCARE CORP
Form 10-Q
November 19, 2003

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

FORM 10-Q

(MARK ONE)

[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2003

OR

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

FOR THE TRANSITION PERIOD FROM TO

COMMISSION FILE NUMBER 1-11343

CORAM HEALTHCARE CORPORATION

(EXACT NAME OF REGISTRANT AS SPECIFIED IN ITS CHARTER)

Delaware (State of other jurisdiction of incorporation or organization)	33-0615337 (I.R.S. Employer Identification No.)
1675 Broadway Suite 900 Denver, CO (Address of principal executive offices)	80202 (Zip Code)

REGISTRANT S TELEPHONE NUMBER, INCLUDING AREA CODE: (303) 292-4973

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

Indicate by check mark whether the registrant has filed all documents and reports required to be filed by Sections 12, 13 or 15(d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court. Yes [ ] No [ ] (On August 8, 2000, the registrant and one of its wholly-owned subsidiaries filed voluntary petitions under Chapter 11 of Title 11 of the United States Code in the Bankruptcy Court for the District of Delaware. Through November 14, 2003, no plan or plans of reorganization have been confirmed by such court.)

As of November 14, 2003, there were 49,638,452 outstanding shares of the registrant s common stock, $0.001 par value, which is the only class of voting stock of the registrant outstanding.

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PART I

FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

CORAM HEALTHCARE CORPORATION
CONDENSED CONSOLIDATED BALANCE SHEETS
(in thousands, except per share amounts)

	September 30, 2003	December 31, 2002
	(UNAUDITED)	
ASSETS		
Current assets:		
Cash and cash equivalents	$ 39,527	$ 30,591
Cash limited as to use	251	217
Accounts receivable, net of allowances of $19,697 and $22,229	106,215	103,498
Inventories	11,533	13,160
Deferred income taxes, net	220	107
Other current assets	7,470	5,658
Total current assets	165,216	153,231
Property and equipment, net	11,434	10,439
Deferred income taxes, net	962	449
Intangible assets, net	4,887	5,270
Goodwill, net	57,186	57,186
Other assets	5,669	5,064
Total assets	$ 245,354	$ 231,639
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities not subject to compromise:		
Accounts payable	$ 28,038	$ 27,986
Accrued compensation and related liabilities	25,432	23,882
Current maturities of long-term debt and capital leases	309	61
Insurance note payable	798	
Income taxes payable	3,992	3,280
Deferred income taxes	1,182	556
Accrued merger and restructuring costs	70	190
Accrued reorganization costs	10,955	7,610
Other current and accrued liabilities	7,677	8,479
Total current liabilities not subject to compromise	78,453	72,044
Total current liabilities subject to compromise (See Note 2)	16,421	15,630
Total current liabilities	94,874	87,674
Long-term liabilities not subject to compromise:		
Long-term debt and capital leases, less current maturities	1,107	73
Minority interests in consolidated joint ventures and preferred stock issued by a subsidiary	6,236	6,215
Income taxes payable	16,478	16,130

Other liabilities	3,599	3,565
Net liabilities for liquidation of discontinued operations	27,203	27,275
Total liabilities	149,497	140,932
Commitments and contingencies		
Stockholders equity:		
Preferred stock, par value $0.001, authorized 10,000 shares, none issued		
Common stock, par value $0.001, 150,000 shares authorized, 49,638 shares issued and outstanding	50	50
Additional paid-in capital	427,455	427,354
Accumulated deficit	(331,648)	(336,697)
Total stockholders equity	95,857	90,707
Total liabilities and stockholders equity	$ 245,354	$ 231,639

See accompanying notes to unaudited condensed consolidated financial statements.

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CORAM HEALTHCARE CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF INCOME
(UNAUDITED)
(in thousands, except per share amounts)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2003	**2002**	**2003**	**2002**
Net revenue	$123,318	$107,922	$356,759	$318,335
Cost of service	86,313	77,749	256,835	229,178
Gross profit	37,005	30,173	99,924	89,157
Operating expenses:				
Selling, general and administrative expenses	24,170	21,689	70,188	64,012
Provision for estimated uncollectible accounts	4,642	5,131	12,388	13,351
Restructuring cost recoveries	(39)	(100)	(39)	(113)
Total operating expenses	28,773	26,720	82,537	77,250
Operating income from continuing operations	8,232	3,453	17,387	11,907
Other income (expenses):				
Interest income	71	97	265	306
Interest expense (excluding post-petition contractual interest of approximately $260 and $779 for the three and nine months ended September 30, 2003, respectively, and $3,000 and $9,100 for the three and nine months ended September 30, 2002, respectively)	(632)	(404)	(1,342)	(1,165)
Equity in net income of unconsolidated joint ventures	458	394	1,057	1,032
Gain on sale of business				46
Other income (expense), net	(449)	7	(453)	1,006
Income from continuing operations before reorganization expenses, income taxes, minority interests and the cumulative effect of a change in accounting principle	7,680	3,547	16,914	13,132
Reorganization expenses, net	5,355	847	11,232	3,380
Income from continuing operations before income taxes, minority interests and the cumulative effect of a change in accounting principle	2,325	2,700	5,682	9,752
Income tax expense	1	33	72	71
Minority interests in net income of consolidated joint ventures	158	177	460	552
Income from continuing operations before the cumulative effect of a change in accounting principle	2,166	2,490	5,150	9,129
Loss from disposal of discontinued operations	(2)	(530)	(101)	(530)
Income before the cumulative effect of a change in accounting principle	2,164	1,960	5,049	8,599
Cumulative effect of a change in accounting principle				(71,902)
Net income (loss)	$ 2,164	$ 1,960	$ 5,049	$ (63,303)

Net Income (Loss) Per Common Share:

Basic and Diluted:				
Income from continuing operations	$ 0.04	$ 0.05	$ 0.10	$ 0.18
Loss from disposal of discontinued operations		(0.01)		(0.01)
Cumulative effect of a change in accounting principle				(1.45)
Net income (loss) per common share	$ 0.04	$ 0.04	$ 0.10	$ (1.28)
Weighted average common shares used in the computation of basic net income (loss) per common share	49,638	49,638	49,638	49,638
Weighted average common shares used in the computation of diluted net income (loss) per common share	49,746	49,664	49,700	49,669

See accompanying notes to unaudited condensed consolidated financial statements.

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CORAM HEALTHCARE CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)
(in thousands)

	Nine Months Ended September 30,	
	2003	**2002**
Net cash provided by continuing operations before reorganization items	$21,079	$12,896
Net cash used by reorganization items	(7,408)	(4,327)
Net cash provided by continuing operations (net of reorganization items)	13,671	8,569
Cash flows from investing activities:		
Purchases of property and equipment	(4,411)	(3,639)
Proceeds from sale of business		85
Proceeds from dispositions of property and equipment	2	6
Net cash used in investing activities	(4,409)	(3,548)
Cash flows from financing activities:		
Principal payments of long-term debt and capital leases	(116)	(57)
Refunds of deposits to collateralize letters of credit	413	200
Cash distributions to minority interests	(450)	(607)
Net cash used in financing activities	(153)	(464)
Net increase in cash from continuing operations	$ 9,109	$ 4,557
Net cash used in discontinued operations	$ (173)	$

See accompanying notes to unaudited condensed consolidated financial statements.

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CORAM HEALTHCARE CORPORATION
NOTES TO UNAUDITED CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS
SEPTEMBER 30, 2003

1. DESCRIPTION OF BUSINESS, BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES

Description of Business

Business Activity. As of September 30, 2003, Coram Healthcare Corporation (CHC) and its subsidiaries (collectively Coram or the company) were engaged primarily in the business of furnishing alternate site (outside the hospital) infusion therapies, which also include non-intravenous home health products such as respiratory therapy services and durable medical equipment. Other services offered by Coram include centralized management, administration and clinical support for clinical research trials, as well as, outsourced hospital compounding services. Coram delivers its alternate site infusion therapy services through 76 branch offices located in 40 states and Ontario, Canada, including a recently opened infusion branch in Amherstburg, Ontario, Canada. Additionally, management plans to open a new infusion branch in San Antonio, Texas on or about December 1, 2003. CHC and its first tier wholly-owned subsidiary, Coram, Inc. (CI) (collectively the Debtors), filed voluntary petitions under Chapter 11 of Title 11 of the United States Code (the Bankruptcy Code) on August 8, 2000 in the United States Bankruptcy Court for the District of Delaware (the Bankruptcy Court) *In re Coram Healthcare Corporation,* Case No. 00-3299 and *In re Coram, Inc.,* Case No. 00-3300 (collectively the Bankruptcy Cases). The Bankruptcy Cases have been consolidated for administrative purposes only by the Bankruptcy Court and are being jointly administered under the docket of *In re Coram Healthcare Corporation,* Case No. 00-3299 (MFW). Commencing on August 8, 2000, the Debtors operated as debtors-in-possession subject to the jurisdiction of the Bankruptcy Court; however, a Chapter 11 trustee was appointed by the Bankruptcy Court on March 7, 2002. With the appointment of a Chapter 11 trustee, while still under the jurisdiction of the Bankruptcy Court, the Debtors are no longer debtors-in-possession. None of the company s other subsidiaries is a debtor in the Bankruptcy Cases and, other than Coram Resource Network, Inc. and Coram Independent Practice Association, Inc. (collectively the Resource Network Subsidiaries or R-Net), none of the company s other subsidiaries is a debtor in any bankruptcy case. See Notes 2 and 3 for further details.

Coram s focus is on its core alternate site infusion therapy business, the clinical research business operated by its CTI Network, Inc. subsidiary and the outsourced hospital compounding services provided by its SoluNet LLC subsidiary. Accordingly, management s primary business strategy is to focus Coram s efforts on the delivery of its core infusion therapies, such as nutrition, anti-infective therapies, intravenous immunoglobulin (IVIG), pain management and coagulant and blood clotting therapies for persons with hemophilia. Management also implemented programs focused on the reduction and control of operating expenses and other costs of providing services, assessment of under-performing branches and review of branch efficiencies. Pursuant to this review, several branches and reimbursement sites have been closed or scaled back to serve as satellites for other branches/reimbursement sites and personnel have been eliminated. See Note 5 for further details.

For each of the periods presented, the company s primary operations and assets were within the United States. The company maintains infusion operations in Canada; however, assets, revenue and profitability related to the Canadian businesses are not material to the company s consolidated financial position or operations.

Concentrations of Revenue and Credit Risk. Substantially all of the company s revenue is derived from third party payers, including insurance companies, managed care plans, governmental payers and contracted institutions. Revenue from the Medicare and Medicaid programs accounted for approximately 25% and 24% of the company s consolidated net revenue for the three months ended September 30, 2003 and 2002, respectively. Moreover, such programs comprised approximately 25% of the company s consolidated net revenue for both the nine months ended September 30, 2003 and 2002. Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation and revision. Management believes that the company is in substantial compliance with all applicable laws and regulations. Compliance with such laws and regulations can be subject to future government review and interpretation, as well as significant regulatory action, including fines, penalties and exclusion from the Medicare and Medicaid programs. Medicare accounts receivable represented approximately 30% and 33% of the

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CORAM HEALTHCARE CORPORATION
NOTES TO UNAUDITED CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS (Continued)

company s consolidated accounts receivable at September 30, 2003 and December 31, 2002, respectively. No other individual payer exceeded 5% of consolidated accounts receivable at those dates. However, upon aggregating the individual Medicaid program accounts receivable for all states where the company does business, such totals represent approximately 8.4% and 6.7% of consolidated accounts receivable at September 30, 2003 and December 31, 2002, respectively.

The company is a party to several individual provider contracts that ultimately fall within the purview of a single national health insurance carrier that recently commenced implementation of a national ancillary care management program. In connection therewith, during 2002 such national health insurance carrier terminated two provider contracts relating to the state of Illinois (one with the company and one with a non-consolidated joint venture). During the nine months ended September 30, 2003, eight additional provider contracts were terminated with effective dates ranging from October 1, 2003 to February 15, 2004. The terminated contracts represented approximately 2.3% and 2.8% of the company s consolidated net revenue for the nine months ended September 30, 2003 and 2002, respectively, and approximately 3.4% and 4.5% of the company s consolidated accounts receivable at September 30, 2003 and December 31, 2002, respectively. In the aggregate, approximately 3.6% and 4.4% of the company s consolidated net revenue for the nine months ended September 30, 2003 and 2002, respectively, and approximately 5.5% and 6.8% of the company s consolidated accounts receivable at September 30, 2003 and December 31, 2002, respectively, were derived from the individual provider contracts that are within the purview of this national health insurance carrier. Management can provide no assurances that the remaining active provider contracts associated with this national health insurance carrier will continue under terms that are favorable to the company. Additionally, no assurances can be given that meaningful collection/settlement activities relative to outstanding accounts receivable will transpire in the future. The termination of additional provider contracts and/or the inability to collect outstanding accounts receivable from the individual healthcare plans under this national health insurance carrier could have a materially adverse impact on the company s results of operations, cash flows and financial condition.

From time to time, the company negotiates settlements with its third party payers in order to resolve outstanding disputes, terminate business relationships or facilitate the establishment of new or enhanced payer contracts. In connection therewith, the company entered into settlement agreements with two of its payers (both such payers are affiliated with the aforementioned national health insurance carrier) and recorded bad debt recoveries aggregating approximately $1.1 million during the nine months ended September 30, 2003 (no amounts were recorded during the three months ended September 30, 2003). The company did not record any material bad debt expense or recoveries relative to settlement activity during the nine months ended September 30, 2002. Furthermore, management is aware of certain claims, disputes or unresolved matters with third party payers arising in the normal course of business and, although there can be no assurances, management believes that the resolution of such matters should not have a material adverse effect on the company s financial position, results of operations or cash flows.

In certain cases, the company accepts fixed fee or capitated fee arrangements. As of September 30, 2003, Coram was a party to only two capitated fee arrangements. Certain information regarding the company s capitated fee agreements is as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2003	2002	2003	2002
Capitated fee revenue as a percentage of consolidated net revenue	1.8%	2.5%	1.9%	2.6%

Approximately 7.6% and 8.0% of the company s consolidated net revenue for the three months ended September 30, 2003 and 2002, respectively, and 7.4% and 8.1% for the nine months ended September 30, 2003 and 2002, respectively, related to an agreement with Health Net Inc. (Health Net) to provide services to its members in California pursuant to fee-for-service and capitated reimbursement arrangements. Additionally, Coram owns 50% of a partnership located in California that derived approximately 42.2% and 46.9% of its net revenue

CORAM HEALTHCARE CORPORATION
NOTES TO UNAUDITED CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS (Continued)

during the nine months ended September 30, 2003 and 2002, respectively, from services provided under such agreement. The underlying two year agreement expired by its terms on December 31, 2002 and, in connection therewith, Health Net invited Coram, as well as a limited group of other providers, to respond to a request for proposal (RFP) for the services provided by Coram under the terms of the expired agreement. During the RFP process, the company and its partnership continued to render services to the Health Net members pursuant to the terms and conditions of the expired agreement. On September 5, 2003, after a comprehensive evaluation process, Health Net awarded the contract to the company and, effective October 1, 2003, a second amendment to the agreement (the Amendment) between Health Net and the company was executed wherein the contract, with certain modifications, was extended to December 31, 2005. Health Net reserved the right to reevaluate the Amendment based upon the status of the Bankruptcy Cases, as well as material changes, if any, to Coram s senior management during the term of the Amendment. The loss of the Health Net agreement or significant modifications to the terms and conditions of the Amendment could have a materially adverse effect on the results of operations, cash flows and financial condition of the company and its partnership.

Basis of Presentation

The unaudited condensed consolidated financial statements have been prepared by the company pursuant to the rules and regulations promulgated by the Securities and Exchange Commission (the SEC) and reflect all adjustments and disclosures (consisting of normal recurring accruals and, effective August 8, 2000, all adjustments and disclosures pursuant to the adoption of Statement of Position 90-7, *Financial Reporting by Entities in Reorganization under the Bankruptcy Code* (SOP 90-7)) that are, in the opinion of management, necessary for a fair presentation of the company s consolidated financial position, results of operations and cash flows as of and for the interim periods presented herein. Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States have been condensed or omitted pursuant to the applicable SEC regulations. The results of operations for the interim period ended September 30, 2003 are not necessarily indicative of the results for the full calendar year. The condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements included in the company s Annual Report on Form 10-K/A Amendment No. 2 for the year ended December 31, 2002.

The condensed consolidated financial statements have been prepared on a going concern basis, which contemplates continuity of operations, realization of assets and liquidation of liabilities in the ordinary course of business. However, as a result of the Bankruptcy Cases and circumstances relating thereto, including the company s leveraged financial structure and cumulative losses from operations, such realization of assets and liquidation of liabilities are subject to significant uncertainty. During the pendency of the Bankruptcy Cases, the company may sell or otherwise dispose of assets and liquidate or settle liabilities for amounts other than those reflected in the condensed consolidated financial statements. Furthermore, a plan or plans of reorganization could materially change the amounts reported in the condensed consolidated financial statements, which do not give effect to any adjustments of the carrying value of assets or liabilities that might be necessary as a consequence of a plan or plans of reorganization (see Note 2 for further details). The company s ability to continue as a going concern is dependent upon, among other things, confirmation of a plan or plans of reorganization, future profitable operations, the ability to comply with the terms of the company s financing agreements, the ability to fund a pending settlement with the Internal Revenue Service, the ability to remain in compliance with the physician ownership and referral provisions of the Omnibus Budget Reconciliation Act of 1993 (commonly known as Stark II) and the ability to generate sufficient cash from operations and/or financing arrangements to meet its obligations and capital asset expenditure requirements.

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 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.

CORAM HEALTHCARE CORPORATION
NOTES TO UNAUDITED CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS (Continued)

Significant Accounting Policies

Principles of Consolidation. The condensed consolidated financial statements include the accounts of CHC, its subsidiaries, including CI (CHC s wholly-owned direct subsidiary), and joint ventures that are considered to be under the control of CHC. As discussed above, CI is a party to the Bankruptcy Cases that are being jointly administered with those of CHC in the Bankruptcy Court. All material intercompany account balances and transactions have been eliminated in consolidation. The company uses the equity method of accounting for investments in entities in which it exhibits significant influence, but not control, and has an ownership interest of 50% or less.

Provision for Estimated Uncollectible Accounts. Management regularly reviews the collectibility of accounts receivable utilizing reports that track collection and write-off activity. Estimated write-off percentages are then applied to each aging category by payer classification to determine the provision for estimated uncollectible accounts. Additionally, management establishes supplemental specific reserves for accounts that are deemed uncollectible due to occurrences such as payer financial distress and payer bankruptcy filings. The provision for estimated uncollectible accounts is periodically adjusted to reflect current collection, write-off and other trends. While management believes the resulting net carrying amounts for accounts receivable are fairly stated and that the company has adequate allowances for uncollectible accounts based on all the information available, no assurances can be given as to the level of future provisions for uncollectible accounts or how they will compare to the levels experienced in the past. The company s ability to successfully collect its accounts receivable depends, in part, on management s ability to (i) adequately supervise and train personnel in billing and collections and (ii) maximize integration efficiencies related to reimbursement site consolidations and information system changes.

Management throughout the company is continuing to concentrate on enhancing timely reimbursement by emphasizing improved billing and cash collection methods, continued assessment of reimbursement systems support and concentration of the company s expertise and managerial resources into certain reimbursement locations. In connection therewith, see Note 5 for further discussion of certain critical reimbursement site consolidation activities. By consolidating to fewer sites, management expects to implement improved training, more easily standardize best demonstrated practices, enhance specialization related to payers such as Medicare and achieve more consistent and timely cash collections. Management believes that, in the long-term, payers and patients will receive better, more consistent service. However, no assurances can be given that the consolidation of the company s Patient Financial Service Centers (reimbursement sites) and other related activities initiated by management will be successful in enhancing timely reimbursement or that the company will not experience a significant shortfall in cash collections, deterioration in days sales outstanding (DSO) and/or unfavorable aging trends in its accounts receivable.

Capitalized Software Development Costs. Capitalized costs related to software developed and/or obtained for internal use are stated at cost in accordance with Statement of Position 98-1, *Accounting for Computer Software Developed for or Obtained for Internal-Use* (SOP 98-1). Amortization is computed using the straight-line method over estimated useful lives ranging from one to five years. For the nine months ended September 30, 2003 and 2002, software development costs aggregating approximately $0.1 million and $1.1 million, respectively, were capitalized in accordance with SOP 98-1.

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CORAM HEALTHCARE CORPORATION
NOTES TO UNAUDITED CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS (Continued)

Stock-Based Compensation. The company elected to measure compensation expense related to its employee stock-based compensation plans in accordance with Accounting Principles Board Opinion No. 25, *Accounting for Stock Issued to Employees* (APB 25), and disclose the pro forma impact of accounting for employee stock-based compensation plans pursuant to the fair value-based provisions of Statement of Financial Accounting Standards No. 123, *Accounting for Stock-Based Compensation* (Statement 123). Because the exercise price of the company s employee stock options equals the market price of the underlying stock on the date of grant, no APB 25 stock-based compensation expense has been recognized for the company s stock-based compensation plans in the condensed consolidated financial statements. Had compensation expense for such plans been recognized in accordance with the provisions of Statement 123, the company s pro forma financial results would have been as follows (in thousands, except per share amounts):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2003	2002	2003	2002
Net income (loss), as reported	$ 2,164	$ 1,960	$ 5,049	$ (63,303)
Less: Pro forma stock-based compensation expense (determined using the fair value method for all awards)	(1)	(42)	(15)	(138)
Pro forma net income (loss)	$ 2,163	$ 1,918	$ 5,034	$ (63,441)
Net income (loss) per common share:				
Basic and diluted, as reported	$ 0.04	$ 0.04	$ 0.10	$ (1.28)
Basic and diluted, pro forma	$ 0.04	$ 0.04	$ 0.10	$ (1.28)

For purposes of pro forma disclosures, the estimated fair value of the options is amortized to expense over the options vesting period. Because compensation expense associated with an award is recognized over the vesting period, the impact on pro forma net income (loss) disclosed above may not be representative of pro forma compensation expense in future periods.

In December 2002, the Financial Accounting Standards Board (the FASB) issued Statement of Financial Accounting Standards No. 148, *Accounting for Stock-Based Compensation Transition and Disclosure* (Statement 148). This accounting pronouncement amends Statement 123 and provides alternative methods of transition for a voluntary change to the fair value-based method of accounting for stock-based employee compensation. Management evaluated the various methods of transitioning to Statement 123 as outlined in Statement 148 but concluded that the company will continue to use the intrinsic method provided in APB 25 as the company s accounting policy for stock-based compensation plans. The company will also continue to provide the pro forma disclosures required pursuant to Statement 123, as amended.

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CORAM HEALTHCARE CORPORATION
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Net Income (Loss) Per Common Share. Basic net income (loss) per common share excludes any dilutive effects of stock options, warrants and convertible securities. The following table sets forth the computations of basic and diluted net income (loss) per common share for the three and nine months ended September 30, 2003 and 2002 (in thousands, except per share amounts):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2003	**2002**	**2003**	**2002**
Numerator for basic and diluted net income (loss) per common share:				
Income from continuing operations	$ 2,166	$ 2,490	$ 5,150	$ 9,129
Loss from disposal of discontinued operations	(2)	(530)	(101)	(530)
Cumulative effect of a change in accounting principle				(71,902)
Net income (loss)	$ 2,164	$ 1,960	$ 5,049	$ (63,303)
Weighted average shares denominator for basic net loss per common share	49,638	49,638	49,638	49,638
Effect of dilutive securities:				
Stock options	108	26	62	31
Denominator for diluted net income (loss) per common share adjusted weighted average shares	49,746	49,664	49,700	49,669
Basic and diluted net income (loss) per common share:				
Income from continuing operations	$ 0.04	$ 0.05	$ 0.10	$ 0.18
Loss from disposal of discontinued operations		(0.01)		(0.01)
Cumulative effect of a change in accounting principle				(1.45)
Net income (loss)	$ 0.04	$ 0.04	$ 0.10	$ (1.28)

Other Income (Expense). As a result of reconciling certain pre-petition proofs of claim filed in the Bankruptcy Cases, the company recorded approximately $0.5 million of expense during the three and nine months ended September 30, 2003. During the nine months ended September 30, 2002, the company recorded approximately $1.0 million of other income from the recognition of the net realizable value of an escrow deposit that related to certain 1997 dispositions of lithotripsy partnerships. The Bankruptcy Court approved the settlement agreement on August 21, 2002 and, on October 17, 2002, the company received the settlement proceeds.

Accounting for Asset Retirement Obligations. In June 2001, the FASB issued Statement of Financial Accounting Standards No. 143, *Accounting for Asset Retirement Obligations* (Statement 143). Statement 143 requires entities to record the fair value of legal obligations associated with the retirement of long-lived tangible assets. The company adopted Statement 143 on January 1, 2003; however, the adoption of this accounting pronouncement had no impact on the company s financial position and results of operations.

Reporting Extinguishments of Debt. In April 2002, the FASB issued Statement of Financial Accounting Standards No. 145, *Rescission of FASB Statements No. 4, 44, and 62, Amendment of FASB Statement No. 13, and Technical Corrections* (Statement 145). Statement 145 requires gains and losses on extinguishments of debt to be classified as income or loss from continuing operations rather than as extraordinary items, as previously required under Statement of Financial Accounting Standards No. 4, *Reporting Gains and Losses From Extinguishments of Debt.* Extraordinary treatment will be required for certain extinguishments of debt as provided in Accounting Principles Board Opinion No. 30, *Reporting the Results of Operations Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions.* Statement 145 also (i) amends Statement of Financial Accounting Standards No 13, *Accounting for Leases,* to require that certain modifications to capital leases be treated as sale-leaseback transactions and (ii) modifies the accounting for sub-leases when the original lessee remains a secondary obligor (or guarantor). Effective January 1, 2003, the company adopted

the provisions of Statement 145; however, the adoption of such accounting pronouncement had no impact on the company s financial statement presentation, financial position or results of operations.

CORAM HEALTHCARE CORPORATION
NOTES TO UNAUDITED CONDENSED CONSOLIDATED
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Accounting for Costs Associated with Exit or Disposal Activities. In October 2002, the FASB issued Statement of Financial Accounting Standards No. 146, *Accounting for Costs Associated with Exit or Disposal Activities* (Statement 146). Statement 146 supersedes the Emerging Issues Task Force Issue No. 94-3, *Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring)* (EITF Issue No. 94-3). Statement 146 requires that a liability for a cost associated with an exit or disposal activity be recognized when the liability is incurred rather than at the date of the entity s commitment to an exit plan, as prescribed in EITF Issue No. 94-3. Statement 146 is effective for exit or disposal activities that are initiated after December 31, 2002. Effective January 1, 2003, the company adopted Statement 146; however, the adoption of this accounting pronouncement did not have an impact on the company s financial position or results of operations.

Guarantor s Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others. In November 2002, the FASB issued Interpretation No. 45, *Guarantor s Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others* (FIN No. 45). FIN No. 45 elaborates on the disclosure requirements for annual and interim financial statements of a guarantor and requires that, in certain cases, a guarantor recognize a liability at the inception of the guarantee for the fair value of the obligation undertaken. The company adopted FIN No. 45 on January 1, 2003. The company s financial position and results of operations were not impacted by the initial adoption of this accounting pronouncement. However, a guarantee provided to a third party in May 2003 is reflected in the company s condensed consolidated financial statements in accordance with FIN No. 45. See Note 10 for further details.

2. REORGANIZATION UNDER CHAPTER 11 OF THE BANKRUPTCY CODE

Background and Certain Important Bankruptcy Court Activity

On August 8, 2000, CHC and CI commenced the Bankruptcy Cases by filing voluntary petitions under Chapter 11 of the Bankruptcy Code. Following the commencement of the Bankruptcy Cases, the Debtors operated as debtors-in-possession subject to the jurisdiction of the Bankruptcy Court; however, as discussed below, a Chapter 11 trustee was appointed by the Bankruptcy Court on March 7, 2002. With the appointment of a Chapter 11 trustee, while still under the jurisdiction of the Bankruptcy Court, the Debtors are no longer debtors-in-possession. None of the company s other subsidiaries is a debtor in the Bankruptcy Cases and, other than the Resource Network Subsidiaries, none of the company s other subsidiaries is a debtor in any bankruptcy case. The Debtors need to seek the relief afforded by the Bankruptcy Code was due, in part, to its requirement to remain compliant with the physician ownership and referral provisions of Stark II after December 31, 2000 (see discussion of Stark II in Note 10) and the scheduled May 27, 2001 maturity of the Series A Senior Subordinated Unsecured Notes. The Debtors sought advice and counsel from a variety of sources and, in connection therewith, CHC s Independent Committee of the Board of Directors unanimously concluded that the bankruptcy and restructuring were the only viable alternatives.

On August 9, 2000, the Bankruptcy Court approved the Debtors motions for: (i) payment of all employee wages and salaries and certain benefits and other employee obligations; (ii) payment of critical trade vendors, utilities and insurance in the ordinary course of business for both pre and post-petition expenses; (iii) access to a debtor-in-possession financing arrangement; and (iv) use of all company bank accounts for normal business operations. In September 2000, the Bankruptcy Court approved the Debtors motion to reject four unexpired, non-residential real property leases and any associated subleases. The rejected leases included underutilized locations in: (i) Allentown, Pennsylvania; (ii) Denver, Colorado; (iii) Philadelphia, Pennsylvania; and (iv) Whippany, New Jersey.

The Bankruptcy Court granted the Debtors five extensions of the period of time that they must assume or reject unexpired leases of non-residential real property (such extensions expired on January 4, 2001, May 4, 2001, September 3, 2001, January 1, 2002 and May 2, 2002). On May 1, 2002, the Chapter 11 trustee motioned the Bankruptcy Court to grant a sixth extension through and including August 27, 2002. The Chapter 11 trustee filed a certificate of no objection on May 21, 2002 but an enabling order was never issued by the Bankruptcy Court. However, on September 6, 2002, December 26, 2002 and July 18, 2003, the Bankruptcy Court granted three

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separate motions of the Chapter 11 trustee to further extend the period of time to assume or reject the aforementioned real property leases through and including December 31, 2002, June 30, 2003 and December 31, 2003, respectively.

In September 2000 and October 2000, the Bankruptcy Court approved retention bonus payments of up to $2.6 million to certain key employees. The bonuses were scheduled to be paid in two equal installments predicated on the date of the Debtors emergence from bankruptcy. Due to events that delayed emergence from bankruptcy, the Bankruptcy Court approved early payment of the first installment to most individuals within the retention program and such payments, aggregating approximately $0.7 million, were made on March 15, 2001. In January 2002, when events again delayed the Debtors anticipated emergence from bankruptcy, the Debtors requested permission from the Bankruptcy Court to pay: (i) the remaining portion of the first installment of approximately $0.5 million to the company s Executive Vice President and its former Chief Executive Officer and (ii) the full amount of the second installment. The Debtors also requested authorization to initiate another retention plan to provide financial incentives not to exceed $1.25 million to certain key employees during the year ending December 31, 2002. Principally due to the then pending appointment of a Chapter 11 trustee, on February 12, 2002 the Bankruptcy Court declined to rule on the Debtors motions. However, on March 15, 2002, after the appointment of a Chapter 11 trustee, the Bankruptcy Court partially approved the Debtors motions insofar as all the remaining retention bonuses were authorized to be paid, exclusive of amounts pertaining to the company s former Chief Executive Officer. The incremental retention bonuses, aggregating approximately $0.8 million, were paid on March 25, 2002. The Bankruptcy Court postponed its rulings on the Debtors motions pertaining to the 2002 retention plan and payment of the former Chief Executive Officer s retention amounts. However, as discussed below, the Chapter 11 trustee subsequently filed, and the Bankruptcy Court approved, a motion to withdraw the Debtors motions regarding the 2002 retention plan and the request to pay the remaining 2000 retention plan amount.

On September 7, 2001, the Bankruptcy Court authorized the Debtors to pay up to $2.7 million for management incentive plan compensation bonuses pursuant to the management incentive plan for the year ended December 31, 2000 (the 2000 MIP). In September 2001, the Debtors paid all participants of the 2000 MIP, except for approximately $10.8 million attributable to the company s former Chief Executive Officer.

On March 21, 2001, CHC s Compensation Committee of the Board of Directors approved a management incentive program for the year ended December 31, 2001 (the 2001 MIP). Under the terms of the 2001 MIP, the participants thereunder were authorized to receive an aggregate payment up to $2.5 million. On August 16, 2002, the Chapter 11 trustee filed a motion with the Bankruptcy Court to make 2001 MIP payments of approximately $1.1 million to the 2001 MIP participants, which excluded certain 2001 MIP amounts as indicated below. The Bankruptcy Court approved such motion on September 6, 2002 and, in connection therewith, on or about September 16, 2002 the approved amounts were paid to the eligible 2001 MIP participants. The Chapter 11 trustee agreed separately with each of the company s Executive Vice President and its former Chief Executive Officer: (i) not to request any 2001 MIP payment to the former Chief Executive Officer and (ii) to request the payment of a portion of the 2001 MIP amount to which the company s Executive Vice President is otherwise entitled. The Bankruptcy Court s order approving the motion also (i) withdrew a previous motion made by the Debtors to implement a 2002 key employee retention plan, (ii) withdrew the Debtors previous motion requesting permission to pay the remaining amounts under the first key employee retention plan and (iii) preserved the rights of the company s Executive Vice President and former Chief Executive Officer to later seek Bankruptcy Court orders authorizing payment of amounts due to them under the 2001 MIP. Moreover, the Chapter 11 trustee retains the right, at his discretion, to request payout of all or any portion of the remaining unpaid 2001 MIP amounts.

At September 30, 2003, the company has accrued approximately $13.0 million for unpaid amounts attributable to the company s Executive Vice President and its former Chief Executive Officer under the aforementioned retention bonus plans and the 2001 and 2000 MIP programs.

On or about May 9, 2001, the Bankruptcy Court approved the Debtors motion requesting authorization to enter into an insurance premium financing agreement with AICCO, Inc. (the 2001 Financing Agreement) to finance the payment of premiums under certain of the Debtors insurance policies. The amount financed was approximately $2.1 million and was paid in eight monthly installments of approximately $0.3 million through December 2001,

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including interest at a per annum rate of 7.85%. On May 9, 2002, pursuant to the order authorizing the Debtors to enter into the 2001 Financing Agreement, the Debtors entered into a second insurance premium financing agreement with Imperial Premium Finance, Inc., an affiliate of AICCO, Inc., (the 2002 Financing Agreement) to finance the premiums under certain insurance policies. Pursuant to the terms of the 2002 Financing Agreement, the Debtors made down payments of approximately $1.5 million and financed approximately $2.7 million. Commencing on May 15, 2002, the amount financed was paid in seven monthly installments of approximately $0.4 million, including interest at a per annum rate of 4.9%. Furthermore, as provided by the Bankruptcy Court order authorizing the 2001 Financing Agreement, in April 2003 the Debtors entered into a third premium financing agreement with Imperial Premium Finance, Inc. (the 2003 Financing Agreement). The terms of the 2003 Financing Agreement required the Debtors to remit a down payment of approximately $1.5 million in May 2003. The amount financed was approximately $2.8 million and, commencing May 15, 2003, was paid in seven monthly installments of approximately $0.4 million, including interest at a rate of 3.75% per annum. Imperial Premium Finance, Inc. had the right to terminate the insurance policies and collect the unearned premiums (as administrative expenses) if the Debtors did not make the monthly payments called for by the 2003 Financing Agreement; however, the final payment thereunder was made on November 14, 2003. Additionally, the 2003 Financing Agreement was secured by the unearned premiums and any loss payments under the covered insurance policies.

On October 29, 2001, the Debtors filed a motion with the Bankruptcy Court requesting approval of an agreement providing a non-debtor subsidiary of the company with the authority to sell a respiratory and durable medical equipment business located in New Orleans, Louisiana to a third party. On November 13, 2001, the Bankruptcy Court authorized the Debtors to enter into this agreement. The sale of such business was finalized in January 2002 at a sales price of approximately $0.1 million.

The Debtors are currently paying the post-petition claims of their vendors in the ordinary course of business and are, pursuant to an order of the Bankruptcy Court, causing their subsidiaries to pay their own debts in the ordinary course of business. Even though the commencement of the Bankruptcy Cases constituted defaults under the company s principal debt instruments, Chapter 11 of the Bankruptcy Code imposes an automatic stay that will generally preclude creditors and other interested parties under such arrangements from taking remedial action in response to any such resulting default without prior Bankruptcy Court authorization.

On September 11, 2000, the Resource Network Subsidiaries filed a motion in the Bankruptcy Cases seeking, among other things, to have the Resource Network Subsidiaries bankruptcy proceedings substantively consolidated with the Bankruptcy Cases. The Resource Network Subsidiaries and the Debtors engaged in discovery related to this substantive consolidation motion and, in connection therewith, the parties reached a settlement agreement in November 2000, which was approved by the Bankruptcy Court. Under the terms of the settlement agreement, the Resource Network Subsidiaries withdrew the substantive consolidation motion with prejudice. Additionally, the Official Committee of Unsecured Creditors in the Coram Resource Network, Inc. and Coram Independent Practice Association, Inc. bankruptcy proceedings filed motions for relief from the automatic stay to pursue claims against the Debtors and certain of their operating subsidiaries. The Bankruptcy Court granted such motion on June 6, 2002. See Note 10 for further details regarding a pending settlement among the parties.

The Debtors First Joint Plan of Reorganization and Related Activities

On the same day the Debtors commenced the Bankruptcy Cases, the Debtors also filed their joint plan of reorganization (the Joint Plan) and their joint disclosure statement with the Bankruptcy Court. The Joint Plan was subsequently amended and restated (the Restated Joint Plan) and, on or about October 10, 2000, the Restated Joint Plan and the First Amended Disclosure Statement with respect to the Restated Joint Plan were authorized for distribution by the Bankruptcy Court. Among other things, the Restated Joint Plan provided for: (i) a conversion of all of the CI obligations represented by the company s Series A Senior Subordinated Unsecured Notes (the Series A Notes) and the Series B Senior Subordinated Unsecured Convertible Notes (the Series B Notes) into (a) a four year, interest only note in the principal amount of $180 million that would bear interest at the rate of 9% per annum and (b) all of the equity in the reorganized CI; (ii) the payment in full of all secured, priority and general unsecured debts of CI; (iii) the payment in full of all secured and priority claims against CHC; (iv) the impairment of certain general unsecured debts of CHC, including, among others, CHC s obligations under the Series A Notes and the

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Series B Notes; and (v) the complete elimination of CHC s equity interests. Furthermore, pursuant to the Restated Joint Plan, CHC would be dissolved as soon as practicable after the effective date of the Restated Joint Plan and the common stock of CHC would no longer be publicly traded. Therefore, under the Restated Joint Plan, as filed, the stockholders of CHC would have received no value for their shares and all of the outstanding equity of CI, as the surviving entity, would be owned by the holders of the Series A Notes and the Series B Notes. Representatives of the company negotiated the principal aspects of the Restated Joint Plan with representatives of the holders of the Series A Notes and the Series B Notes and the parties to the company s former Senior Credit Facility prior to the filing of such Restated Joint Plan.

On or about October 20, 2000, the Restated Joint Plan and First Amended Disclosure Statement were distributed for a vote among persons holding impaired claims that were entitled to a distribution under the Restated Joint Plan. The Debtors did not send ballots to the holders of unimpaired classes, who were deemed to accept the Restated Joint Plan, and classes that were not receiving any distribution, who were deemed to reject the Restated Joint Plan. Eligible voters responded in favor of the Restated Joint Plan. At a confirmation hearing on December 21, 2000, the Bankruptcy Court denied confirmation of the Restated Joint Plan finding, *inter alia,* that the incomplete disclosure of the relationship between the Debtors former Chief Executive Officer and Cerberus Capital Management, L.P., an affiliate of one of the Debtors largest creditors, precluded the Bankruptcy Court from finding that the Restated Joint Plan was proposed in good faith, a statutory requirement for plan confirmation.

In order for the company to remain compliant with the requirements of Stark II, on December 29, 2000, pursuant to an order of the Bankruptcy Court, CI exchanged approximately $97.7 million of the Series A Notes and approximately $11.6 million of contractual unpaid interest on the Series A Notes and the Series B Notes for 905 shares of Coram, Inc. Series A Cumulative Preferred Stock, $0.001 par value per share (see Notes 7 and 9 for further details). Hereafter, the Coram, Inc. Series A Cumulative Preferred Stock is referred to as the CI Series A Preferred Stock. The exchange transaction generated an extraordinary gain on troubled debt restructuring of approximately $107.8 million, net of tax, in 2000. At December 31, 2000, the company s stockholders equity exceeded the minimum requirement necessary to comply with the Stark II public company exemption for the year ended December 31, 2001. See Note 10 for further discussion regarding Stark II.

The Debtors Second Joint Plan of Reorganization and Related Activities

On or about February 6, 2001, the Official Committee of the Equity Security Holders of Coram Healthcare Corporation (the Equity Committee) filed a motion with the Bankruptcy Court seeking permission to bring a derivative lawsuit directly against the company s former Chief Executive Officer, a former member of the CHC Board of Directors, Cerberus Partners, L.P., Cerberus Capital Management, L.P., Cerberus Associates, L.L.C. and Craig Court, Inc. (all the aforementioned corporate entities being parties to certain of the company s debt agreements or affiliates of such entities). On February 26, 2001, the Bankruptcy Court denied such motion without prejudice. On the same day, the Bankruptcy Court approved the Debtors motion to appoint Goldin Associates, L.L.C. (Goldin) as independent restructuring advisor to the CHC Independent Committee of the Board of Directors (the Independent Committee). Among other things, the scope of Goldin s services included (i) assessing the appropriateness of the Restated Joint Plan and reporting its findings to the Independent Committee and advising the Independent Committee regarding an appropriate course of action calculated to bring the Bankruptcy Cases to a fair and satisfactory conclusion, (ii) preparing a written report as may be required by the Independent Committee and/or the Bankruptcy Court and (iii) appearing before the Bankruptcy Court to provide testimony as needed. Goldin was also appointed as a mediator among the Debtors, the Equity Committee and other parties in interest.

On April 25, 2001 and July 11, 2001, the Bankruptcy Court extended the period during which the Debtors had the exclusive right to file a plan of reorganization to July 11, 2001 and August 1, 2001, respectively. On August 1, 2001, the Bankruptcy Court denied the Equity Committee s motion to terminate the Debtors exclusivity periods and file its own plan of reorganization. Moreover, on August 2, 2001, the Bankruptcy Court extended the Debtors exclusivity period to solicit acceptances of any filed plan or plans of reorganization to November 9, 2001 (the date to solicit acceptances of the plan of reorganization for CHC s equity holders was subsequently extended to November 12, 2001). On or about November 7, 2001, the Debtors filed a motion seeking to extend the periods to file a plan or plans of reorganization and solicit acceptances thereof to December 31, 2001 and March 4, 2002,

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respectively. The Bankruptcy Court extended exclusivity to January 2, 2002. Thereafter, the Debtors exclusivity period terminated.

Based upon Goldin s findings and recommendations, as set forth in the Report of Independent Restructuring Advisor, Goldin Associates, L.L.C. (the Goldin Report), on July 31, 2001 the Debtors filed with the Bankruptcy Court a Second Joint Disclosure Statement (as amended, the Second Disclosure Statement), with respect to their Second Joint Plan of Reorganization (as amended, the Second Joint Plan). The Second Joint Plan, which was also filed on July 31, 2001, provided for terms of reorganization similar to those described in the Restated Joint Plan; however, utilizing Goldin s recommendations, as set forth in the Goldin Report, the following substantive modifications were included in the Second Joint Plan:

- the payment of up to $3.0 million to the holders of allowed CHC general unsecured claims;
- the payment of up to $10.0 million to the holders of CHC equity interests (contingent upon such holders voting in favor of the Second Joint Plan);
- cancellation of the issued and outstanding CI Series A Preferred Stock, and
- a $7.5 million reduction in certain performance bonuses payable to the company s former Chief Executive Officer.

Under certain circumstances, as more fully disclosed in the Second Disclosure Statement, the general unsecured claim holders could have been entitled to receive a portion of the $10.0 million cash consideration allocated to the holders of CHC equity interests.

The Second Joint Plan was subject to a vote by certain impaired creditors and equity holders and confirmation by the Bankruptcy Court. On September 6, 2001 and September 10, 2001, hearings before the Bankruptcy Court considered the adequacy of the Second Disclosure Statement. In connection therewith, the Equity Committee, as well as the Official Committee of Unsecured Creditors in the Coram Resource Network, Inc. and Coram Independent Practice Association, Inc. bankruptcy cases, filed objections. Notwithstanding the aforementioned objections, the Second Disclosure Statement was approved by the Bankruptcy Court for distribution to holders of certain claims entitled to vote on the Second Joint Plan. On or about September 21, 2001, the Debtors mailed ballots to those parties entitled to vote on the Second Joint Plan.

The CHC equity holders voted against confirmation of the Second Joint Plan and all other classes of claimholders voted in favor of the Second Joint Plan. If certain conditions of Chapter 11 of the Bankruptcy Code are satisfied, the Bankruptcy Court can confirm a plan of reorganization notwithstanding the non-acceptance of the plan by an impaired class of creditors or equity holders. However, on December 21, 2001, after several weeks of confirmation hearings, the Bankruptcy Court issued an order denying confirmation of the Second Joint Plan for the reasons set forth in an accompanying opinion. The Debtors appealed the Bankruptcy Court s order denying confirmation of the Second Joint Plan; however, such appeal was subsequently dismissed.

In order for the company to remain compliant with the requirements of Stark II, on December 31, 2001, pursuant to an order of the Bankruptcy Court, CI exchanged $21.0 million of the Series A Notes and approximately $1.9 million of contractual unpaid interest on the Series A Notes for approximately 189.6 shares of CI Series A Preferred Stock (see Notes 7 and 9 for further details). This transaction generated an extraordinary gain on troubled debt restructuring of approximately $20.7 million in 2001. At December 31, 2001, the company s stockholders equity exceeded the minimum requirement necessary to comply with the Stark II public company exemption for the year ended December 31, 2002. See Note 10 for further discussion regarding Stark II.

Appointment of a Chapter 11 Trustee and Bankruptcy Related Activities During the Year Ended December 31, 2002

On February 12, 2002, among other things, the Bankruptcy Court granted motions made by the Office of the United States Trustee and two of the Debtors noteholders requesting the appointment of a Chapter 11 trustee to oversee the Debtors during their reorganization process. Additionally, on such date the Bankruptcy Court denied, without prejudice, a renewed motion made by the Equity Committee for leave to bring a derivative lawsuit against certain of the company s current and former directors and officers, Cerberus Partners, L.P., Cerberus Capital

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Management, L.P., Cerberus Associates, L.L.C., Craig Court, Inc., Goldman Sachs Credit Partners L.P., Foothill Capital Corporation and Harrison J. Goldin Associates, L.L.C. *(sic)* (all the aforementioned corporate entities, except for Harrison J. Goldin Associates, L.L.C., being parties to certain of the company s debt agreements or affiliates of such entities). Moreover, on February 12, 2002 the Bankruptcy Court denied motions filed by the Equity Committee (i) to require the company to call a stockholders meeting and (ii) to modify certain aspects of CI s corporate governance structure.

On March 7, 2002, the Bankruptcy Court approved the appointment of Arlin M. Adams, Esquire, as the Debtors Chapter 11 trustee. The Bankruptcy Code and applicable rules require a Chapter 11 trustee to perform specific duties relating to the administration of a bankruptcy case. Generally, a Chapter 11 trustee shall investigate the acts, conduct, assets, liabilities, financial condition and operations of a debtor, and any other matter relevant to the case or to the formulation of a plan of reorganization. The Bankruptcy Code also requires a Chapter 11 trustee to, as soon as practicable, file with the Bankruptcy Court (i) a statement of any investigation so conducted, including any facts ascertained pertaining to fraud, dishonesty, incompetence, misconduct, mismanagement or irregularities in the management of the affairs of the debtor, or to a cause of action available to the estate, and (ii) a plan of reorganization, or file a report as to why a plan of reorganization would not be filed. With the appointment of a Chapter 11 trustee, while still under the jurisdiction of the Bankruptcy Court, the Debtors are no longer debtors-in-possession.

Furthermore, the Bankruptcy Code permits a Chapter 11 trustee to operate the debtor s business. As with a debtor-in-possession, a Chapter 11 trustee may enter into transactions in the ordinary course of business without notice or a hearing before the bankruptcy court; however, non-ordinary course actions still require prior authorization from the bankruptcy court. A Chapter 11 trustee also assumes responsibility for management functions, including decisions relative to the hiring and firing of personnel. As is the case with the Debtors, when existing management is necessary to run the day-to-day operations, a Chapter 11 trustee may retain and oversee such management group. After a Chapter 11 trustee is appointed, a debtor s board of directors does not retain its ordinary management powers. While Mr. Adams has assumed the board of directors management rights and responsibilities, he is doing so without any pervasive changes to the company s existing management or organizational structure, other than, as further discussed below, the acceptance of Daniel D. Crowley s resignation effective March 31, 2003.

On or about July 24, 2002, the Bankruptcy Court granted a motion submitted by the Chapter 11 trustee to (i) defer payment on account of certain approved interim professional fee applications, (ii) defer the Bankruptcy Court s decisions regarding the allowance or disallowance of compensation and expense reimbursements requested in certain interim professional fee applications, (iii) disallow certain professional fee applications requesting payment for professional services rendered and expense reimbursements subsequent to March 6, 2002 and (iv) disallow certain other professional fee and expense reimbursement applications. Certain legal counsel engaged during the period the Debtors operated as debtors-in-possession have filed final fee applications seeking, *inter alia,* a final order allowing payment of professional fees and reimbursement of expenses incurred in connection with the Bankruptcy Cases. The Chapter 11 trustee filed an omnibus objection to all final professional fee applications and seeks to adjourn the adjudication of such final professional fee applications until sometime after confirmation of a plan or plans of reorganization. Through November 14, 2003, the Bankruptcy Court has adjudicated only one final fee application. On or about July 24, 2002, the Bankruptcy Court also approved several motions filed by the Chapter 11 trustee related to fiduciary and administrative matters, including (i) maintenance of the Debtors existing bank accounts, (ii) continued use of the company s business forms and record retention policies and procedures and (iii) expenditure authorization/check disbursement policies and procedures.

On October 14, 2002, the Chapter 11 trustee filed a motion with the Bankruptcy Court requesting approval for the retention of investment bankers and financial advisors through July 2003 to provide services focusing on the Debtors restructuring and reorganization. The services may include, subject to the Chapter 11 trustee s discretion, (i) providing a formal valuation of the Debtors, (ii) assisting the Chapter 11 trustee in exploring the possible sale of the Debtors or their assets, (iii) assisting the Chapter 11 trustee in negotiating with stakeholders and the restructuring of stakeholders claims and/or (iv) one or more opinions on the fairness, from a financial perspective, of any proposed sale of the Debtors or restructuring of the Debtors. Such motion was approved by the Bankruptcy Court

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on December 2, 2002. Additionally, on September 23, 2003, the Bankruptcy Court approved a motion to extend the retention period of such investment bankers and financial advisors.

In order for the company to remain compliant with the requirements of Stark II, on December 31, 2002, pursuant to an order of the Bankruptcy Court, CI exchanged approximately $40.2 million of the Series A Notes, $7.3 million of accrued but unpaid interest on the Series A Notes, $83.1 million of the Series B Notes and $16.6 million of accrued but unpaid interest on the Series B Notes for approximately 1,218.3 shares of Coram, Inc. Series B Cumulative Preferred Stock, $0.001 par value per share (see Notes 7 and 9 for further details). Hereafter the Coram, Inc. Series B Cumulative Preferred Stock is referred to as the CI Series B Preferred Stock. This transaction generated an extraordinary gain on troubled debt restructuring of approximately $123.5 million in 2002. At December 31, 2002, the company s stockholders equity exceeded the minimum requirement necessary to comply with the Stark II public company exemption for the year ending December 31, 2003. See Note 10 for further discussion regarding Stark II.

Bankruptcy Related Activities Subsequent to December 31, 2002

Daniel D. Crowley, the former Chief Executive Officer and President of the company, had an employment contract which expired by its own terms on November 29, 2002. On January 24, 2003, the Chapter 11 trustee filed a motion with the Bankruptcy Court seeking authorization to enter into a Termination and Employment Extension Agreement (the Transition Agreement), effective January 1, 2003, with Mr. Crowley to have him serve as CHC s Chief Transition and Restructuring Officer for a term not to exceed the earlier of (i) six months from January 1, 2003, (ii) the date on which a plan or plans of reorganization are confirmed by final order of the Bankruptcy Court or (iii) the substantial consummation of a plan or plans of reorganization. Pursuant to the Transition Agreement, Mr. Crowley would have continued to render essentially the same services as previously provided to the company. On March 3, 2003, the Bankruptcy Court denied the Chapter 11 trustee s motion for authorization to enter into the Transition Agreement due to the Bankruptcy Court s belief that Mr. Crowley, contrary to his representations, continued to seek remuneration from one of CI s noteholders in connection with efforts undertaken by Mr. Crowley in the Bankruptcy Cases. Subsequently, Mr. Crowley resigned from the company effective March 31, 2003. During the period January 1, 2003 through March 31, 2003, the company paid Mr. Crowley based on the executed Transition Agreement. The Chapter 11 trustee has requested repayment from Mr. Crowley of all amounts paid in 2003 for the bi-weekly salary difference between the expired employment agreement and the Transition Agreement. Additionally, the Chapter 11 trustee s amended proposed joint plan of reorganization, as further discussed below, proposes to reject Mr. Crowley s employment agreement.

On January 14, 2003, the Equity Committee filed a motion with the Bankruptcy Court seeking an order to (i) immediately terminate Mr. Crowley s employment with the Debtors and remove him from all involvement in the Debtors affairs, (ii) terminate all consulting arrangements between the Debtors and Dynamic Healthcare Solutions, LLC (DHS), a privately held management consulting and investment firm owned by Mr. Crowley (see Note 4 for further details), (iii) substantially terminate all future payments to Mr. Crowley and DHS and (iv) require Mr. Crowley and DHS to return all payments received to date, except as otherwise authorized by the Bankruptcy Court as administrative claims. On March 26, 2003, the Bankruptcy Court entered an order denying the Equity Committee s motion to terminate Mr. Crowley s employment as moot and reserved its decision on the other relief requested, including disgorgement, until future litigation, if any, arises.

The employment contract with Allen J. Marabito, Executive Vice President, General Counsel and Secretary, expired by its terms on November 29, 2002. The Chapter 11 trustee has agreed to continue Mr. Marabito s employment in his prior capacity and Mr. Marabito has also assumed the duties and responsibilities previously performed by Mr. Crowley. Mr. Marabito s employment is at will with a base salary of $375,000 per annum, plus the same employee benefits as prior to the expiration of his employment contract. On May 19, 2003, Mr. Marabito released the company from all contractual obligations pertaining to his incentive compensation for the year ended December 31, 2002 (i.e., the 2002 MIP of approximately $1.05 million which remained subject to Chapter 11 trustee and Bankruptcy Court approvals) and such amount is reflected as a reduction in general and administrative expenses during the nine months ended September 30, 2003. In consideration thereof, Mr. Marabito was granted a retention

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bonus of $380,000 under the company s 2003 Key Employee Retention Plan discussed below. The loss of Mr. Marabito s services could have a material adverse effect on the company.

On April 7, 2003, the Bankruptcy Court approved a motion filed by the Chapter 11 trustee to establish the 2003 Key Employee Retention Plan (the 2003 KERP), which provides for (i) retention bonus payments of approximately $3.1 million to key employees of the company (the 2003 KERP Compensation) and (ii) other payments of approximately $0.3 million to certain branch management personnel (the Branch Incentive Compensation). Pursuant to the provisions of the 2003 KERP, the 2003 KERP Compensation is payable in two equal installments as follows: (i) upon approval of the 2003 KERP by the Bankruptcy Court and (ii) the earlier of 60 days after confirmation of a plan or plans of reorganization or December 31, 2003 (the Second Payment Date). Should a 2003 KERP Compensation participant voluntarily leave the company or be terminated for cause prior to the Second Payment Date, such participant must return any amounts previously received under the 2003 KERP, less applicable taxes withheld. Approximately $1.8 million, which represented the first installment under the 2003 KERP Compensation and the entire Branch Incentive Compensation amount, was paid to the eligible participants in April 2003.

On May 2, 2003, the Chapter 11 trustee filed with the Bankruptcy Court a proposed joint plan of reorganization with respect to the Debtors and, on June 17, 2003, the Chapter 11 trustee filed an amended proposed joint plan of reorganization (the Trustee s Plan). Additionally, on June 24, 2003 the Chapter 11 trustee filed the Second Amended Disclosure Statement with Respect to the Trustee s Plan (the Trustee s Disclosure Statement). On June 26, 2003, the Bankruptcy Court entered an order (i) approving the Trustee s Disclosure Statement, (ii) approving the form of the ballot to be distributed in connection with the voting on the Trustee s Plan, (iii) establishing procedures for solicitation of votes on the Trustee s Plan, (iv) establishing a voting deadline and procedures for tabulation of votes on the Trustee s Plan and (v) establishing the dates and times for the filing of objections to, and scheduling a hearing on, confirmation of the Trustee s Plan. True and correct copies of the Trustee s Plan and the Trustee s Disclosure Statement are attached as Exhibits 99.1 and 99.2, respectively, to the company s Form 8-K filed with the Securities and Exchange Commission (SEC) on July 11, 2003. A modification to the Trustee s Plan was filed with the Bankruptcy Court on September 8, 2003 and is attached as Exhibit 99.1 to the company s Form 8-K filed with the SEC on September 23, 2003.

On December 19, 2002, the Equity Committee filed with the Bankruptcy Court a proposed plan of reorganization with respect to the Debtors and, on June 17, 2003, the Equity Committee filed a second amended proposed plan of reorganization (the Equity Committee s Plan). Additionally, on June 26, 2003 the Equity Committee filed the Third Amended Disclosure Statement with Respect to the Equity Committee s Plan (the Equity Committee s Disclosure Statement). On June 26, 2003, the Bankruptcy Court entered an order (i) approving the Equity Committee s Disclosure Statement, (ii) appointing a balloting agent, (iii) approving the form of the ballot to be distributed in connection with the voting on the Equity Committee s Plan, (iv) establishing procedures for solicitation of votes on the Equity Committee s Plan, (v) establishing a voting deadline and procedures for tabulation of votes on the Equity Committee s Plan and (vi) establishing the dates and times for the filing of objections to, and scheduling a hearing on, confirmation of the Equity Committee s Plan, and the objections thereto filed by the Chapter 11 trustee. True and correct copies of the Equity Committee s Plan and the Equity Committee s Disclosure Statement are attached as Exhibits 99.3 and 99.4, respectively, to the company s Form 8-K filed with the SEC on July 11, 2003.

On September 29, 2003, the Chapter 11 trustee filed a Plan Supplement (the Trustee s Plan Supplement) to the Trustee s Plan, as modified, with the Bankruptcy Court. Additionally, the Equity Committee filed the Initial and Second Plan Supplements (collectively the Equity Committee s Plan Supplements) to the Equity Committee s Plan with the Bankruptcy Court on September 29, 2003 and October 3, 2003, respectively. Each of the Trustee s Plan Supplement and the Equity Committee s Plan Supplements may be subject to future changes and/or amendments. True and correct copies of the Trustee s Plan Supplement and the Equity Committee s Plan Supplements are attached as Exhibits 99.1 through 99.3 to the company s Form 8-K filed with the SEC on October 14, 2003.

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Pursuant to the Bankruptcy Court s order, a record date of July 1, 2003 was established for the purpose of determining which holders of equity interests are entitled to vote on each of the Trustee s Plan, as modified, and the Equity Committee s Plan. Additionally, in accordance with the Bankruptcy Court s order, on or about July 14, 2003, the balloting agent transmitted the Chapter 11 trustee s and the Equity Committee s solicitation packages to certain creditors and interest holders who may be entitled to vote on each of the respective plans of reorganization. As of November 14, 2003, the balloting agent has not certified the final voting results. Additionally, certain matters pertaining to the tabulation of the votes are scheduled to be heard by the Bankruptcy Court on December 9, 2003.

Each of the Trustee s Plan, as modified, and the Equity Committee s Plan remain subject to confirmation by the Bankruptcy Court. Hearings to consider confirmation of each such plan of reorganization and any objections thereto commenced on September 30, 2003 and are ongoing. The next confirmation hearing date is scheduled for November 20, 2003. The deadline to object to confirmation of each of the plans of reorganization was August 7, 2003 and, in connection therewith, certain objections have been filed against both plans of reorganization.

Other Bankruptcy-Related Disclosures

Under Chapter 11 of the Bankruptcy Code, certain claims against the Debtors in existence prior to the filing date are stayed while the Debtors operations continue under the purview of a Chapter 11 trustee or as debtors-in-possession. These claims are reflected in the condensed consolidated balance sheets as liabilities subject to compromise. Additional claims have arisen since the filing date and may continue to arise due to the rejection of executory contracts and unexpired non-residential real property leases and from determinations by the Bankruptcy Court of allowed claims for contingent, unliquidated and other disputed amounts. Parties affected by the rejection of an executory contract or unexpired non-residential real property lease may file claims with the Bankruptcy Court in accordance with the provisions of Chapter 11 of the Bankruptcy Code and applicable rules. Claims secured by the Debtors assets are also stayed, although the holders of such claims have the right to petition the Bankruptcy Court for relief from the automatic stay to permit such creditors to foreclose on the property securing their claims. Additionally, certain claimants have sought relief from the Bankruptcy Court to lift the automatic stay and continue the pursuit of their claims against the Debtors or the Debtors insurance carriers. See Note 10 for further details regarding activities of the Official Committee of Unsecured Creditors of Coram Resource Network, Inc. and Coram Independent Practice Association, Inc. in the Resource Network Subsidiaries bankruptcy proceedings.

The principal categories and balances of Chapter 11 bankruptcy claims accrued in the condensed consolidated balance sheets and included in liabilities subject to compromise are summarized as follows (in thousands):

	September 30, 2003	December 31, 2002
Series B Notes in default	$ 9,000	$ 9,000
Liabilities of discontinued operations subject to compromise	2,936	2,936
Earn-out obligation	1,500	1,268
Accounts payable	1,390	1,390
Other accrued liabilities	899	340
Accrued merger and restructuring costs (primarily severance liabilities)	468	468
Other long-term debt obligations	130	130
Legal and professional liabilities	98	98
Total liabilities subject to compromise	$16,421	$15,630

In addition to the amounts disclosed in the table above, the holders of the CI Series A Preferred Stock and the CI Series B Preferred Stock (collectively the CI Preferred Stock Holders) continue to assert claims within the Bankruptcy Cases in the aggregate amount of their cumulative liquidation preferences. Furthermore, in connection with the note exchange effective on December 31, 2002, the Bankruptcy Court entered an order granting the exchange, subject to its comments of record, and further ordered that (i) if equitable or other relief is sought by any party in interest against the CI Preferred Stock Holders, all defenses, affirmative defenses, setoffs, recoupments and

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other such rights of the Chapter 11 trustee, the CI Preferred Stock Holders and the Debtors shall be preserved, and all such issues shall be determined, regardless of the first, second and third note exchanges and (ii) the rights and equity interests of the CI Preferred Stock Holders are, and in connection with any plan or plans of reorganization or any other distribution of the Debtors assets pursuant to Chapter 11 of the Bankruptcy Code shall remain, senior and superior to the rights and equity interests of all holders of CI s common stock and all claims against and equity interests in CHC.

On or about March 28, 2003, the Equity Committee commenced an adversary proceeding seeking to subordinate the preferred stock interests of Cerberus Partners, L.P., Goldman Sachs Credit Partners L.P. and Foothill Capital Corporation in Coram, Inc. to the interests of Coram Healthcare Corporation as the sole common shareholder of Coram, Inc. Upon motion of the defendants and after a hearing held on June 5, 2003, the Bankruptcy Court dismissed the aforementioned adversary proceeding by an order dated June 19, 2003 and preserved issues concerning post-petition interest for determination in connection with confirmation hearings on the Trustee s Plan, as modified, and the Equity Committee s Plan, provided that, to the extent that an equitable objection to confirmation is raised, the Bankruptcy Court will treat the CI Series A Preferred Stock and the CI Series B Preferred Stock as debt and deal with the issue of whether post-petition interest will be allowed in accordance with the provisions of the Bankruptcy Code concerning post-petition interest on debt.

Schedules were filed with the Bankruptcy Court setting forth the assets and liabilities of the Debtors as of the filing date as shown by the Debtors accounting records. Amended schedules, which identified the Debtors remaining outstanding pre-petition liabilities, were filed with the Bankruptcy Court on August 28, 2003. Differences between amounts shown by the Debtors and claims filed by creditors are being investigated and resolved. If, upon such investigation and/or resolution, it is determined that the amounts shown by the Debtors need to be changed, the company s condensed consolidated financial statements are adjusted accordingly. In connection therewith, during the three and nine months ended September 30, 2003, the company recorded approximately $0.8 million of additional liabilities subject to compromise. The ultimate amount and the settlement terms for all the liabilities subject to compromise will be subject to a plan or plans of reorganization and review by the Chapter 11 trustee. Therefore, it is not possible to fully or completely estimate the fair value of the liabilities subject to compromise at September 30, 2003 and December 31, 2002 due to the Bankruptcy Cases and the uncertainty surrounding the ultimate amount and settlement terms for such liabilities.

Reorganization expenses are items of expense or income that are incurred or realized by the Debtors as a result of the reorganization. These items include, but are not limited to, professional fees, expenses related to key employee retention plans, Office of the United States Trustee fees and other expenditures relating to the Bankruptcy Cases, offset by interest earned on cash accumulated as a result of the Debtors not paying their pre-petition liabilities during the pendency of the Bankruptcy Cases. The principal components of reorganization expenses for the three and nine months ended September 30, 2003 and 2002 are as follows (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2003	**2002**	**2003**	**2002**
Legal, accounting and consulting fees	$3,752	$ 970	$ 8,484	$3,682
Key employee retention plan expenses	995		2,318	
Publishing, mailing and noticing of plans of reorganization	676		676	
Office of the United States Trustee fees	10	10	31	31
Interest income	(78)	(133)	(277)	(333)
Total reorganization expenses, net	$5,355	$ 847	$11,232	$3,380

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3. DISCONTINUED OPERATIONS

Prior to January 1, 2000, the company provided ancillary network management services through the Resource Network Subsidiaries, which managed networks of home healthcare providers on behalf of HMOs, PPOs, at-risk physician groups and other managed care organizations. In April 1998, the company entered into a five year capitated agreement with Aetna U.S. Healthcare, Inc. (Aetna) (the Master Agreement) for the management and provision of certain home health services, including home infusion, home nursing, respiratory therapy, durable medical equipment, hospice care and home nursing support for several of Aetna s disease management programs.

On August 19, 1999, an involuntary bankruptcy petition was filed against Coram Resource Network, Inc. and, on November 12, 1999, the Resource Network Subsidiaries filed voluntary bankruptcy petitions under Chapter 11 of the Bankruptcy Code in the Bankruptcy Court. On or about May 31, 2000, the Resource Network Subsidiaries filed a liquidating Chapter 11 plan and disclosure statement. Subsequently, on October 21, 2002 the Official Committee of Unsecured Creditors of Coram Resource Network, Inc. and Coram Independent Practice Association, Inc. (the R-Net Creditors Committee) filed a competing proposed Liquidating Chapter 11 Plan. The Chapter 11 trustee objected to the corresponding disclosure statement. On August 28, 2003, the R-Net Creditors Committee filed with the Bankruptcy Court its Disclosure Statement With Second Modifications, including, as an attachment, the Liquidating Chapter 11 Plan With Second Modifications (collectively the Second Modified R-Net Plan). The Second Modified R-Net Plan is available in the Resource Network Subsidiaries bankruptcy cases at docket number 1151. The Second Modified R-Net Plan remains subject to confirmation by the Bankruptcy Court and, accordingly, hearings to consider confirmation of such plan of reorganization and any objections thereto are scheduled to commence on December 15, 2003. The deadline to object to confirmation of the Second Modified R-Net Plan was November 3, 2003 and, in connection therewith, one objection was filed.

The agreements that R-Net had for the provision of ancillary network management services, including the Aetna Master Agreement, have been terminated and R-Net is no longer providing any ancillary network management services. Additionally, all of the R-Net locations have been closed in connection with its proposed liquidation. Coram employees who were members of the Resource Network Subsidiaries Board of Directors resigned and only the Chief Restructuring Officer appointed by the Bankruptcy Court remains on the R-Net Board of Directors to manage the liquidation of the R-Net business.

Following the November 1999 filing of voluntary bankruptcy petitions by the Resource Network Subsidiaries, Coram accounted for such division as a discontinued operation. In connection therewith, Coram separately reflected R-Net s operating results in its consolidated statements of income as discontinued operations; however, R-Net had no operating activity for the nine months ended September 30, 2003 and 2002. During the nine months ended September 30, 2003 and 2002, the company recorded $0.1 million and $0.5 million, respectively, in losses from disposal of discontinued operations related to certain litigation between the R-Net Creditors Committee and the Debtors and several of their non-debtor subsidiaries, as well as, legal costs associated with corresponding indemnifications provided to the company s officers and directors in the Resource Network Subsidiaries bankruptcy proceedings/litigation.

As of September 30, 2003, the company has provided approximately $27.2 million to fully and completely liquidate the Resource Network Subsidiaries, including the R-Net Creditors Committee litigation, legal costs related thereto (beyond any insurance recoveries that the company may avail itself of), proofs of claims asserted against the Debtors and other related matters (e.g., R-Net creditors ultimately may successfully assert claims against the company, etc.). See Note 10 for further details regarding the R-Net Creditors Committee litigation, the potential impact of the Trustee s Plan, as modified, and/or the Equity Committee s Plan (if confirmed by the Bankruptcy Court) and related matters.

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4. RELATED PARTY TRANSACTIONS

The company s former Chairman, Chief Executive Officer and President, Daniel D. Crowley, owns Dynamic Healthcare Solutions, LLC (DHS), a privately held management consulting and investment firm from which the company purchased services. Mr. Crowley s employment with the company terminated effective March 31, 2003. Effective with the commencement of the Bankruptcy Cases, DHS employees who were then serving as consultants to Coram terminated their employment with DHS and became full time Coram employees. Through March 31, 2003, DHS continued to bill the company the actual costs it attributed to DHS Sacramento, California location where Mr. Crowley and other persons were located and performed services for or on behalf of the company. Effective April 1, 2003, DHS and the Chapter 11 trustee entered into a month-to-month lease agreement for office space at the aforementioned Sacramento, California location where certain company employees and consultants remain. The rent, including parking and certain utilities, is approximately $7,900 per month. Subsequent to December 31, 2002 and through November 14, 2003, approximately $0.1 million was paid to DHS in connection with the aforementioned arrangements. Additionally, during the nine months ended September 30, 2002, the company paid approximately $0.2 million to DHS.

Effective August 2, 2000, the CHC Board of Directors approved a contingent bonus to Mr. Crowley wherein, subject to certain material terms and conditions, Mr. Crowley would have a claim for $1.8 million following the successful refinancing of the company s debt. In connection therewith and the December 2000 debt to preferred stock exchange transaction discussed in Notes 2 and 7, the company recorded a $1.8 million reorganization expense for the success bonus during the year ended December 31, 2000. The success bonus will not be payable unless and until such time as a plan or plans of reorganization, which provide for payment of such bonus, are fully approved by the Bankruptcy Court. Mr. Crowley also has claims for performance bonuses for the years ended December 31, 2002, 2001 and 2000 aggregating approximately $13.8 million based on overall company performance under the related Management Incentive Plans. Mr. Crowley also participated in the company s key employee retention plans. In connection with the Second Joint Plan, Mr. Crowley voluntarily offered to accept a $7.5 million reduction in certain performance bonuses, contingent on the confirmation and consummation of the Second Joint Plan. As discussed in Note 2, confirmation of the Second Joint Plan was denied by the Bankruptcy Court on December 21, 2001. Management cannot predict what, if any, reduction in Mr. Crowley s incentive, retention or success bonuses, which are accrued in the condensed consolidated financial statements, will result from a final confirmed plan or plans of reorganization. Mr. Crowley indicated that he reserves the right to claim the full outstanding amounts of his incentive, retention, success bonus and other compensation. The Chapter 11 trustee reserves the right to seek disallowance by the Bankruptcy Court of all such amounts and/or seek disgorgement in future litigation.

Effective August 1, 1999, Mr. Crowley and Cerberus Capital Management, L.P. (an affiliate of Cerberus Partners, L.P. (Cerberus), a party to the company s former debtor-in-possession financing agreement, Senior Credit Facility and Securities Exchange Agreement), executed an employment agreement whereby Mr. Crowley was paid approximately $1 million per annum plus potential performance-related bonuses, equity options and fringe benefits. The services rendered by Mr. Crowley to Cerberus included, but were not limited to, providing business and strategic healthcare investment advice to executive management at Cerberus and its affiliates. Mr. Crowley and Cerberus agreed to suspend their contract and all related obligations immediately after the Bankruptcy Court s denial of the Second Joint Plan on December 21, 2001. In September 2002, Mr. Crowley formally terminated the Cerberus employment contract.

On January 14, 2003, the Equity Committee filed a motion with the Bankruptcy Court seeking an order to (i) immediately terminate Mr. Crowley s employment with the Debtors and remove him from all involvement in the Debtors affairs, (ii) terminate all consulting arrangements between the Debtors and DHS, (iii) substantially terminate all future payments to Mr. Crowley and DHS and (iv) require Mr. Crowley and DHS to return all payments received to date, except as otherwise authorized by the Bankruptcy Court as administrative claims. On March 26, 2003, the Bankruptcy Court entered an order denying the Equity Committee s motion to terminate Mr. Crowley s employment as moot and reserved its decision on the other relief requested, including disgorgement, until future litigation, if any, arises.

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As further discussed in Note 10, in November 2001 the Official Committee of Unsecured Creditors of Coram Resource Network, Inc. and Coram Independent Practice Association, Inc. brought an adversary proceeding in the Bankruptcy Court against, among other defendants, the Debtors and certain of their operating subsidiaries, as well as several related parties, including Foothill Capital Corporation, Foothill Income Trust, L.P., Goldman Sachs Credit Partners L.P., Cerberus, one of Cerberus principals, current management, former management and current and former members of CHC s Board of Directors.

On March 7, 2002, the Bankruptcy Court approved the appointment of Arlin M. Adams, Esquire, as the Debtors Chapter 11 trustee. As more fully discussed in Note 2, Mr. Adams has assumed the company s Board of Directors management rights and responsibilities. Subsequent to Bankruptcy Court appointment, the Chapter 11 trustee engaged the law firm of Schnader, Harrison, Segal & Lewis LLP (Schnader Harrison) to provide professional services in connection with the Bankruptcy Cases. Mr. Adams is *of counsel* at such law firm. Schnader Harrison was approved by the Bankruptcy Court as counsel to the Chapter 11 trustee and, in connection therewith, reimbursement of professional fees and related expenses are subject to Bankruptcy Court review and approval prior to interim and final payments by the company. Additionally, Mr. Adams is entitled to compensation and reimbursement of related expenses attributable to his services on behalf of the Debtors. Mr. Adams is compensated on an hourly basis at a rate that has been approved by the Bankruptcy Court. For the nine months ended September 30, 2003 and 2002, the company recorded aggregate compensation and reimbursable expenses for Mr. Adams of approximately $67,000 and $53,000, respectively. In addition, the company recorded aggregate professional fees and reimbursable expenses during the nine months ended September 30, 2003 and 2002 for Schnader Harrison of approximately $2,927,000 and $876,000, respectively. Through November 14, 2003, the company paid $66,974 to Mr. Adams for compensation and reimbursable expenses incurred from March 7, 2002 to November 30, 2002. Moreover, through November 14, 2003, the company paid $2,380,054 to Schnader Harrison for professional services rendered and reimbursable expenses incurred from March 7, 2002 to March 31, 2003 (such amount is net of certain holdbacks available to the company pursuant to Chapter 11 of the Bankruptcy Code).

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5. MERGER AND RESTRUCTURING RESERVES

In May 1995, as a result of the formation of Coram and the acquisition of substantially all of the assets of the alternate site infusion business of Caremark, Inc., a subsidiary of Caremark International, Inc., the company initiated a restructuring plan (the Caremark Business Consolidation Plan) and charged approximately $25.8 million to operations as a restructuring cost.

During December 1999, the company initiated an organizational restructure and strategic repositioning plan (the Coram Restructure Plan) and charged approximately $4.8 million to operations as a restructuring cost. The Coram Restructure Plan resulted in the closing of facilities and the reduction of personnel. In connection therewith, the company reserved for (i) personnel reduction costs relating to severance payments, fringe benefits and taxes for employees terminated under the plan and (ii) facility closing costs consisting of rent, common area maintenance and utility costs for fulfilling lease commitments at approximately fifteen branch and corporate facilities that were to be closed or downsized. Reserves for facility closing costs are offset by amounts arising from sublease arrangements, but not until such arrangements are in the form of signed and executed contracts. As part of the Coram Restructure Plan, the company informed certain personnel of the estimated closure dates of the affected reimbursement sites and such operations were ultimately closed during the first half of 2001, including the severance of approximately 80 employees.

Under the Caremark Business Consolidation Plan and the Coram Restructure Plan, the total charges through September 30, 2003, the estimate of total future cash expenditures and the estimated total charges are as follows (in thousands):

	Charges Through September 30, 2003			Balances at September 30, 2003	
	Cash Expenditures	Non-Cash Charges	Totals	Estimated Future Cash Expenditures	Total Charges
Caremark Business Consolidation Plan:					
Personnel reduction costs	$11,300	$	$11,300	$	$11,300
Facility reduction costs	10,437	3,900	14,337	250	14,587
Subtotals	21,737	3,900	25,637	250	25,887
Coram Restructure Plan:					
Personnel reduction costs	2,361		2,361	104	2,465
Facility reduction costs	1,304		1,304	184	1,488
Subtotals	3,665		3,665	288	3,953
Totals	$25,402	$3,900	$29,302	538	$29,840
Restructuring costs subject to compromise				(468)	
Accrued merger and restructuring costs per the condensed consolidated balance sheet				$ 70	

During the nine months ended September 30, 2003, significant items impacting the restructuring reserves that were not subject to compromise are summarized as follows (in thousands):

Balance at December 31, 2002	$190

Activity during the nine months ended September 30, 2003:	
Payments under the plans	(81)
Changes in estimates relative to facility reduction costs	(39)
Balance at September 30, 2003	$ 70

Management estimates that the future cash expenditures related to the aforementioned restructuring plans will be made in the following periods: 96% through September 30, 2004, 3% through September 30, 2005 and 1% through September 30, 2006.

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6. GOODWILL AND OTHER LONG-LIVED ASSETS

In June 2001, the FASB issued Statement of Financial Accounting Standards No. 142, *Goodwill and Other Intangible Assets* (Statement 142), which eliminated the amortization of goodwill and intangible assets with indefinite useful lives. Statement 142 also requires that goodwill and other intangible assets with indefinite useful lives be reviewed for impairment at least annually. The company adopted Statement 142 on January 1, 2002. Pursuant to the provisions of Statement 142, intangible assets with finite lives continue to be amortized over their estimated useful lives.

Goodwill. Statement 142 requires the company to test goodwill for impairment using a two-step process. The first step is a screen for potential impairment and the second step measures the amount of impairment, if any. As a result of the initial adoption of Statement 142 in December 2002 (retroactive to January 1, 2002), the company recognized a transitional goodwill impairment charge of approximately $71.9 million which, in accordance with Statement 142, has been reflected in the condensed consolidated financial statements as the cumulative effect of a change in accounting principle and resulted in a restatement of the company s condensed consolidated income statement for the nine months ended September 30, 2002.

Management selected December 1st as the company s annual goodwill impairment test date. Separately, management concluded that no indicators of impairment were in evidence at September 30, 2003 and through November 14, 2003; however, there can be no assurances that the December 1, 2003 annual impairment test (including the impact of an updated enterprise valuation, if deemed necessary) will not result in an impairment of the company s recorded goodwill. Based upon preliminary assessments, analyses and computations, management does not anticipate a material goodwill impairment charge during 2003; however, if such a material charge is required, stockholders equity may be less than $75 million as of December 31, 2003, at which time the company may not qualify for the public company exemption of Stark II for the year ending December 31, 2004. The potential material adverse effects of noncompliance with Stark II on the company s financial condition and business operations are described in more detail in Note 10.

Intangible Assets. The principal components of intangible assets other than goodwill are as follows (in thousands):

	September 30, 2003		December 31, 2002	
	Gross Carrying Amount (At Cost)	Accumulated Amortization	Gross Carrying Amount (At Cost)	Accumulated Amortization
Commercial payer contracts	$13,683	$(13,683)	$13,683	$(13,683)
Patient outcomes database	8,386	(3,607)	8,386	(3,296)
Other intangible assets	302	(194)	302	(123)
Employee noncompete agreements expiring through July 2003			3,343	(3,342)
Total intangible assets	$22,371	$(17,484)	$25,714	$(20,444)

Amortization expense related to intangible assets, which is included in selling, general and administrative expenses, was approximately $0.4 million and $0.9 million during the nine months ended September 30, 2003 and 2002, respectively.

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7. DEBT OBLIGATIONS

Debt obligations are as follows (in thousands):

	September 30, 2003	December 31, 2002
Series B Senior Subordinated Unsecured Convertible Notes (in default at September 30, 2003)	$ 9,000	$ 9,000
Accreditation note payable	67	118
Other obligations, including capital leases, at interest rates ranging from 5.0% to 13.1%	1,479	146
	10,546	9,264
Less: Debt obligations subject to compromise	(9,130)	(9,130)
Less: Current maturities	(309)	(61)
Long-term debt and capital leases, less current maturities	$ 1,107	$ 73

As a result of the Bankruptcy Cases, substantially all short and long-term debt obligations at the August 8, 2000 filing date have been classified as liabilities subject to compromise in the condensed consolidated balance sheets in accordance with SOP 90-7. Under Chapter 11 of the Bankruptcy Code, actions against the Debtors to collect pre-petition indebtedness are subject to an automatic stay provision. As of August 8, 2000, the company s principal credit and debt agreements included (i) a Securities Exchange Agreement, dated May 6, 1998 (the Securities Exchange Agreement), with Cerberus Partners, L.P., Goldman Sachs Credit Partners L.P. and Foothill Capital Corporation (collectively the Holders) and the related Series A Senior Subordinated Unsecured Notes (the Series A Notes) and the Series B Senior Subordinated Unsecured Convertible Notes (the Series B Notes) and (ii) a Senior Credit Facility with Foothill Income Trust L.P., Cerberus Partners, L.P. and Goldman Sachs Credit Partners L.P. (collectively the Lenders) and Foothill Capital Corporation as agent thereunder. Subsequent to the petition date, the Debtors entered into a secured debtor-in-possession financing agreement with Madeleine L.L.C., an affiliate of Cerberus Partners, L.P. (the DIP Agreement); however, such credit facility expired under its terms on August 31, 2001. Pursuant to the terms and conditions of the aforementioned credit and debt agreements, the company is precluded from paying cash dividends or making other capital distributions. Moreover, the Debtors voluntary Chapter 11 filings caused events of default to occur under the Securities Exchange Agreement and the Senior Credit Facility, thereby terminating the Debtors ability to make additional borrowings under the Senior Credit Facility through its expiration on February 6, 2001.

The recognition of interest expense pursuant to SOP 90-7 is appropriate during the Bankruptcy Cases if it is probable that such interest will be an allowed priority, secured or unsecured claim. The Second Joint Plan (see Note 2 for further details), which was denied by the Bankruptcy Court on December 21, 2001, would have effectively eliminated all post-petition interest on pre-petition borrowings. The final confirmed plan or plans of reorganization may have a similar effect on post-petition interest.

Accreditation Note Payable. In August 2001, CI entered into an agreement (the ACHC Agreement) with the Accreditation Commission for Health Care, Inc. (ACHC) whereby ACHC is to, among other things, provide national accreditation for Coram as deemed appropriate by ACHC. Under the terms of the ACHC Agreement, which commenced on the date that it was executed and expires in November 2004, Coram made an upfront payment and is obligated to make twelve equal non-interest bearing quarterly payments of approximately $17,000. The total payments to be made under the ACHC Agreement will aggregate approximately $0.3 million. In the event of breach or default by either of the parties, CI and/or ACHC may immediately terminate the ACHC Agreement if the breach or default is not cured within fifteen days of receipt of written notice from the non-breaching party.

B. Braun Medical, Inc. (B. Braun) Capital Lease Obligation. In connection with management s decision to replace the company s entire fleet of Sabratek Corporation 3030 pole-mounted pumps, the Bankruptcy Court approved a motion on April 29, 2003 that authorized the company to enter into a three year agreement with B. Braun to lease 1,000 Vista Basic pumps (the Lease Agreement). The Lease Agreement, which became effective in May

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2003, includes an aggregate commitment, including related interest, of approximately $1.5 million. As a result, the company is required to pay to B. Braun approximately $0.3 million, $0.5 million and $0.7 million during the first, second and third years of the Lease Agreement. Upon expiration of the Lease Agreement, the company has the option to acquire the leased Vista Basic pumps at a bargain purchase price of $1 per pump. The Lease Agreement contains customary covenants and events of default, as well as remedies available to B. Braun if the company is in violation thereof, including, but not limited to, (i) termination of the Lease Agreement, (ii) return of the leased Vista Basic pumps to B. Braun and/or (iii) recovery from the company of any unpaid amounts as of the date of default and all amounts remaining under the unexpired term of the Lease Agreement. Management believes that the company will comply with the terms and conditions of the Lease Agreement; however, there can be no assurances thereof or what remedies, if any, would be invoked by B. Braun in the event of default.

Securities Exchange Agreement. In April 1998, the Securities Exchange Agreement cancelled a previously outstanding subordinated rollover note, related deferred interest and fees and warrants to purchase up to 20% of the outstanding CHC common stock on a fully diluted basis in exchange for a company payment of $4.3 million and issuance by the company to the Holders of (i) $150.0 million in principal amount of Series A Notes and (ii) $87.9 million in principal amount of 8.0% Series B Notes. Additionally, the Holders of the Series A Notes and the Series B Notes were given the right to approve certain new debt and the right to name one member of the CHC Board of Directors. Such director was elected in June 1998 and reelected in August 1999; however, the designated board member resigned in July 2000 and has not been replaced.

On April 9, 1999, the company entered into Amendment No. 2 (the Note Amendment) to the Securities Exchange Agreement with the Holders. Pursuant to the Note Amendment, the outstanding principal amount of the Series B Notes is convertible into shares of the company s common stock at a conversion price of $2.00 per share (subject to customary anti-dilution adjustments). Prior to entering into the Note Amendment, the Series B Notes were convertible into common stock at a conversion price of $3.00 per share, which was subject to downward (but not upward) adjustment based on prevailing market prices for CHC s common stock on April 13, 1999 and October 13, 1999. Based on reported market closing prices for CHC s common stock prior to April 13, 1999, the conversion price would have been adjusted to below $2.00 on such date had the company not entered into the Note Amendment. Pursuant to the Note Amendment, the parties also increased the interest rate applicable to the Series A Notes from 9.875% to 11.5% per annum.

On December 28, 2000, the Bankruptcy Court approved the Debtors request to exchange a sufficient amount of debt and related accrued interest for Coram, Inc. Series A Cumulative Preferred Stock in order to maintain compliance with the physician ownership and referral provisions of Stark II. Hereafter, the Coram, Inc. Series A Cumulative Preferred Stock is referred to as the CI Series A Preferred Stock. On December 29, 2000, the Securities Exchange Agreement was amended (Amendment No. 4) and an Exchange Agreement was simultaneously executed among the Debtors and the Holders. Pursuant to such arrangements, the Holders agreed to exchange approximately $97.7 million aggregate principal amount of the Series A Notes and $11.6 million of aggregate contractual unpaid interest on the Series A Notes and the Series B Notes as of December 29, 2000 for 905 shares of CI Series A Preferred Stock (see Note 9 for further details regarding the preferred stock). Following the exchange, the Holders retained approximately $61.2 million aggregate principal amount of the Series A Notes and $92.1 million aggregate principal amount of the Series B Notes. Pursuant to Amendment No. 4, the per annum interest rate on both the Series A Notes and the Series B Notes was adjusted to 9.0%. Moreover, the Series A Notes and Series B Notes original scheduled maturity dates of May 2001 and April 2008, respectively, were both modified to June 30, 2001. Due to the Holders receipt of consideration with a fair value less than the face value of the exchanged principal and accrued interest, the exchange transaction qualified as a troubled debt restructuring pursuant to Statement of Financial Accounting Standards No. 15, *Accounting by Debtors and Creditors for Troubled Debt Restructurings* (Statement No. 15). In connection therewith, the company recognized an extraordinary gain during the year ended December 31, 2000 of approximately $107.8 million, net of tax.

On December 27, 2001, the Bankruptcy Court approved the Debtors request to exchange an additional amount of debt and related contractual unpaid interest for CI Series A Preferred Stock in an amount sufficient to maintain compliance with Stark II. In connection therewith, on December 31, 2001 the Securities Exchange Agreement was amended (Amendment No. 5) and a second Exchange Agreement was simultaneously executed among the

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Debtors and the Holders. Pursuant to such arrangements, the Holders agreed to exchange $21.0 million aggregate principal amount of the Series A Notes and approximately $1.9 million of aggregate contractual unpaid interest on the Series A Notes as of December 31, 2001 for approximately 189.6 shares of CI Series A Preferred Stock. Following this second exchange, the Holders retained approximately $40.2 million aggregate principal amount of the Series A Notes. Pursuant to Amendment No. 5, the scheduled June 30, 2001 maturity date of both the Series A Notes and Series B Notes was modified to June 30, 2002. Due to the Holders receipt of consideration with a fair value less than the face value of the exchanged principal and accrued interest, the exchange transaction qualified as a troubled debt restructuring pursuant to Statement No. 15. In connection therewith, the company recognized an extraordinary gain during the year ended December 31, 2001 of approximately $20.7 million.

On December 31, 2002, with approval from the Bankruptcy Court, the Holders exchanged an additional amount of debt and related contractual unpaid interest for Coram, Inc. Series B Cumulative Preferred Stock in an amount sufficient to maintain compliance with Stark II. Hereafter, the Coram, Inc. Series B Cumulative Preferred Stock is referred to as the CI Series B Preferred Stock. The Securities Exchange Agreement was amended (Amendment No. 6) on December 31, 2002 and a third Exchange Agreement was simultaneously executed among the Debtors and the Holders. Pursuant to such arrangements, the Holders agreed to exchange approximately $40.2 million aggregate principal amount of the Series A Notes, $7.3 million of aggregate contractual unpaid interest on the Series A Notes, $83.1 million aggregate principal amount of the Series B Notes and $16.6 million of aggregate contractual unpaid interest on the Series B Notes for approximately 1,218.3 shares of the CI Series B Preferred Stock. Following this third exchange, the Holders retain $9.0 million aggregate principal amount of the Series B Notes and no Series A Notes. Pursuant to Amendment No. 6, the Series B Notes scheduled maturity date of June 30, 2002 was modified to June 30, 2003. Due to the Holders receipt of consideration with a fair value less than the face value of the exchanged principal and accrued interest, the exchange transaction qualified as a troubled debt restructuring pursuant to Statement No. 15. In connection therewith, the company recognized an extraordinary gain during the year ended December 31, 2002 of approximately $123.5 million.

The Securities Exchange Agreement, pursuant to which the Series A Notes and the Series B Notes were issued, contains customary covenants and events of default. Upon the Debtors Chapter 11 bankruptcy filings, the company was in violation of certain covenants and conditions thereunder; however, such bankruptcy proceedings have stayed any remedial actions by either the Debtors or the Holders.

Although the principal amounts under the Series B Notes were not paid on their scheduled maturity date of June 30, 2003 and, as a result, the company is in default of the Securities Exchange Agreement, the Holders are stayed from pursuing any remedies without prior authorization from the Bankruptcy Court. Other than the default for non-payment of principal on the Series B Notes, management believes that at September 30, 2003 the company was in compliance with all other covenants of the Securities Exchange Agreement. However, there can be no assurances as to whether further covenant violations or events of default will occur in future periods and whether any necessary waivers would be granted.

The Series B Notes are (and the Series A Notes were) scheduled to pay interest quarterly in arrears in cash or, at the election of the company, through the issuance of pari passu debt securities, except that the Holders can require the company to pay interest in cash if the company exceeds a predetermined interest coverage ratio. Notwithstanding the contractual terms of the Securities Exchange Agreement, no cash-basis interest is being paid subsequent to August 8, 2000 due to the ongoing Bankruptcy Cases. Pursuant to the troubled debt restructuring rules promulgated under Statement No. 15 and other accounting rules under SOP 90-7, no interest expense has been recognized in the company s consolidated financial statements relative to the Series A Notes and the Series B Notes since December 29, 2000.

The Series B Notes are redeemable, in whole or in part, at the option of the Holders in connection with any change of control of the company (as defined in the Securities Exchange Agreement), if the company ceases to hold and control certain interests in its significant subsidiaries or upon the acquisition of the company or certain of its subsidiaries by a third party. In such instances, the Series B Notes are redeemable, subject to prior authorization from the Bankruptcy Court, at 103% of the then outstanding principal amount, plus accrued interest.

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8. INCOME TAXES

During the nine months ended September 30, 2003 and 2002, the company recorded income tax expense of approximately $72,000 and $71,000, respectively. The effective income tax rates for the nine months ended September 30, 2003 and 2002 are lower than the statutory rate because the company is able to utilize net operating loss carryforwards (NOLs) that are fully reserved in the valuation allowance. At September 30, 2003, deferred tax assets were net of a valuation allowance of approximately $152.4 million. Realization of deferred tax assets is dependent upon the company s ability to generate taxable income in the future. Deferred tax assets have been limited to amounts expected to be recovered, net of deferred tax liabilities that would otherwise become payable in the carryforward period. As management believes that realization of the deferred tax assets is sufficiently uncertain, they have been wholly offset by valuation allowances at both September 30, 2003 and December 31, 2002.

Deferred tax assets relate primarily to temporary differences consisting, in part, of accrued restructuring costs, charges for goodwill and other long-lived assets, allowances for doubtful accounts, R-Net reserves and other accrued liabilities that are not deductible for income tax purposes until paid or realized, certain tax credits and NOLs that may be deductible against future taxable income. At September 30, 2003, the company had NOLs for federal income tax purposes of approximately $188.5 million, which may be available to offset future federal taxable income and expire in varying amounts in the years 2004 through 2023. These NOLs include approximately $22.4 million generated by certain predecessor companies prior to the formation of the company and such amount is subject to an annual usage limitation of approximately $4.5 million. In addition, the ability to utilize the full amount of the $188.5 million of federal NOLs and certain of the company s state NOLs is uncertain due to rules and regulations covering the exchanges of debt and related interest for Coram, Inc. Series A Cumulative Preferred Stock (the CI Series A Preferred Stock) in December 2001 and 2000 and Coram, Inc. Series B Cumulative Preferred Stock (the CI Series B Preferred Stock) in December 2002 (See Notes 7 and 9 for further details). As of September 30, 2003, the company had alternative minimum tax (AMT) credit carryforwards of approximately $2.8 million, which have an indefinite carryforward period and may be available to offset future federal income taxes.

As a result of the issuance of CI Series A Preferred Stock in December 2000, the company effectuated a deconsolidation of its group for federal income tax purposes. Accordingly, subsequent to December 29, 2000, CI filed income tax returns as the parent company of the new consolidated group and CHC filed its own separate income tax returns. Pursuant to Internal Revenue Code (IRC) Section 382, the issuance of the CI Series A Preferred Stock in December 2000 also caused an ownership change at CI for federal income tax purposes. However, CI currently operates under the jurisdiction of the Bankruptcy Court and meets certain other bankruptcy related conditions of the IRC. The bankruptcy provisions of IRC Section 382 impose limitations on the utilization of NOLs and other tax attributes. The extraordinary gains on troubled debt restructurings that resulted from the issuance of CI Series A Preferred Stock in December 2001 and December 2000 and the issuance of CI Series B Preferred Stock in December 2002 are generally not subject to income tax pursuant to the cancellation of debt provisions included in IRC Section 108; however, such extraordinary gains could affect the company s utilization of NOLs and certain other tax attributes.

During the year ended December 31, 2002 the company filed refund claims with the Internal Revenue Service (IRS) requesting approximately $1.8 million of previously paid AMT (the AMT Refund). The AMT Refund has been reflected in the condensed consolidated financial statements and approximately $0.1 million thereof was received by the company in February 2003.

In January 1999, the IRS completed an examination of the company s federal income tax return for the year ended September 30, 1995 and proposed substantial adjustments to prior tax liabilities. The adjustments involve the deductibility of warrants, write-offs of goodwill and the ability of the company to categorize certain NOLs as specified liability losses and offset income in prior years. In May 1999, the company received a statutory notice of deficiency totaling approximately $12.7 million (obtained from federal tax refunds), plus interest and penalties to be determined, with respect to certain proposed adjustments seeking to recover taxes previously refunded. In August 1999, the company filed a petition with the United States Tax Court (the Tax Court) contesting the notice of

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deficiency. The IRS responded to the petition and requested that the petition be denied. The Tax Court proceeding is currently stayed by reason of the Bankruptcy Cases.

Pursuant to standard IRS procedures, the resolution of the issues contained in the Tax Court petition were assigned to the administrative appeals function of the IRS. The company reached an agreement in principle with the IRS Appeals office on the aforementioned issues and subsequently entered into proposed Decision and Stipulation agreements with the IRS. Hereinafter, the agreement in principle, the Decision and Stipulation agreements and the deferred payment plan (as further discussed below) are collectively referred to as the Pending IRS Settlement. The Pending IRS Settlement will result in (i) a federal tax liability of approximately $9.9 million, (ii) interest of approximately $9.8 million at September 30, 2003 (approximately $10.0 million at November 14, 2003) and (iii) penalties to be determined by the IRS in accordance with certain statutory guidelines. The federal income tax adjustments will also give rise to certain incremental state tax liabilities. The Joint Committee on Taxation approved the Decision and Stipulation Agreements in September 2002 and the Chapter 11 trustee subsequently approved the Pending IRS Settlement. On October 31, 2003, the Bankruptcy Court approved the Chapter 11 trustee s motion seeking authorization for the company to enter into the underlying agreements necessary to effectuate the Pending IRS Settlement. It is anticipated that Decision and Stipulation agreements will be executed by the parties and filed with the Tax Court which will result in the proceedings in that court being dismissed. Thereafter, management anticipates that the company and the IRS will execute the deferred payment agreement.

In October 2002, the company submitted a deferred payment plan to the IRS, which was tentatively accepted by the IRS in April 2003 and was subsequently approved by the Chapter 11 trustee and the Bankruptcy Court. The deferred payment plan contemplates an initial application of the remaining outstanding AMT Refund of approximately $1.7 million against the IRS Settlement amount. Thereafter, the company will make quarterly payments aggregating approximately $0.7 million until such time as the remaining Pending IRS Settlement amount, post-settlement interest and penalties are fully liquidated. Under the terms of the deferred payment plan, interest will accrue at a variable rate, compounded daily, as determined by reference to rates published by the IRS (at November 14, 2003 the corresponding effective interest rate was 6.0%). The condensed consolidated financial statements include short-term and long-term liability reserves for the Pending IRS Settlement aggregating approximately $19.7 million at September 30, 2003, including $1.0 and $1.1 million of interest expense recorded during the nine months ended September 30, 2003 and 2002, respectively. Additionally, the condensed consolidated balance sheets at September 30, 2003 and December 31, 2002 include approximately $3.8 million and $3.1 million, respectively, of short-term income tax liabilities, which represent management s projections of the principal amounts that will be due within one year of the respective balance sheet dates.

9. MINORITY INTERESTS

The following summarizes the minority interests in consolidated joint ventures and preferred stock issued by a subsidiary (in thousands):

	September 30, 2003	December 31, 2002
Preferred stock of Coram, Inc. (CI)	$ 5,538	$ 5,538
Majority-owned companies	698	677
Total minority interests	$ 6,236	$ 6,215

On December 29, 2000, CI, a wholly-owned subsidiary of Coram Healthcare Corporation, executed an Exchange Agreement with the parties to CI s Securities Exchange Agreement (collectively the Holders) (see Note 7 for further details) to exchange approximately $97.7 million of the Series A Notes and approximately $11.6 million of contractual but unpaid interest on the Series A Notes and the Series B Notes in exchange for 905 shares of CI Series A Cumulative Preferred Stock, $0.001 par value per share (this preferred stock class is hereinafter referred to as the CI Series A Preferred Stock). Such shares of CI Series A Preferred Stock were issued to the Holders on a pro rata basis. Through an independent valuation, it was determined that the 905 shares of CI Series A Preferred Stock had a fair value of approximately $6.1 million.

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On December 31, 2001, CI executed a second Exchange Agreement with the Holders (see Note 7 for further details) to exchange $21.0 million of the Series A Notes and approximately $1.9 million of contractual but unpaid interest on the Series A Notes for approximately 189.6 shares of CI Series A Preferred Stock. Such shares of CI Series A Preferred Stock were issued to the Holders on a pro rata basis. Utilizing an updated independent valuation, it was determined that the aggregate issued and outstanding CI Series A Preferred Stock at December 31, 2001 had a fair value of approximately $1.9 million and approximately $0.3 million of such amount was allocated to the shares issued in conjunction with the second Exchange Agreement.

On December 31, 2002, CI executed a third Exchange Agreement with the Holders (see Note 7 for further details) to exchange approximately $40.2 million of the Series A Notes, $7.3 million of contractual but unpaid interest on the Series A Notes, $83.1 million of the Series B Notes and $16.6 million of contractual but unpaid interest on the Series B Notes for approximately 1,218.3 shares of a new class of CI preferred stock that is subordinate to the CI Series A Preferred Stock. Such new class of preferred stock (i.e., the CI Series B Cumulative Preferred Stock (the CI Series B Preferred Stock), $0.001 par value per share) was issued on a pro rata basis to the Holders. Through an independent valuation, it was determined that the 1,218.3 shares of CI Series B Preferred Stock had no value on the date of issuance (principally due to the subordination to the CI Series A Preferred Stock).

Hereinafter the CI Series A Preferred Stock and the CI Series B Preferred Stock are collectively referred to as the CI Preferred Stock. A summary of the CI Preferred Stock activity and related liquidation preference values through September 30, 2003 is as follows (in thousands, except share amounts):

	CI Series A Preferred Stock		CI Series B Preferred Stock	
	Shares	**Liquidation Preferences**	**Shares**	**Liquidation Preferences**
Balances at January 1, 2000		$		$
Shares issued pursuant to the Exchange Agreement dated December 29, 2000	905.0	109,326		
Balances at December 31, 2000	905.0	109,326		
Dividends In-Kind	146.5	17,700		
Shares issued pursuant to the Exchange Agreement dated December 31, 2001	189.6	22,901		
Balances at December 31, 2001	1,241.1	149,927		
Dividends In-Kind	210.5	25,428		
Shares issued pursuant to the Exchange Agreement dated December 31, 2002			1,218.3	147,171
Balances at December 31, 2002	1,451.6	175,355	1,218.3	147,171
Dividends In-Kind	171.4	20,713	143.9	17,383
Balances at September 30, 2003	1,623.0	$196,068	1,362.2	$164,554

The authorized CI Preferred Stock consists of 10,000 shares, of which 2,500 shares are designated as CI Series A Preferred Stock and 2,500 shares are designated as CI Series B Preferred Stock. The only shares issued and outstanding at September 30, 2003 are those issued to the Holders pursuant to the three aforementioned Exchange Agreements and any corresponding in-kind dividends. So long as any shares of the CI Preferred Stock are outstanding, the Holders are entitled to receive preferential dividends at a rate of 15% per annum on the liquidation preference amounts. Dividends are payable on a quarterly basis on the last business day of each calendar quarter. Prior to the effective date of a

plan or plans of reorganization, dividends are to be paid in the form of additional shares of CI Preferred Stock having a liquidation preference amount equal to such dividend amount. Subsequent to the effective date of a plan or plans of reorganization, dividends will be payable, at CI s election, in cash or shares of CI common stock having a fair value equal to such cash dividend payment, as determined by a consensus of investment banking firms acceptable to the Holders. In the event of default, the dividend rate on the CI Preferred Stock shall increase to 16% per annum until such time that the event of default is cured. During the year ended December 31, 2002, an event of default occurred whereby CI was required to pay in-kind dividends at the

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aforementioned default rate for the nine months ended September 30, 2002. All CI Preferred Stock dividends are to include tax indemnities and gross-up provisions (computed subsequent to the company s tax fiscal year end in connection with the preparation of the company s income tax returns) as are customary for transactions and securities of this nature.

The organizational documents and other agreements underlying the CI Preferred Stock include usual and customary affirmative and negative covenants for securities of this nature, including, but not limited to (i) providing timely access to certain financial and business information; (ii) authorization to communicate with the company s independent certified public accountants with respect to the financial condition and other affairs of the company; (iii) maintaining tax compliance; (iv) maintaining adequate insurance coverage; (v) adherence to limitations on transactions with affiliates; (vi) adherence to limitations on acquisitions or investments; (vii) adherence to limitations on the liquidation of assets or businesses; and (viii) adherence to limitations on entering into additional indebtedness.

The organizational documents and other agreements underlying the CI Preferred Stock also include special provisions regarding voting rights. These provisions include terms and conditions pertaining to certain triggering events whereby the CI Preferred Stock voting rights would become effective. Generally, such triggering events include notice of a meeting, distribution of a written consent in lieu of a meeting, or entry of an order of court compelling a meeting, of the stockholders or the Board of Directors of CI or CHC: (i) to approve appointment, removal or termination of any member of the Board of Directors of CI or CHC; or (ii) to approve any change in the rights of any person to do so. Triggering events related to a notice of a meeting or the distribution of a written consent of the stockholders or CI Board of Directors cannot occur without a majority of the CHC independent directors previously approving such meeting or written consent. Substantial consummation of a plan or plans of reorganization will also constitute a triggering event.

On April 12, 2002, the Holders executed a waiver, whereby they agreed to permanently and irrevocably waive their rights to collectively exercise, upon the occurrence of a triggering event, in excess of 49% of the voting rights of the aggregate of all classes of common and preferred shares and any other voting securities of CI (the Waiver), regardless of the number of CI Preferred Stock shares issued and outstanding. Additionally, pursuant to this permanent and irrevocable waiver of rights, the Holders waived their rights to collectively elect or appoint a number of directors that constitutes half or more of the total number of CI directors. Alternatively, if the holders of the CI Preferred Stock elect no Board of Directors representation, then, solely through the CI Series A Preferred Stock, each of the three Holders shall have the right to appoint an observer to CI s Board of Directors. The Waiver can only be modified or amended with the written consent of the Debtors. In connection with the third Exchange Agreement, the provisions of the Waiver were formally incorporated into the Second Certificate of Amendment of Certificate of Designation, Preferences and Relative, Participating, Optional and Other Special Rights of Preferred Stock and Qualifications, Limitations and Restrictions Thereof of Coram, Inc. Accordingly, subsequent to the occurrence of a triggering event, each share of CI Preferred Stock will be entitled to one vote and shall entitle the holder thereof to vote on all matters voted on by the holders of CI common stock, voting together as a single class with other shares entitled to vote, at all meetings of the CI stockholders. At September 30, 2003, the Holders maintained contingent voting rights aggregating 49% of CI s total voting power. As of such date, upon the occurrence of a triggering event, the Holders would also have had the right to appoint three of the seven directors to CI s Board of Directors (a quorum in meetings of the Board of Directors would have been constituted by the presence of a majority of the directors, at least two of whom must have been directors appointed by the Holders). Prior to the occurrence of a triggering event, solely through the CI Series A Preferred Stock, the Holders have the right to appoint two directors to CI s Board of Directors.

The CI Preferred Stock is redeemable at the option of CI, in whole or in part, at any time, on not less than thirty days prior written notice, at the liquidation preference amount plus any contractual but unpaid dividends. Redemption may only be made in the form of cash payments.

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10. COMMITMENTS AND CONTINGENCIES

Commitments

The table below summarizes the company s operating lease and purchase obligations for the years ending September 30 (in thousands):

Years Ending September 30,	Operating Leases	Purchase Obligations	Totals
2004	$ 9,362	$27,399	$36,761
2005	7,465	22,341	29,806
2006	5,365	5,546	10,911
2007	3,331		3,331
2008	2,690		2,690
Thereafter	1,191		1,191
Totals	$29,404	$55,286	$84,690

The company s long-term debt and capital lease obligations are not included in the above table but are discussed in Note 7.

Leases. The company leases office and other real property and equipment under various operating leases. Such operating leases provide for monthly rental payments, including real estate taxes and other operating costs. Operating lease obligations are net of sublease rentals. Operating lease obligations in the above table include approximately $0.2 million accrued as part of the restructuring costs under the Caremark Business Consolidation Plan and the Coram Restructure Plan (see Note 5 for further details). Certain operating leases of the company provide for standard escalations of lease payments as the lessors maintenance costs and taxes increase. As a result of the Bankruptcy Cases, certain lease agreements are subject to automatic stay provisions, which preclude the parties under such agreements from taking remedial action in response to any defaults. Moreover, no amounts are included in the above table for lease rejections that have been approved by the Bankruptcy Court (see Note 2 for further details).

Purchase and Other Commitments. On April 29, 2003, the Bankruptcy Court approved a motion that allowed the company to assume an agreement with B. Braun Medical, Inc (B. Braun) to purchase drugs and supplies (the Supply Agreement). The Supply Agreement expires in February 2005 and, pursuant to its terms, the company is required to purchase at least 95% of its annual volume requirements related to twelve product categories from B. Braun. However, the company has the right to remove any product category from the purview of the Supply Agreement if such product category is offered by another vendor at pricing that is 10% lower, in the aggregate, for that entire product category, provided that B. Braun waives its right to match such pricing. The company also has the right to terminate the Supply Agreement after sixty days written notice if B. Braun provides products or services of a quality or technical level that fail to meet customary standards of the medical industry. However, if the company terminates the Supply Agreement for any other reason, it must reimburse B. Braun (i) certain incentives previously paid to the company, which are calculated at $150,550 per unexpired quarter under the Supply Agreement and (ii) the greater of $4.0 million or 50% of the company s purchases for the twelve months immediately preceding the early termination date. Additionally, if it is determined that the company does not satisfy the 95% purchasing requirement for any of the twelve product categories and such failure is not related to a lack of product availability, then the company is required to pay B. Braun an amount equal to 10% of the previous quarter s purchases. Since the inception of the Supply Agreement, no such quarterly shortfall has been in evidence and, while no assurances can be given, management does not expect that such circumstances will arise during the remaining term of the Supply Agreement. Moreover, due to the company s business relationship with B. Braun and the advantageous drug and supply pricing enjoyed by the company, management currently has no intentions of terminating the Supply Agreement and, accordingly, management believes it is unlikely that the early termination

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penalties will be invoked. However, if an early contract termination did occur, the penalties, which would have aggregated approximately $4.9 million at September 30, 2003, would have a material adverse effect on the company s financial position, liquidity and results of operations.

Effective September 24, 2003, CI entered into the Second Amendment to Hemophilia Product Volume Commitment Agreement with Baxter Healthcare Corporation (Baxter) wherein certain minimum blood product purchase commitments have been established. In connection therewith, the company is required to purchase blood products aggregating approximately $14.9 million, $17.8 million and $20.7 million during the years ending December 31, 2003, 2004 and 2005, respectively (collectively the Minimum Annual Blood Products Commitment). As of November 14, 2003, the company s remaining purchase commitment for the year ending December 31, 2003 was approximately $2.3 million. In the event that the company does not meet the Minimum Annual Blood Products Commitment for any reason, other than (i) a force majeure, (ii) Baxter s inability to provide the necessary product quantities and/or (iii) Baxter s termination of the agreement without cause, Baxter may assert monetary damages for lost profits. Based on purchases through November 14, 2003 and expected product demand, management anticipates a $1.3 million Minimum Annual Blood Products Commitment shortfall for the year ending December 31, 2003. Management is currently in discussions with Baxter s management regarding the potential shortfall; however, in the event that there is a Minimum Annual Blood Products Commitment purchasing shortfall and Baxter successfully asserts monetary damages, the company s liquidity and results of operations would be materially adversely affected.

The Food and Drug Administration recently approved clinical use of Aralast®, which is a new drug used in the treatment of a rare genetic lung disorder known as Alpha-1 Antitrypsyn Deficiency. Baxter, the exclusive Aralast manufacturer, selected the company as one of only three initial national distributors of such drug. As a result, Baxter and the company entered into a purchase agreement (the Purchase Agreement) wherein Baxter agreed to sell Aralast to the company on favorable terms and conditions and the company committed to minimum purchases of approximately $2.6 million (the Minimum Aralast Commitment) during the period June 2, 2003 through December 30, 2003. In the event that the company fails to meet the Minimum Aralast Commitment for any reason, other than a force majeure or Baxter s termination of the Purchase Agreement without cause, Baxter will invoice the company a percentage of the difference between actual purchases and the Minimum Aralast Commitment. As of November 14, 2003, the remaining obligation under the Minimum Aralast Commitment was approximately $1.9 million. Due to a lower than anticipated clinical demand for Aralast, management does not anticipate meeting the Minimum Aralast Commitment. Management is currently in discussions with Baxter s management regarding the potential shortfall; however, if the Minimum Aralast Commitment is not satisfied and the penalty is assessed, it would result in an unfavorable effect on the company s liquidity and results of operations (e.g., at November 14, 2003, the maximum potential penalty would have been approximately $186,000).

CHC entered into a six year agreement with Becton Dickinson and Company (Becton Dickinson) for the purchase of medical supplies (the Becton Dickinson Supply Agreement). Such agreement terminates on July 31, 2004 and establishes minimum annual purchase commitments during the term of the agreement (the Minimum Annual Supply Commitment(s)), which aggregate approximately $19.5 million. In the event that the company does not meet the Minimum Annual Supply Commitments for any reason, other than a force majeure, Becton Dickinson may assess penalties in an amount equal to 20% of the difference between the Minimum Annual Supply Commitment and the actual purchases. Additionally, upon early termination of the Becton Dickinson Supply Agreement, Becton Dickinson is entitled to a termination penalty of $100,000 for each full year remaining under the contract and a prorated portion for the year of termination. At September 30, 2003 and November 14, 2003, the company s aggregate remaining purchase commitments under the Becton Dickinson Supply Agreement were approximately $4.6 million and $4.2 million, respectively. Based on purchases through November 14, 2003 and expected product demand, management anticipates an aggregate $2.1 million Minimum Annual Supply Commitment shortfall at the termination of the Becton Dickinson Supply Agreement. Historically, when the company did not meet a Minimum Annual Supply Commitment in a given year, Becton Dickinson did not impose penalties; however, there are no assurances that this practice will continue or that Becton Dickinson will not retrospectively review the company s financial performance under the contract. Currently, management is working with Becton Dickinson to remedy the historical and projected Minimum Annual Supply Commitment

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shortfalls. However, if Becton Dickinson successfully asserts penalties, the company s financial position, liquidity and results of operations could be materially adversely affected.

Effective December 3, 2002, the Chapter 11 trustee and the company entered into a three year telecommunication services agreement with AT&T Corporation (AT&T) (the Master Agreement) whereby the company will receive advantageous pricing and other favorable terms. Under the terms of the Master Agreement, the company committed to minimum annual telecommunication service purchases of approximately $2.2 million (the Minimum Annual AT&T Commitment) commencing on the effective date of the Master Agreement. In the event that the company fails to meet the Minimum Annual AT&T Commitment, AT&T will invoice the company for the difference between the Minimum Annual AT&T Commitment and the actual services purchased during such measurement period. Under certain circumstances, AT&T, at its sole discretion, may reduce the Minimum Annual AT&T Commitment amount during any given period. Moreover, if certain material conditions are satisfied, in the third year of the agreement, the company may unilaterally terminate the contract without penalty. In the event that the Master Agreement is terminated by the company without cause or by AT&T for cause, the company will be required to pay an amount equal to 35% of the remaining Minimum Annual AT&T Commitment for the period in which the termination occurs and for all unexpired periods under the term of the Master Agreement. As of September 30, 2003, the company satisfied its purchase obligation for the first annual measurement period. Although no assurances can be given, management believes that the company s telecommunication service requirements will be sufficient to meet the Minimum Annual AT&T Commitment amounts through the remaining term of the Master Agreement. In the event that the Master Agreement is terminated and the 35% surcharge is invoked or the Minimum Annual AT&T Commitment is not met in a given period, the aforementioned AT&T supplemental charges could have a material adverse effect on the company s liquidity and results of operations.

Letters of Credit. In February 2001, pursuant to an order of the Bankruptcy Court, the company established irrevocable letters of credit through Wells Fargo Bank Minnesota, NA (Wells Fargo), an affiliate of Foothill Capital Corporation (a party to the former Senior Credit Facility, the Securities Exchange Agreement and a holder of both the CI Series A Preferred Stock and the CI Series B Preferred Stock). At September 30, 2003, the company had one letter of credit for approximately $0.3 million that matures in February 2004 and is fully secured by interest-bearing cash deposits held by Wells Fargo.

Guarantees and Indemnifications. In May 2003, one of the company s unconsolidated joint ventures and a related affiliate (collectively the Joint Venture) entered into a five year real property lease in connection with the consolidation of two existing Joint Venture locations into one new facility. CI and its Joint Venture partner have jointly and severally guaranteed the Joint Venture s financial performance under such real property lease. As of November 14, 2003, the maximum amount of future payments CI could be required to make through the termination of the real property lease (exclusive of any amounts potentially recoverable from CI s Joint Venture partner) was (i) approximately $0.2 million for recurring monthly lease payments and (ii) certain other presently undeterminable contingent amounts such as utility costs, common area maintenance charges and landlord legal fees necessary to assert his rights; however, management estimates such miscellaneous contingent amounts to be nominal. The fair value of CI s guarantee has been estimated by management to be less than $0.1 million and has been accrued as a long-term liability in the company s condensed consolidated financial statements in accordance with the provisions of FASB Interpretation No. 45, *Guarantor s Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others.* In subsequent periods, management will evaluate and adjust the aforementioned liability in relation to the changes in the estimated fair value of the guarantee at such future date.

In connection with divestitures of certain operating assets and businesses in prior years, two separate CI subsidiaries provided the acquirers of such operating assets and businesses with indemnifications for certain contingent regulatory liabilities that might arise in connection with the pre-divestiture activities. As of November 14, 2003, the maximum amount of potential future payments the CI subsidiaries could be required to make under these indemnification agreements aggregated approximately $0.2 million, which would be partially offset by a nominal amount of escrowed funds. No amounts have been accrued in the company s condensed consolidated financial statements in connection with such indemnification agreements because management considers the probability of payment to be remote.

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The primary obligor of the Series B Notes is CI; however, such liabilities are guaranteed by CHC and substantially all of its subsidiaries (see Note 7 for further details of the Series B Notes). The B. Braun capital lease agreement discussed in Note 7 was executed by a non-Debtor subsidiary but the obligation is guaranteed by the Debtors. Additionally, CHC, CI and certain of their subsidiaries are parties to various real property and personal property operating lease agreements. In certain circumstances, individual members of the Coram consolidated group have provided guarantees to third party lessors on behalf of, or for the benefit of, the primary Coram obligor.

Litigation

Bankruptcy Cases. On August 8, 2000, the Debtors commenced the Bankruptcy Cases. None of the company s other subsidiaries is a debtor in the Bankruptcy Cases and, other than the Resource Network Subsidiaries, none of the company s other subsidiaries is a debtor in any bankruptcy case. See Notes 2 and 3 for further details.

Except as may otherwise be determined by the Bankruptcy Court, the protection afforded by Chapter 11 of the Bankruptcy Code generally provides for an automatic stay relative to any litigation proceedings pending against either or both of the Debtors. All such claims will be addressed by the Bankruptcy Court in the Bankruptcy Cases. The automatic stay would not, however, apply to actions brought against the company s non-debtor subsidiaries.

The Official Committee of the Equity Security Holders of Coram Healthcare Corporation. In February 2001, the Official Committee of the Equity Security Holders of Coram Healthcare Corporation (the Equity Committee) filed a motion with the Bankruptcy Court seeking permission to bring a derivative lawsuit directly against the company s former Chief Executive Officer, a former member of the CHC Board of Directors, Cerberus Partners, L.P., Cerberus Capital Management, L.P., Cerberus Associates, L.L.C. and Craig Court, Inc. (all the aforementioned corporate entities being parties to certain of the company s debt agreements or affiliates of such entities). The Equity Committee s proposed lawsuit alleged a collusive plan whereby the named parties conspired to devalue the company for the benefit of the company s creditors under the Securities Exchange Agreement. On February 26, 2001, the Bankruptcy Court denied the Equity Committee s motion without prejudice. In January 2002, the Equity Committee filed a substantially similar motion with the Bankruptcy Court, which additionally named certain current CHC directors, the company s other noteholders and Harrison J. Goldin Associates, L.L.C. *(sic)* as possible defendants. On February 12, 2002, the Bankruptcy Court again denied the renewed motion without prejudice.

After the Debtors exclusivity period to file their own plan or plans of reorganization terminated, on December 19, 2002 the Equity Committee filed with the Bankruptcy Court a proposed plan of reorganization with respect to the Debtors, which was subsequently amended. The Equity Committee s Plan incorporates a variation of the aforementioned proposed derivative lawsuit. Additionally, on May 2, 2003 the Chapter 11 trustee filed with the Bankruptcy Court a proposed plan of reorganization with respect to the Debtors, which was subsequently amended and modified. The Trustee s Plan, as modified, includes, among other things, the settlement of certain claims against the company s noteholders. Each of the Trustee s Plan, as modified, and the Equity Committee s Plan is subject to, and contingent upon, confirmation by the Bankruptcy Court. Management cannot predict whether or not the Trustee s Plan, as modified, or the Equity Committee s Plan will be confirmed, the ultimate outcome of each proposed plan or the resolution of certain filed objections to each plan of reorganization. See Note 2 for further discussion of the plans of reorganization.

Resource Network Subsidiaries Bankruptcy. On August 19, 1999, a small group of parties with claims against the Resource Network Subsidiaries filed an involuntary petition pursuant to Section 303 of Chapter 11 of the Bankruptcy Code against Coram Resource Network, Inc. in the Bankruptcy Court. On November 12, 1999, the Resource Network Subsidiaries filed voluntary petitions under Chapter 11 of the Bankruptcy Code, Case Nos. 99-2888 (MFW) and 99-2889 (MFW). The two cases were consolidated for administrative purposes and are now pending under the docket of *In re Coram Resource Network, Inc. and Coram Independent Practice Association, Inc.,* Case No. 99-2889 (MFW). On October 21, 2002, the Official Committee of Unsecured Creditors of Coram Resource Network, Inc. and Coram Independent Practice Association, Inc. (the R-Net Creditors Committee) filed a proposed Liquidating Chapter 11 Plan. The Chapter 11 trustee objected to the corresponding disclosure statement. On August 28, 2003, the R-Net Creditors Committee filed with the Bankruptcy Court its Disclosure Statement With Second Modifications, including, as an attachment, the Liquidating Chapter 11 Plan With Second Modifications

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(collectively the Second Modified R-Net Plan). The Second Modified R-Net Plan is available in the Resource Network Subsidiaries bankruptcy cases at docket number 1151. The Second Modified R-Net Plan remains subject to confirmation by the Bankruptcy Court and, accordingly, hearings to consider confirmation of such plan of reorganization and any objections thereto are scheduled to commence on December 15, 2003. The deadline to object to confirmation of the Second Modified R-Net Plan was November 3, 2003 and, in connection therewith, one objection was filed.

On September 11, 2000, the Resource Network Subsidiaries filed a motion in the Bankruptcy Cases seeking, among other things, to have the Resource Network Subsidiaries bankruptcy proceedings substantively consolidated with the Bankruptcy Cases. If this motion had been granted, the bankruptcy proceedings involving the Resource Network Subsidiaries and the Debtors would have been combined such that the assets and liabilities of the Resource Network Subsidiaries would have been joined with the assets and liabilities of the Debtors, the liabilities of the combined entity would have been satisfied from the combined assets and all intercompany claims would have been eliminated. Furthermore, the creditors of both proceedings would have voted on any reorganization plan for the combined entities. The Resource Network Subsidiaries and the Debtors engaged in discovery related to this substantive consolidation motion and then reached a settlement agreement in November 2000. The settlement agreement was approved by the Bankrupt