CURATIVE HEALTH SERVICES INC
Form 10-Q
November 14, 2005

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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, 2005

OR

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

Commission File Number: 000-50371

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

MINNESOTA	51-0467366
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number)

61 Spit Brook Road
Nashua, New Hampshire 03060
(Address of principal executive offices)

(603) 888-1500
(Registrant's telephone number, including area code)

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

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

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

As of November 1, 2005, there were 13,019,800 shares of the Registrant's Common Stock, $.01 par value, outstanding.

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Part I Financial Information

Item 1. Financial Statements

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

	Three Months Ended September 30		Nine Month Septemb
	2005	2004	2005
Revenues:			
Products	$ 62,984	$ 61,422	$ 207,498
Services	7,563	7,320	21,401

Total revenues	70,547	68,742	228,899
Costs and operating expenses:			
Cost of product sales	54,225	50,754	179,060
Cost of services	3,260	3,092	9,591
Selling, general and administrative	11,268	11,942	36,387
Goodwill and intangible asset impairment	78,684	--	78,684
Total costs and operating expenses	147,437	65,788	303,722
(Loss) income from operations	(76,890)	2,954	(74,823)
Interest expense	(5,991)	(5,569)	(17,989)
Other income (expense)	27	(807)	635
Loss before income taxes	(82,854)	(3,422)	(92,177)
Income tax benefit	(1,928)	(1,355)	(3,113)
Net loss	$ (80,926)	$ (2,067)	$ (89,064)
Net loss per common share, basic and diluted(1)	$ (6.22)	$ (0.16)	$ (6.84)
Weighted average common shares, basic and diluted	13,020	13,092	13,020

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(1) See Note 3 for net loss per share calculation.

See accompanying notes

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

	September 30, 2005	December 31, 2004
ASSETS		
Current assets:		
Cash and cash equivalents	$ 249	$ 1,176
Accounts receivable, net	74,323	81,766
Inventories	13,083	18,398
Prepaids and other current assets	5,172	5,660
Federal income tax refund receivable	315	3,431
Deferred income tax assets	--	3,977

Total current assets	93,142	114,408
Property and equipment, net	12,017	11,104
Intangibles subject to amortization, net	19,024	20,540
Intangibles not subject to amortization (trade names)	1,615	1,615
Goodwill	36,879	123,138
Other assets	10,823	12,979
Total assets	$ 173,500	$ 283,784
LIABILITIES AND STOCKHOLDERS' (DEFICIT) EQUITY		
Current liabilities:		
Accounts payable	$ 15,104	$ 35,740
Accrued expenses and other current liabilities	26,895	21,384
Debt and other obligation	213,562	6,496
Total current liabilities	255,561	63,620
Long-term liabilities	--	210,991
Deferred income taxes	--	3,511
Other long-term liabilities	31	1,209
Total long-term liabilities	31	215,711
Stockholders' (deficit) equity:		
Common stock	129	128
Additional paid in capital	120,102	119,449
Accumulated deficit	(200,351)	(111,287)
Deferred compensation	(1,972)	(2,364)
Notes receivable - stockholders	--	(1,473)
Total stockholders' (deficit) equity	(82,092)	4,453
Total liabilities and stockholders' (deficit) equity	$ 173,500	$ 283,784

See accompanying notes

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

	Nine Months End September 30 2005	
OPERATING ACTIVITIES:		
Net loss	$ (89,064)	$
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	4,593	

Provision for doubtful accounts	2,909	
Amortization of deferred financing fees	1,482	
Stock based compensation	1,046	
Change in fair value of interest rate swap	(1,082)	
Goodwill and intangible asset impairment	78,684	
Changes in operating assets and liabilities, net of effects from Specialty Infusion acquisitions:		
Accounts receivable	4,534	
Inventories	5,315	
Swap interest receivable	--	
Prepaids and other	5,960	
Accounts payable and accrued expenses	(15,498)	(
NET CASH USED IN OPERATING ACTIVITIES	(1,121)	
INVESTING ACTIVITIES:		
Specialty Infusion acquisitions, net of cash acquired	4,400	(1
Sale of Accordant Health Services, Inc.	--	
Purchases of property and equipment, net of disposals	(3,729)	
NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES	671	(1
FINANCING ACTIVITIES:		
Net proceeds from long-term borrowings	--	1
Proceeds from exercise of stock options	--	
Proceeds from repayment of notes receivable - stockholders	1,473	
Repayments of credit facilities and long-term liabilities, net, and payment of deferred financing costs	(1,950)	(
NET CASH (USED IN) PROVIDED BY FINANCING ACTIVITIES	(477)	1
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(927)	
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	1,176	
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$ 249	$

See accompanying notes

Curative Health Services, Inc. and Subsidiaries

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Note 1. Basis of Presentation

The condensed consolidated financial statements are unaudited and reflect all adjustments (consisting only of normal recurring adjustments) which are, in the opinion of management, necessary for a fair presentation of the financial position and operating results for the interim periods. The condensed consolidated financial statements should be read in conjunction with the consolidated financial statements for the year ended December 31, 2004 and notes thereto contained in the Company's Annual Report on Form 10-K filed with the Securities and Exchange Commission. The results of operations for the three and nine months ended September 30, 2005 are not necessarily indicative of the results to be expected for the entire fiscal year ending December 31, 2005.

The Company had approximately $213.6 million in outstanding debt as of September 30, 2005, including $185.0 million aggregate principal amount of 10.75% senior notes due 2011 (the "Notes") and a $23.3 million revolving credit facility with General Electric Capital Corporation ("GE Capital"), and incurred significant losses over the past several quarters. The Company hired a financial advisor to assist it in evaluating the financial alternatives available given its significant debt and continuing losses. In October 2005, the Company commenced discussions with an ad hoc committee representing holders of approximately 80% of the aggregate principal amount of the Notes regarding a possible restructuring of the Notes. In connection with these discussions, the Company elected not to pay the interest payment due on the Notes on November 1, 2005 and instead elected to use the 30-day grace period under the Note agreement. In addition, the Company executed a waiver agreement with GE Capital for failing to meet the financial covenants of total leverage ratio and senior secured leverage ratio related to its revolving credit facility for the quarter ended September 30, 2005, and it is uncertain whether the Company will be able to meet those obligations in the future. Therefore, all of the Company's outstanding debt has been classified as current in the accompanying financial statements. These conditions raise substantial doubt about the Company's ability to continue as a going concern.

In the absence of significantly improved operating cash flow, a restructuring of the senior notes or some other event that improves liquidity, the Company currently does not expect to be able to service its debt obligations coming due in fiscal 2006. Any restructuring of the senior notes resulting from the current discussions with the ad hoc committee of the bondholders would likely include a conversion of some or all of this debt to some form and amount of equity. The amount, form and timing of any conversion to equity cannot be predicted at this time. The Company cannot guarantee that any restructuring or other agreement providing additional liquidity for the Company will be reached.

Stock Based Compensation Plans

The Company grants options for a fixed number of shares to employees and directors with an exercise price equal to the fair value of the shares at the date of grant. The Company accounts for stock option grants under the intrinsic value method of Accounting Principles Board ("APB") No. 25, "Accounting for Stock Issued to Employees" ("APB No. 25"), and related Interpretations because the Company believes the alternate fair value accounting provided for under Statement of Financial Accounting Standards ("SFAS") No. 123, "Accounting for Stock-Based Compensation," requires the use of option valuation models that were not developed for use in valuing employee stock options. Under APB No. 25, because the exercise price of the Company's employee stock options equals the market price of the underlying stock on the date of grant, no compensation expense is recorded.

The following table illustrates the effect on net loss and net loss per share for the three and nine months ended September 30 as if the Company had applied the fair value recognition provisions of SFAS No. 123 to stock-based compensation (in thousands, except per share data):

Note 1. Basis of Presentation (continued)

	Three Months Ended September 30		Nine S
	2005	2004	2005
Net loss, as reported	$(80,926)	$ (2,067)	$(89,06
Add: Stock based employee compensation expense included in reported net loss, net of related tax effects	313	--	1,01
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects	(896)	(1,287)	(3,32
Pro forma net loss	$(81,509)	$ (3,354)	$(91,37
Loss per share:			
Basic and diluted - as reported(1)	$ (6.22)	$ (0.16)	$ (6.8
Basic and diluted - pro forma	(6.26)	(0.26)	(7.0

(1) See Note 3 for net loss per share calculation.

In December 2004, the Financial Accounting Standards Board ("FASB") issued SFAS No. 123 (revised 2004), "Share-Based Payment," ("SFAS No. 123(R)") which eliminated the alternative of accounting for share-based compensation transactions under the intrinsic value method of APB No. 25. Instead, SFAS No. 123(R) requires companies to measure the cost of employee services received in exchange for an award of equity instruments based on the grant-date fair value of the award. The grant-date fair value of employee share options and similar instruments will be estimated using option-pricing models adjusted for the unique characteristics of those instruments. The Company will adopt SFAS No. 123(R) on January 1, 2006. The adoption of SFAS No. 123(R)'s fair value method is expected to have a significant impact on the Company's results of operations.

Note 2. Reclassifications

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

Note 3. Net Loss per Common Share

Net loss per common share, basic, is computed by dividing the net loss by the weighted average number of common shares outstanding. Net loss per common share, diluted, is computed by dividing net loss by the weighted average number of shares outstanding plus dilutive common share equivalents. Basic shares were used to calculate net loss per common share, diluted, for the three and nine months ended September 30, 2005 and 2004, as using the effects of stock options and convertible notes would have an anti-dilutive effect on net loss per share. If not anti-dilutive, weighted average shares, diluted, would have been 13,284,498 and 13,299,671 for the three and nine months ended September 30, 2005, respectively, and 13,525,594 and 13,748,179 for the three and nine months ended September 30, 2004, respectively.

Note 4. Specialty Infusion Acquisition

On April 23, 2004, the Company acquired Critical Care Systems, Inc. ("CCS"), a leading national provider of specialty infusion pharmaceuticals and related comprehensive clinical services. Total cash consideration was approximately $154.2 million, including working capital adjustments of approximately $4.1 million. The Company financed the acquisition of CCS with a portion of its $185.0 million senior notes and additional borrowings under the Company's refinanced credit facility with GE Capital, as agent and lender. A final purchase price allocation based on fair market value of acquired assets and liabilities has been completed.

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

Unaudited pro forma amounts for the nine months ended September 30, 2004, assuming the CCS acquisition had occurred on January 1, 2004, were as follows (in thousands, except per share data):

Revenue	$ 232,290
Net loss	$ (4,859)
Net loss per common share, basic and diluted	$ (0.37)

The pro forma amounts shown above for the nine months ended September 30, 2004 give effect to: (i) the Company's issuance of the Notes; (ii) the refinancing of the Company's revolving credit facility and (iii) adjustments related to the CCS acquisition, including, but not limited to, the amortization of identifiable intangibles related to a preliminary purchase price allocation, additional compensation expense and retention incentives, and pro forma tax adjustments as if the acquisition and related transactions occurred on January 1, 2004.

The pro forma operating results shown above are not necessarily indicative of operations in the periods following the CCS acquisition.

Note 5. Segment Information

The Company follows the provisions of SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information." The Company has two reportable segments: Specialty Infusion and Wound Care Management. In its Specialty Infusion business unit, the Company purchases biopharmaceutical products (including Synagis(R) for the prevention of respiratory syncytial virus) and other pharmaceutical products from suppliers and contracts with insurance companies and other payors to provide its services, which include coordination of patient care, 24-hour nursing and pharmacy availability, patient education and reimbursement billing and collection services. Revenues from Synagis(R) sales for the three and nine months ended September 30, 2005 were approximately $0.6 million and $28.1 million, respectively. As respiratory syncytial virus ("RSV") occurs primarily during the winter months, the major portion of the Company's Synagis(R) sales may be higher during the first and fourth quarters of the calendar year which may result in significant fluctuations in the Company's quarterly operating results.

In its Wound Care Management business unit, the Company contracts with hospitals to manage outpatient Wound Care Center(R) programs.

Curative Health Services, Inc. and Subsidiaries

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Note 5. Segment Information (continued)

The Company evaluates segment performance based on (loss) income from operations. For the three and nine months ended September 30, 2005, management estimated that corporate general and administrative expenses allocated to the reportable segments were 64% and 62%, respectively, for Specialty Infusion and 36% and 38%, respectively, for Wound Care Management. For the three and nine months ended September 30, 2004, management estimated that corporate general and administrative expenses allocated to the reportable segments were 63% and 62%, respectively, for Specialty Infusion and 37% and 38%, respectively, for Wound Care Management. Intercompany transactions were eliminated to arrive at consolidated totals.

The following tables present the results of operations and total assets of the reportable segments of the Company at and for the three and nine months ended September 30 (in thousands):

	At and for the Three Months Ended September 30, 2005		
	Specialty Infusion	Wound Care Management	Totals
Revenues	$ 62,984	$ 7,563	$ 70,547
(Loss) income from operations	$ (78,791)	$ 1,901	$ (76,890)
Total assets	$ 162,006	$ 11,494	$ 173,500

	At and for the Three Months Ended September 30, 2004		
	Specialty Infusion	Wound Care Management	Totals
Revenues	$ 61,422	$ 7,320	$ 68,742
Income from operations	$ 1,166	$ 1,788	$ 2,954
Total assets	$ 390,505	$ 15,286	$ 405,791

	At and for the Nine Months Ended September 30, 2005		
	Specialty Infusion	Wound Care Management	Totals
Revenues	$ 207,498	$ 21,401	$ 228,899
(Loss) income from operations	$ (78,960)	$ 4,137	$ (74,823)
Total assets	$ 162,006	$ 11,494	$ 173,500

	At and for the Nine Months Ended September 30, 2004		
	Specialty Infusion	Wound Care Management	Totals

Revenues	$ 178,206	$ 20,534	$ 198,740
Income from operations	$ 4,183	$ 3,266	$ 7,449
Total assets	$ 390,505	$ 15,286	$ 405,791

Curative Health Services, Inc. and Subsidiaries

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Note 6. Goodwill and Intangible Assets

During the fourth quarter of 2005, the Company conducted its impairment test related to the carrying values of goodwill and other intangible assets, attributed entirely to the Specialty Infusion business unit, in accordance with SFAS No. 142, "Goodwill and Other Intangible Assets" and SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets," respectively. Based on the results of this evaluation, the Company recorded non-cash impairment charges of $78.5 million in goodwill and $0.2 million in other intangible assets related to the Specialty Infusion business unit as of September 30, 2005. The total charge of $78.7 resulted primarily from changes in the economics of the Specialty Infusion business unit. The fair value of the Specialty Infusion business unit was estimated by performing a discounted cash flow analysis for the reporting unit.

Note 7. Employee and Facility Termination Costs

The Company adheres to SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities," which establishes fair value as the objective for initial measurement of liabilities related to exit or disposal activities and requires that such liabilities be recognized when incurred.

In the first quarter of 2003, the Company consolidated its pharmacy operations in California which resulted in the termination of a total of 25 employees and the vacating of a leased facility. The Company recorded charges related to this activity of $0.4 million in 2004 and $1.6 million in 2003.

Additionally, as previously disclosed, Curative's corporate headquarters and corporate functions were consolidated into the Company's office located in Nashua, New Hampshire. As a result, in the fourth quarter of 2004, the Company recorded severance charges for the consolidation of approximately $0.7 million related to the termination of 19 employees and facility termination costs of $0.1 million. The Company recorded costs related to its headquarters consolidation of approximately $0.5 million and $1.4 million for the three and nine months ended September 30, 2005, respectively. The consolidation has been completed as of September 30, 2005.

The following provides a reconciliation of the related accrued costs associated with the pharmacy consolidation and headquarters consolidation, which are included in Selling, General and Administrative expenses in the accompanying condensed consolidated financial statements, at and for the three and nine months ended September 30 (in thousands):

At and for the Three Months Ended September 30, 2005			
Beginning Balance	Costs Charged to Expense	Costs Paid or Otherwise Settled	Endin Balan

Employee termination costs	$ 596	$ 411	$ 728	$ 27
Facility termination costs	718	89	355	45
	$1,314	$ 500	$1,083	$ 73

	At and for the Three Months Ended September 30, 2004			
	Beginning Balance	Costs Charged to Expense	Costs Paid or Otherwise Settled	Endin Balan
Employee termination costs	$ 39	$ --	$ 39	$ -
Facility termination costs	311	--	107	20
	$ 350	$ --	$ 146	$ 20

Curative Health Services, Inc. and Subsidiaries

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Note 7. Employee and Facility Termination Costs (continued)

	At and for the Nine Months Ended September 30, 2005			
	Beginning Balance	Costs Charged to Expense	Costs Paid or Otherwise Settled	Endin Balan
Employee termination costs	$ 666	$1,004	$1,391	$ 27
Facility termination costs	660	330	538	45
	$1,326	$1,334	$1,929	$ 73

	At and for the Nine Months Ended September 30, 2004			
	Beginning Balance	Costs Charged to Expense	Costs Paid or Otherwise Settled	Endin Balan
Employee termination costs	$ 39	$ --	$ 39	$ -
Facility termination costs	431	--	227	20
	$ 470	$ --	$ 266	$ 20

In the remainder of 2005, the Company expects to pay approximately $0.4 million of the costs accrued as of September 30, 2005 and the remainder through 2007.

Note 8. Derivative Instruments, Hedging Activities and Debt

The Company adopted SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities," as amended by SFAS No. 138, "Accounting for Certain Derivative Instruments and Certain Hedging Activities," and SFAS No. 149, "Amendment of Statement 133 on Derivative Instruments and Hedging Activities." These statements require that all derivative instruments be recorded on the consolidated balance sheets at their respective fair values as either assets or liabilities.

In April 2004 and in conjunction with the Company's issuance of the Notes, which bear interest at 10.75%, payable semi-annually, the Company entered into a $90.0 million notional amount interest rate swap agreement. This agreement was used by the Company to reduce interest expense and modify exposure to interest rate risk by converting its fixed rate debt to a floating rate liability. Under the agreement, the Company received, on the portion of the senior subordinated notes hedged, 10.75% fixed rate amounts in exchange for floating interest rate (the 6-month London Interbank Offered Rate ("LIBOR") rate plus a premium) payments over the life of the agreement without an exchange of the underlying principal amount.

The swap was a cash flow hedge. Due to hedge ineffectiveness, measured by comparing the change in the fair value of debt caused only by changes in the LIBOR yield curve to the change in the value of the swap, changes in fair value of the swap are recognized in earnings, and the carrying value of the Company's debt is not marked to fair value. The changes in fair value for the three and nine months ended September 30, 2005 of zero and $0.5 million, respectively, were recorded in other income on the statement of operations.

In June 2005, the Company exercised its right to terminate its interest rate swap agreement and, as a result, the Company paid a $0.5 million in fair market value to National City Bank in June of 2005. The swap was scheduled to mature on May 2, 2011. No early termination penalties were incurred by the Company.

Note 8. Derivative Instruments, Hedging Activities and Debt (continued)

Also in April 2004, the Company restructured its previous credit facility with GE Capital, as agent and lender to a $40.0 million senior secured revolving credit facility to support permitted acquisitions and future working capital and general corporate needs. The amended and restated revolving credit facility is an asset backed facility, with availability based upon the Company's balance of eligible accounts receivable and inventory. As of September 30, 2005, the Company had approximately $16.7 million of availability under its revolving credit facility. The facility also contains certain financial covenants which are measured quarterly during the term of the facility which expires on April 23, 2009. Effective September 30, 2005, the Company and GE Capital executed a waiver agreement to the revolving credit facility related to the financial covenants of total leverage ratio and senior secured leverage ratio as the Company was not in compliance with those covenants. Additionally, this waiver agreement included a temporary waiver until December 1, 2005 of any default under the credit facility as the Company did not pay the November 1, 2005 coupon due on the senior notes and instead elected to use the 30-day grace period under

the Note agreement. The Company also received a waiver during the quarter related to the non-payment of the promissory note in connection with the 2002 purchase of Apex Therapeutic Care, Inc. which the Company is disputing (see Part II, Item 1, "Legal Proceedings"). As of September 30, 2005, the Company was in compliance with all other covenants.

The Company's debt and other obligation consisted of the following as of September 30, 2005 and December 31, 2004 (in thousands):

	September 30, 2005	December 31, 2004
Senior subordinated notes	$185,000	$185,000
Revolving loan facility	23,288	24,310
Note payable-DOJ settlement	750	2,000
Convertible note used in purchase of Apex-in dispute	1,524	2,177
Convertible note used in purchase of Home Care	3,000	3,000
Note payable used in purchase of Prescription City	--	1,000
Total debt and other obligation	$213,562	$217,487

Note 9. Deferred Taxes

In the third quarter of 2005, the Company recorded a valuation allowance against its net deferred tax assets of approximately $1.6 million to reflect the uncertainty of realization of those assets. The Company also recorded a tax benefit of approximately $3.9 million related to reversing tax exposure items. The resulting tax rate for the nine months ended September 30, 2005 was (3.4%). The tax rate reconciliation is as follows:

Federal statutory rate	(35.0%)
Valuation allowance	5.8%
Goodwill impairment	29.9%
Tax reserves	(3.9%)
Other	(0.2%)
Effective tax rate	(3.4%)

Note 10. Note Guarantees

On April 23, 2004, the Company issued the Notes under an Indenture (the "Indenture"), dated April 23, 2004, among the Company, its subsidiaries and Wells Fargo Bank, National Association. The Notes are jointly and severally guaranteed by all of the Company's existing and future restricted subsidiaries ("Restricted Subsidiaries"), as defined in the Indenture, on a full and unconditional basis, and no separate consideration will be received for the issuance of these guarantees. However, under certain circumstances, the Company may be permitted to designate any of its Restricted Subsidiaries as Unrestricted Subsidiaries.

The Company has no assets or operations independent of its Restricted Subsidiaries. Furthermore, as of April 23, 2004, there were no significant

restrictions on the ability of any Restricted Subsidiary to transfer to the Company, without consent of a third party, any of such Restricted Subsidiary's assets, whether in the form of loans, advances or cash dividends.

Note 11. Recent Developments

Dispute with DHS on Audit Results

As previously disclosed in a Form 8-K filed on September 28, 2005, the Company intends to dispute the results of audits conducted by the California Department of Health Services ("DHS") of three independent retail California pharmacies which previously did business with two of the Company's subsidiaries, Apex Therapeutic Care, Inc. ("Apex") and eBioCare.com, Inc. ("eBioCare"). These subsidiaries provided contract pharmacy and billing services to the three independent retail pharmacies audited by DHS.

The pharmacies recently have undergone audits by DHS which included a review of their Medi-Cal billing for clotting factor supplied to the pharmacies by Apex and eBioCare. The audits at issue covered the period from October 1, 2001 to May 30, 2004. Although Apex and eBioCare are not being audited, their previous contract pharmacy relationships with the three independent retail pharmacies are potentially implicated because the pharmacies may assert indemnification claims against Apex and eBioCare.

Although no final audit findings have been issued, the Company's legal counsel has learned through discussions with DHS that final audit findings assessed against the three independent retail pharmacies may include up to $38.0 million in alleged overpayments.

Approximately 85% of the assessment against the three independent retail pharmacies is for claims that DHS alleges were improperly reimbursed at 1% over the retail pharmacies' cost of acquiring the product from the Company's subsidiaries. DHS alleges that such reimbursement was improper because, in its view, payments should have been made at 1% over the cost the retail pharmacies would have incurred had they acquired the product directly from the product manufacturer.

Substantially all of the balance of the assessment against the three independent retail pharmacies is based on allegedly improper reimbursement for the medically necessary anti-inhibitor product called FEIBA. DHS alleges that the retail pharmacies submitted claims for FEIBA improperly, in its view, when they used factor product service codes. Apex and eBioCare used the factor product service codes when submitting claims on behalf of the retail pharmacies because EDS, the company that processes claims for payment on behalf of DHS, could not accept the FEIBA-specific service code into its systems. DHS auditors have not confirmed whether they will include the FEIBA assessments in their final findings.

Note 11. Recent Developments (continued)

The Company plans to work closely with the three independent retail pharmacies to appeal any assessments resulting from the audits. The Company believes the allegations asserted by DHS against the pharmacies are without merit, and the Company expects the pharmacies to vigorously defend against these

allegations through administrative and judicial proceedings. The Company is also aware that other similar retail pharmacy relationships in California are being audited by DHS.

The Company anticipates that the three independent retail pharmacies may assert claims for indemnification from the Company's subsidiaries for any liabilities resulting from the audits. Based on facts and circumstances known to date, the Company believes some amount of monetary loss is reasonably possible if the pharmacies assert and prevail on indemnification claims. While the Company is unable to estimate the range of potential loss due to the uncertainty of various issues involved in this matter, it does not believe the loss will exceed $38.0 million. No related loss provision has been accrued in the condensed consolidated financial statements as of September 30, 2005.

Resignation of Customer Sales and Service Representatives

On October 21, 2005, six of the Company's customer sales and service representatives servicing hemophilia patients resigned from Curative. The Company estimates that the patients serviced by these employees represent approximately $25.0 million of revenue annually. Curative immediately implemented an action plan to communicate with and retain patients who were formerly serviced by these employees. The Company is monitoring compliance by these former employees with their continuing obligations under their respective employment agreements and will evaluate its legal remedies with respect to any of these employees who fail to comply with those obligations. At this time, it is not possible to forecast the impact that the departure of these individuals will have on the Company's business.

California Medi-Cal Reimbursement Reduction

Approximately 7% of the Company's total revenues for each of the three and nine months ended September 30, 2005, were derived from blood-clotting products reimbursed by California state funded health programs. The California state legislature in 2003 passed legislation that modified the reimbursement methodology for blood-clotting factor products under various California state funded health programs. Under the new reimbursement methodology, blood-clotting factor products are reimbursed based upon Average Selling Price ("ASP"), as provided by the manufacturers, plus 20%.

In addition, payments for California's Medicaid program ("Medi-Cal") and certain other state-funded health programs were to be reduced by 5% for services provided on and after January 1, 2004 and through December 31, 2007. On December 23, 2003, the United States District Court for the Eastern District of California issued an injunction in California Medical Association, et al v. Bonta ("CMA v. Bonta") enjoining that scheduled 5% Medi-Cal reimbursement rate cut. DHS appealed the decision to the federal Ninth Circuit Court of Appeals. The Ninth Circuit issued a decision on August 2, 2005 reversing the District Court's grant of the preliminary injunction. However, because a petition for rehearing and rehearing en banc has been filed, the preliminary injunction remains in effect until the Ninth Circuit rules on the petition. It is not known when the Ninth Circuit will rule. Further, subsequent to the issuance of the decision by the Ninth Circuit, the California legislature amended Welfare & Institutions Code Section 14105.19 to eliminate the 5% reduction for dates of service from January 1, 2004 through December 31, 2005. Thus, there is no possibility of recoupment of payments made pursuant to the preliminary injunction during this period. It is not possible to determine whether the current Medi-Cal rates will be

Curative Health Services, Inc. and Subsidiaries

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Note 11. Recent Developments (continued)

reduced after January 1, 2006, should the petition for rehearing or rehearing en banc be denied. It is possible that the 5% reduction will go into effect at some point, or it is possible that the California legislature will pass further legislation to eliminate the 5% reduction. The District Court order enjoining the 5% Medi-Cal rate reduction did not apply to other state funded programs for hemophilia patients, and California implemented the 5% reduction for these other programs. However, the 5% reduction as applied to the other state funded programs was repealed on or about July 31, 2004 for services provided on and after July 1, 2004.

Effective June 1, 2004, Medi-Cal implemented the ASP reimbursement methodology for blood-clotting factor products. The change amounted to an approximate 30-40% cut from rates previously in effect. The implementation of the reduction in the reimbursement from Medi-Cal, and changes in regulations governing such reimbursement, has adversely impacted the Company's revenues and profitability from the sale of products by the Company or by retail pharmacies to which it provides products or services for hemophilia patients who are Medi-Cal beneficiaries or beneficiaries of other state funded programs for hemophilia patients.

In December 2004, the Company and certain named individual plaintiffs entered into a Settlement Agreement which resolved both a lawsuit previously filed on behalf of two individual Medi-Cal recipients with hemophilia in the United States District Court for the Eastern District of California against the State of California relating to the implementation of the new ASP reimbursement methodology, and a lawsuit previously filed by the Company in the Superior Court for the County of Sacramento relating to, among other things, the State of California's failure to comply with certain applicable federal procedural requirements relating to the reimbursement rates. In return for dismissal of both lawsuits, DHS agreed to process, on a priority basis, all pending and future Medi-Cal, California Children's Services and Genetically Handicapped Persons Program claims submitted by the Company. In addition, DHS agreed to expedite its efforts to implement electronic billing and payment for blood-clotting factor claims.

In addition, the California legislature recently approved a proposal by the Governor of California to expand the Medi-Cal managed care program into 13 additional counties and to phase in mandatory enrollment for parents and children who are Medi-Cal beneficiaries. The Governor's proposal for mandatory enrollment of seniors and disabled individuals was rejected by the legislature, except for those individuals who may reside in an expansion county where a County Organized Health System ("COHS") model is proposed. Under the COHS model, all eligible Medi-Cal beneficiaries are mandatorily enrolled into the managed care plan, including seniors and persons with disabilities. The Company understands there may be significant concern by various constituencies over mandatory enrollment of medically fragile populations, and the outcome of these proposals is uncertain at this time.

Change in Medicare Reimbursement Methodology

Effective January 1, 2005, the Medicare reimbursement methodology for blood-clotting factor products changed to ASP plus 6% plus a $0.14 per unit dispensing fee. Under the previous methodology, the Company was reimbursed at 95% of average wholesale price ("AWP"). The Company anticipates that the new methodology will result in reduced reimbursement of approximately 12% or $1.7 million in Specialty Infusion revenues.

Curative Health Services, Inc. and Subsidiaries

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Note 12. Legal Proceedings

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

Apex Therapeutic Care Litigation

On October 26, 2005, the Company commenced litigation in the United States District Court for the Central District of California, entitled "Curative Health Services, Inc. vs. James H. Williams, et al.," against former stockholders of Apex alleging, among other things, that stockholders of Apex made material misrepresentations in connection with their sale of Apex stock to Curative in 2002. As part of the action, in addition to seeking compensatory and punitive damages, the Company is disputing its obligation to make further payments under an amended and restated promissory note, dated May 30, 2002, made in favor of the former stockholders in connection with the acquisition of Apex. Prior to commencement of the action, Curative sent a letter to the representative of the former stockholders indicating that Curative would not be making the installment payment due on September 30, 2005 or any further payments pending resolution of this dispute. The stockholders' representative responded with a notice on October 18, 2005 declaring an event of default under the above-referenced note and an acceleration of payment of the outstanding principal balance under the note in the amount of approximately $1.5 million. This event did not cause a default under, or acceleration of, any other obligations of the Company.

Prescription City Litigation

As previously disclosed in a Form 8-K filed on July 27, 2005, on July 26, 2005, the Company announced that it has reached a settlement with Prescription City, Inc. ("Prescription City") in connection with a complaint filed by the Company in November 2003 seeking rescission, compensatory and punitive damages and other relief. Under the terms of the settlement, the Company received $4.5 million in cash and was released from its obligation to pay a $1.0 million promissory note entered into in connection with the asset purchase of Prescription City.

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

Overview

Curative Health Services, Inc. ("Curative" or the "Company") had approximately $213.6 million in outstanding debt as of September 30, 2005, including $185.0 million aggregate principal amount of the Notes and a $23.3 million revolving credit facility with GE Capital, and incurred significant

losses over the past several quarters. The Company hired a financial advisor to assist it in evaluating the financial alternatives available given its significant debt and continuing losses. In October 2005, the Company commenced discussions with an ad hoc committee representing holders of approximately 80% of the aggregate principal amount of the Notes regarding a possible restructuring of the Notes. In connection with these discussions, the Company elected not to pay the interest payment due on the Notes on November 1, 2005 and instead elected to use the 30-day grace period under the Note agreement. In addition, the Company executed a waiver agreement with GE Capital for failing to meet the financial covenants of total leverage ratio and senior secured leverage ratio related to its revolving credit facility for the quarter ended September 30, 2005, and it is uncertain whether the Company will be able to meet those obligations in the future. Therefore, all of the Company's outstanding debt has been classified as current in the accompanying financial statements. These conditions raise substantial doubt about the Company's ability to continue as a going concern (see Note 1 of Notes to Condensed Consolidaated Financial Statements).

Curative, through its Specialty Infusion and Wound Care Management business units, seeks to deliver high-quality care and positive clinical outcomes that result in high patient satisfaction for patients experiencing serious acute or chronic medical conditions.

Through its Specialty Infusion business unit, the Company provides intravenous and injectable biopharmaceutical and compounded pharmaceutical products and comprehensive infusion services to patients with chronic and critical disease states. All patient care is delivered through a national footprint of community-based branches. Each local branch has an experienced multidisciplinary team of pharmacists, nurses, reimbursement specialists and patient service representatives who comprehensively manage all aspects of a patient's infusion and related support needs. In its Specialty Infusion operations, the Company purchases biopharmaceutical and other pharmaceutical products from suppliers and contracts with insurance companies and other payors to provide its services, which include coordination of patient care, 24-hour nursing and pharmacy availability, patient education and reimbursement billing and collection services. The Company's Specialty Infusion revenues are derived primarily from fees paid by the payors under these contracts for the distribution of these biopharmaceutical and other pharmaceutical products and for the injection or infusion services provided. Additional revenues are acquired through biopharmaceutical and pharmaceutical product distribution and support services under contracts with retail pharmacies for which the Company receives related service fees. The products distributed and the injection or infusion therapies offered by Curative are used by patients with chronic or severe conditions such as hemophilia, RSV, immune system disorders, chronic or severe infections, nutritionally compromised and other severe conditions requiring nutritional support, cancer, rheumatoid arthritis, hepatitis C and multiple sclerosis. Examples of biopharmaceutical products used by Curative's patients include hemophilia clotting factor, intravenous immune globulins ("IVIG"), Synagis(R) and Remicade(R). Examples of pharmaceutical products used by Curative's patients include compounded pharmaceuticals, such as total parenteral nutrition ("TPN") products, anti-infectives, chemotherapy agents and pain management products. As of September 30, 2005, the Company had approximately 450 payor contracts and provided products or services in approximately 45 states.

The following provides approximate percentages of the Specialty Infusion business unit's patient revenues for the three and nine months ended September 30 and the year ended December 31:

Three Months Ended September 30, 2005	Nine Months Ended September 30, 2005	Year Ended December 31, 2004

Private Payors	63.5%	61.4%	53.4%
Medicaid	27.0%	30.5%	39.5%
Medicare	9.5%	8.1%	7.1%

Curative's Wound Care Management business unit is a leading provider of wound care services specializing in chronic wound care management. It manages, on behalf of hospital clients, a nationwide network of Wound Care Center(R) programs that offer a comprehensive range of services across a continuum of care for treatment of chronic wounds. The Company's Wound Management ProgramSM consists of diagnostic and therapeutic treatment procedures that are designed to meet each patient's specific wound care needs on a cost-effective basis. The treatment procedures are designed to achieve positive results for wound healing based on significant experience in the field. The Company maintains a proprietary database of patient results that it has collected since 1988 containing over 520,000 patient cases as of September 30, 2005. The treatment procedures, which are based on extensive patient data, have allowed the Company to achieve an overall rate of healing of approximately 90% for patients completing therapy. As of September 30, 2005, the Wound Care Center(R) network consisted of 107 outpatient clinics (102 operating and 5 contracted) located on or near campuses of acute care hospitals in approximately 30 states.

The Wound Care Management business unit currently operates two types of Wound Care Center(R) programs with hospitals: a management model and an "under arrangement" model, with a primary focus on developing management models. In the management model, Wound Care Management provides management and support services for a chronic wound care facility owned or leased by the hospital and staffed by employees of the hospital, and generally receives a fixed monthly management fee or a combination of a fixed monthly management fee and a variable case management fee. In the "under arrangement" model, Wound Care Management provides management and support services, as well as the clinical and administrative staff, for a chronic wound care facility owned or leased by the hospital, and generally receives fees based on the services provided to each patient.

Critical Accounting Policies and Estimates

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

Revenue recognition

Specialty Infusion revenues are recognized, net of any contractual

allowances, when the product is shipped to a patient, retail pharmacy or a physician's office, or when the service is provided. Wound Care Management revenues are recognized after the management services are rendered and are billed monthly in arrears.

Trade receivables

Considerable judgment is required in assessing the ultimate realization of receivables, including the current financial condition of the customer, age of the receivable and the relationship with the customer. The Company estimates its allowances for doubtful accounts using these factors. If the financial condition of the Company's customers were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required. In circumstances where the Company is aware of a specific customer's inability to meet its financial obligations (e.g., bankruptcy filings), a specific reserve for bad debts is recorded against amounts due to reduce the receivable to the amount the Company reasonably believes will be collected. For all other customers, the Company has reserves for bad debt based upon the total accounts receivable balance. Although the Company believes its reserve for accounts receivable at September 30, 2005 is reasonable, there can be no assurance that

additional reserves will not be needed in the future. The recording of any such reserve may have a negative impact on the Company's operating results.

Inventories

Inventories are carried at the lower of cost or market on a first in, first out basis. Inventories consist of high-cost biopharmaceutical and pharmaceutical products that, in many cases, require refrigeration or other special handling. As a result, inventories are subject to spoilage or shrinkage. On a quarterly basis, the Company performs a physical inventory and determines whether any shrinkage or spoilage adjustments are needed. Although the Company believes its inventories balance at September 30, 2005 is reasonably accurate, there can be no assurance that spoilage or shrinkage adjustments will not be needed in the future. The recording of any such reserve may have a negative impact on the Company's operating results.

Deferred income taxes

The Company had approximately $9.4 million in deferred income tax assets at September 30, 2005 (approximately $4.0 million in current assets and $5.4 million in long-term assets) and approximately $4.3 million in deferred income tax liabilities. The Company has a full valuation allowance against its net deferred tax assets and, as such, the amounts of deferred income tax assets and liabilities are not reflected in the accompanying balance sheet (see Note 9 of Notes to Condensed Consolidated Financial Statements). The Company has provided a valuation allowance due to the uncertainty of the realization of the deferred tax asset.

Goodwill and intangibles

Goodwill represents the excess of purchase price over the fair value of net assets acquired. Intangibles consist of separately identifiable intangibles, such as pharmacy and customer relationships and covenants not to compete. The Company accounts for goodwill and intangible assets in accordance with SFAS No. 142, "Goodwill and Other Intangible Assets," which requires goodwill and intangible assets with indefinite lives to not be amortized but rather to be reviewed annually, or more frequently if impairment indicators arise, for

impairment. Separable intangible assets that are not deemed to have an indefinite life are amortized over their useful lives. In assessing the recoverability of the Company's goodwill and intangibles, the Company must make assumptions regarding estimated future cash flows and other factors to determine the fair value of the respective assets. Due primarily to changes in the economics of the Specialty Infusion business unit, the Company recorded a non-cash impairment charge of $78.5 million in goodwill and $0.2 million in other intangible assets in the third quarter of 2005 (see Note 6 of Notes to Condensed Consolidated Financial Statements). The fair value of the Specialty Infusion business unit was estimated by performing a discounted cash flows analysis for the reporting unit. The Company will continue to monitor its goodwill and intangibles for impairment indicators.

Key Performance Indicators

The following provides a summary of some of the key performance indicators that may be used to assess the Company's results of operations. These comparisons are not necessarily indicative of future results (dollars in thousands).

	For the Nine Months Ended September 30			
	2005	2004	$ Change	Ch
Specialty Infusion revenues	$207,498	$178,206	$ 29,292	
Wound Care Management revenues	21,401	20,534	867	
Total revenues	$228,899	$198,740	$ 30,159	
Specialty Infusion revenues to total	91%	90%		
Wound Care Management revenues to total	9%	10%		
Total	100%	100%		
Specialty Infusion gross margin	$ 28,438	$ 34,041	$ (5,603)	
Wound Care Management gross margin	11,810	11,543	267	
Total gross margin	$ 40,248	$ 45,584	$ (5,336)	
Specialty Infusion gross margin %	14%	19%		
Wound Care Management gross margin %	55%	56%		
Total gross margin %	18%	23%		
Specialty Infusion SG&A	$ 16,819	$ 14,970	$ 1,849	
Wound Care Management SG&A	2,623	3,030	(407)	
Corporate SG&A	13,289	13,809	(520)	
Charges(1)	3,656	6,326	(2,670)	
Total SG&A	$ 36,387	$ 38,135	$ (1,748)	
Goodwill and intangible asset impairment	$ 78,684	$ --	$ 78,684	
Operating margin	$(74,823)	$ 7,449	$(82,272)	(
Operating margin %	33%	4%		

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(1) The Company's charges are discussed under Results of Operations - Selling, General and Administrative.

Recent Developments

Dispute with DHS on Audit Results

As previously disclosed in a Form 8-K filed on September 28, 2005, the Company intends to dispute the results of audits conducted by DHS of three independent retail California pharmacies which previously did business with two of the Company's subsidiaries, Apex and eBioCare. These subsidiaries provided contract pharmacy and billing services to the three independent retail pharmacies audited by DHS.

The pharmacies recently have undergone audits by DHS which included a review of their Medi-Cal billing for clotting factor supplied to the pharmacies by Apex and eBioCare. The audits at issue covered the period from October 1, 2001 to May 30, 2004. Although Apex and eBioCare are not being audited, their previous contract pharmacy relationships with the three independent retail pharmacies are potentially implicated because the pharmacies may assert indemnification claims against Apex and eBioCare.

Although no final audit findings have been issued, the Company's legal counsel has learned through discussions with DHS that final audit findings assessed against the three independent retail pharmacies may include up to $38.0 million in alleged overpayments.

Approximately 85% of the assessment against the three independent retail pharmacies is for claims that DHS alleges were improperly reimbursed at 1% over the retail pharmacies' cost of acquiring the product from the Company's subsidiaries. DHS alleges that such reimbursement was improper because, in its view, payments should have been made at 1% over the cost the retail pharmacies would have incurred had they acquired the product directly from the product manufacturer.

Substantially all of the balance of the assessment against the three independent retail pharmacies is based on allegedly improper reimbursement for the medically necessary anti-inhibitor product called FEIBA. DHS alleges that the retail pharmacies submitted claims for FEIBA improperly, in its view, when they used factor product service codes. Apex and eBioCare used the factor product service codes when submitting claims on behalf of the retail pharmacies because EDS, the company that processes claims for payment on behalf of DHS, could not accept the FEIBA-specific service code into its systems. DHS auditors have not confirmed whether they will include the FEIBA assessments in their final findings.

The Company plans to work closely with the three independent retail pharmacies to appeal any assessments resulting from the audits. The Company believes the allegations asserted by DHS against the pharmacies are without merit, and the Company expects the pharmacies to vigorously defend against these allegations through administrative and judicial proceedings. The Company is also aware that other similar retail pharmacy relationships in California are being audited by DHS.

The Company anticipates that the three independent retail pharmacies may assert claims for indemnification from the Company's subsidiaries for any liabilities resulting from the audits. Based on facts and circumstances known to date, the Company believes some amount of monetary loss is reasonably possible if the pharmacies assert and prevail on indemnification claims. While the Company is unable to estimate the range of potential loss due to the uncertainty of various issues involved in this matter, it does not believe the loss will exceed $38.0 million. No related loss provision has been accrued in the condensed consolidated financial statements as of September 30, 2005.

Resignation of Customer Sales and Service Representatives

On October 21, 2005, six of the Company's customer sales and service representatives servicing hemophilia patients resigned from Curative. The Company estimates that the patients serviced by these employees represent approximately $25.0 million of revenue annually. Curative immediately implemented an action plan to communicate with and retain patients who were formerly serviced by these employees. The Company is monitoring compliance by these former employees with their continuing obligations under their respective employment agreements and will evaluate its legal remedies with respect to any of these employees who fail to comply with those obligations. At this time, it is not possible to forecast the impact that the departure of these individuals will have on the Company's business.

California Medi-Cal Reimbursement Reduction

Approximately 7% of the Company's total revenues for each of the three and nine months ended September 30, 2005 were derived from blood-clotting products reimbursed by California state funded health programs. The California state legislature in 2003 passed legislation that modified the reimbursement methodology for blood-clotting factor products under various California state funded health programs. Under the new reimbursement methodology, blood-clotting factor products are reimbursed based upon ASP, as provided by the manufacturers, plus 20%.

In addition, payments for Medi-Cal and certain other state-funded health programs were to be reduced by 5% for services provided on and after January 1, 2004 and through December 31, 2007. On December 23, 2003, the United States District Court for the Eastern District of California issued an injunction in CMA v. Bonta enjoining that scheduled 5% Medi-Cal reimbursement rate cut. DHS appealed the decision to the federal Ninth Circuit Court of Appeals. The Ninth Circuit issued a decision on August 2, 2005 reversing the District Court's grant of the preliminary injunction. However, because a petition for rehearing and rehearing en banc has been filed, the preliminary injunction remains in effect until the Ninth Circuit rules on the petition. It is not known when the Ninth Circuit will rule. Further, subsequent to the issuance of the decision by the Ninth Circuit, the California legislature amended Welfare & Institutions Code Section 14105.19 to eliminate the 5% reduction for dates of service from January 1, 2004 through December 31, 2005. Thus, there is no possibility of recoupment of payments made pursuant to the preliminary injunction during this period. It is not possible to determine whether the current Medi-Cal rates will be reduced after January 1, 2006, should the petition for rehearing or rehearing en banc be denied. It is possible that the 5% reduction will go into effect at some point, or it is possible that the California legislature will pass further legislation to eliminate the 5% reduction. The District Court order enjoining the 5% Medi-Cal rate reduction did not apply to other state funded programs for hemophilia patients, and California implemented the 5% reduction for these other programs. However, the 5% reduction as applied to the other state funded

programs was repealed on or about July 31, 2004 for services provided on and after July 1, 2004.

Effective June 1, 2004, Medi-Cal implemented the ASP reimbursement methodology for blood-clotting factor products. The change amounted to an approximate 30-40% cut from rates previously in effect. The implementation of the reduction in the reimbursement from Medi-Cal, and changes in regulations governing such reimbursement, has adversely impacted the Company's revenues and profitability from the sale of products by the Company or by retail pharmacies to which it provides products or services for hemophilia patients who are Medi-Cal beneficiaries or beneficiaries of other state funded programs for hemophilia patients.

In December 2004, the Company and certain named individual plaintiffs entered into a Settlement Agreement which resolved both a lawsuit previously filed on behalf of two individual Medi-Cal recipients with hemophilia in the United States District Court for the Eastern District of California against the State of California relating to the implementation of the new ASP reimbursement methodology, and a lawsuit previously filed by the Company in the Superior Court for the County of Sacramento relating to, among other things, the State of California's failure to comply with certain applicable federal procedural requirements relating to the reimbursement rates. In return for dismissal of both lawsuits, DHS agreed to process, on a priority basis, all pending and future Medi-Cal, California Children's Services and Genetically Handicapped Persons Program claims submitted by the Company. In addition, DHS agreed to expedite its efforts to implement electronic billing and payment for blood-clotting factor claims.

In addition, the California legislature recently approved a proposal by the Governor of California to expand the Medi-Cal managed care program into 13 additional counties and to phase in mandatory enrollment for parents and children who are Medi-Cal beneficiaries. The Governor's proposal for mandatory enrollment of seniors and disabled individuals was rejected by the legislature, except for those individuals who may reside in an expansion county where a COHS model is proposed. Under the COHS model, all eligible Medi-Cal beneficiaries are mandatorily enrolled into the managed care plan, including seniors and persons with disabilities. The Company understands there may be significant concern by various constituencies over mandatory enrollment of medically fragile populations, and the outcome of these proposals is uncertain at this time.

Change in Medicare Reimbursement Methodology

Effective January 1, 2005, the Medicare reimbursement methodology for blood-clotting factor products changed to ASP plus 6% plus a $0.14 per unit dispensing fee. Under the previous methodology, the Company was reimbursed at 95% of AWP. The Company anticipates that the new methodology will result in reduced reimbursement of approximately 12% or $1.7 million in Specialty Infusion revenues.

Results of Operations

Revenues

The Company's revenues for the third quarter of 2005 increased $1.8 million, or 3%, to $70.5 million compared to $68.7 million for the third quarter of 2004. For the first nine months of 2005, revenues increased $30.2 million, or 15%, to $228.9 million from $198.7 million for the same period in 2004. The increase in revenues for the nine-month period was the result of the April 2004

acquisition of CCS, offset by a reduction in hemophilia revenue related to the reduced reimbursement from California state programs.

Product revenues, attributed entirely to the Specialty Infusion business unit, increased $1.6 million, or 3%, to $63.0 million in the third quarter of 2005 from $61.4 million in the third quarter of 2004. For the first nine months of 2005, product revenues increased $29.3 million, or 16%, to $207.5 million compared to $178.2 million for the same period in 2004. The increase in product revenues for the nine-month period was primarily attributable to the 2004 acquisition of CCS, offset by a reduction in hemophilia revenue related to the reduced reimbursement from California state programs. As a percentage of Specialty Infusion's revenues, hemophilia revenues and Synagis(R) sales for the prevention of RSV accounted for 42% and 1%, respectively, for the third quarter of 2005 and 36% and 14%, respectively, for the first nine months of 2005. As RSV occurs primarily during the winter months, the major portion of the Company's Synagis(R) sales may be higher during the first and fourth quarters of the calendar year which may result in significant fluctuations in the Company's quarterly operating results.

Service revenues, attributed entirely to the Wound Care Management business unit, increased $0.2 million, or 3%, to $7.6 million in the third quarter of 2005 from $7.3 million in the third quarter of 2004. For the first nine months of 2005, service revenues increased $0.9 million, or 4%, to $21.4 million compared to $20.5 million for the same period in 2004. For the third quarter of 2005, the Company signed two new Wound Care Management contracts and three contracts were terminated. For the first nine months of 2005, the Company signed thirteen new Wound Care Management contracts and four contracts were terminated.

Cost of Product Sales

Cost of product sales, attributed entirely to the Specialty Infusion business unit, increased $3.5 million, or 7%, to $54.2 million in the third quarter of 2005 compared to $50.8 million in the third quarter of 2004. For the first nine months of 2005, cost of product sales increased $34.9 million, or 24%, to $179.1 million compared to $144.2 million for the same period in 2004. The increases in cost of product sales were primarily attributable to the 2004 acquisition of CCS and increased costs for IVIG products. As a percentage of product revenues, cost of product sales for the third quarter of 2005 was 86% compared to 83% for the same period in 2004 and 86% for the first nine months of 2005 compared to 81% for the same period in 2004. The percentage increases for 2005 were primarily attributable to the acquisition of CCS which resulted in the reduction of the percentage of the Company's revenues derived from hemophilia products, which have a lower product cost as a percentage of revenue, as well as the reduction in hemophilia revenue related to the reduced reimbursement from California state programs.

Cost of Services

Cost of services, attributed entirely to the Wound Care Management business unit, increased $0.2 million, or 5%, to $3.3 million in the third quarter of 2005 from $3.1 million in the third quarter of 2004. For the first nine months of 2005, cost of services increased $0.6 million, or 7%, to $9.6 million compared to $9.0 million for the same period in 2004. As a percentage of service revenues, cost of services for the third quarter of 2005 was 43% compared to 42% for the same period in 2004 and 45% for the first nine months of 2005 compared to 44% for the same period in 2004.

Gross Margin

Gross margin decreased $1.8 million, or 12%, to $13.1 million in the third quarter of 2005 from $14.9 million for the third quarter of 2004. Specialty Infusion's gross margin declined to $8.8 million for the third quarter of 2005 from $10.7 million for the same period in 2004, a decrease of $1.9 million, or 18%. As a percentage of its revenues, Specialty Infusion's gross margin was 14% in the third quarter of 2005 as compared to 17% for the same period in 2004. For the first nine months of 2005, Specialty Infusion's gross margin declined to $28.4 million from $34.0 million for the same period in 2004, a decrease of $5.6 million, or 16%. As a percentage of its revenues, Specialty Infusion's gross margin was 14% for the first nine months of 2005 as compared to 19% for the same period in 2004. The decreases in gross margin dollars and percentage for the three and nine months ended September 30, 2005 were attributed to lower average revenue per unit for hemophilia products as a result of changes in reimbursement rates, lower average revenue per unit for IVIG at pharmacies operating before the CCS acquisition due to a higher mix of managed care business and a higher cost of service. These decreases were partially offset by the inclusion of the gross margin from the CCS acquisition.

Wound Care Management's gross margin increased to $4.3 million for the third quarter of 2005 compared to $4.2 million for the same period in 2004. As a percentage of its revenues, Wound Care Management's gross margin was 57% for the third quarter of 2005 compared to 58% for the same period in 2004. For the first nine months of 2005, Wound Care Management's gross margin increased $0.3 million to $11.8 million compared to $11.5 million for the same period in 2004. As a percentage of its revenues, Wound Care Management's gross margin was 55% for the first nine months of 2005 as compared to 56% for the same period in 2004.

Selling, General and Administrative

Selling, general and administrative expenses decreased by $0.7 million, or 6%, to $11.3 million for the third quarter of 2005 compared to $11.9 million for the third quarter of 2004 and consisted of $5.6 million related to the Specialty Infusion business unit, $1.0 million related to the Wound Care Management business unit, $4.0 million related to corporate services and $0.7 million in charges related to the Company's corporate reorganization and financial advisory fees. The decrease in selling, general and administrative expenses of $0.7 million was primarily due to the charges of $0.7 million in the third quarter of 2005 compared to $1.3 million in charges in the same period of 2004. The charges incurred in the third quarter of 2004 were related to integration costs of the CCS acquisition and litigation costs associated with Prescription City and hemophilia reimbursement. As a percentage of total Company revenues, selling, general and administrative expenses were 16% for the third quarter of 2005 compared to 17% for the same period in 2004.

For the first nine months of 2005, selling, general and administrative expenses decreased by $1.7 million, or 5%, to $36.4 million from $38.1 million for the same period in 2004 and consisted of $16.8 million related to the Specialty Infusion business unit, $2.6 million related to the Wound Care Management business unit, $13.3 million related to corporate services and $3.7 million in charges, primarily related to the Company's corporate reorganization and financial advisory fees. The decrease in selling, general and administrative expenses of $1.7 million was primarily due to the charges of $3.7 million for the first nine months of 2005 compared to $6.3 million in charges in the same period of 2004 and cost savings from reductions in workforce, offset by additional expenses, as a result of the CCS acquisition. The charges incurred in the first nine months of 2004 were related to integration costs of the CCS acquisition and litigation costs associated with Prescription City and hemophilia reimbursement. As a percentage of total Company revenues, selling, general and administrative expenses were 16% for the first nine months of 2005 compared to 19% for the same period in 2004.

Goodwill Impairment

During the fourth quarter of 2005, the Company conducted its impairment test related to the carrying values of goodwill and other intangible assets, attributed entirely to the Specialty Infusion business unit, in accordance with SFAS No. 142 and SFAS No. 144, respectively. Based on the results of this evaluation, the Company recorded non-cash impairment charges of $78.5 million in goodwill and $0.2 million in other intangible assets related to the Specialty Infusion business unit as of September 30, 2005. The total charge of $78.7 resulted primarily from changes in the economics of the Specialty Infusion business unit. The fair value of the Specialty Infusion business unit was estimated by performing a discounted cash flow analysis for the reporting unit.

Net Loss

Net loss was $80.9 million, or $6.22 per share, in the third quarter of 2005 compared to a net loss of $2.1 million, or $0.16 per share, for the same period in 2004. For the first nine months of 2005, net loss was $89.1 million, or $6.84 per share, compared to a net loss of $2.1 million, or $0.16 per share, for the same period in 2004. The net losses for the third quarter and first nine months of 2005 were attributed to the goodwill and intangible asset impairment charges, the increased interest expense related to the Company's senior notes, the decreased gross margins for Specialty Infusion and the charges taken primarily related to the Company's corporate office relocation.

Liquidity and Capital Resources

Working capital deficit was $162.4 million at September 30, 2005 compared to working capital of $50.8 million at December 31, 2004 as the result of the Company classifying its debt and other obligation as current (see Note 1 of Notes to Condensed Consolidated Financial Statements). Total cash and cash equivalents at September 30, 2005 was $0.2 million. The ratio of current assets to current liabilities was 0.36 to 1 at September 30, 2005 and 1.8 to 1 at December 31, 2004.

Cash flows used in operating activities for the nine months ended September 30, 2005 totaled $1.1 million, attributable to the net loss for the period, a $1.1 million change in the fair value of the interest rate swap and a decrease in accounts payable of $15.5 million, offset by depreciation and amortization of $7.1 million, bad debt provision of $2.9 million, the goodwill and intangible asset impairment charges of $78.7 million and decreases of approximately $4.5 million, $5.3 million and $6.0 million in accounts receivable, inventories and prepaids and other, respectively.

Cash flows provided by investing activities totaled $0.7 million, primarily attributable to $4.5 million in proceeds received in connection with the Prescription City settlement, offset by $3.7 million in fixed asset purchases, net of disposals.

Cash flows used in financing activities totaled $0.5 million attributable to $2.0 million in repayments of credit facilities and long-term liabilities, net, and payment of deferred financing costs, offset by $1.5 million in proceeds from repayments of notes receivable from stockholders.

At September 30, 2005, the Company experienced a net decrease in accounts receivable of $7.4 million primarily attributable to reduced sales of Synagis(R) which is a seasonal product. Days sales outstanding ("DSO") was 95 days at

September 30, 2005, as compared to 88 days at December 31, 2004. At September 30, 2005, DSO for the Specialty Infusion business unit was 99 days and for the Wound Care Management business unit, DSO was 60 days, compared to 89 days and 73 days, respectively, at December 31, 2004.

As of September 30, 2005, the Company's debt and other obligation of $213.6 million included $185.0 million in senior notes, $23.3 million in borrowed funds from the Company's commercial lender, $0.8 million representing the Department of Justice ("DOJ") obligation, $1.5 million representing the convertible note used in connection with the purchase of Apex in February 2002 and $3.0 million in a convertible note related to the purchase of Home Care of New York, Inc. ("Home Care") in October 2002. The Company's debt and other obligation were classified as current liabilities under generally accepted accounting principles as of September 30, 2005 (see Note 1 of Notes to Condensed Consolidated Financial Statements). On October 26, 2005, the Company commenced litigation against former stockholders of Apex alleging, among other things, that stockholders of Apex made material misrepresentations in connection with their sale of Apex stock to

Curative in 2002. Prior to commencement of the action, Curative notified the representative of the former stockholders indicating that it would not be making the installment payment due on September 30, 2005 or any further payments pending resolution of this dispute. The balance of the Apex note was approximately $1.5 million as of September 30, 2005 (see Part II, Item 1, "Legal Proceedings").

The total of the Company's debt and other obligation and long-term liabilities decreased $3.9 million to $213.6 million compared to $217.5 million at December 31, 2004. The decrease was primarily due to a lower revolver balance at September 30, 2005 compared to December 31, 2004, a decrease in the DOJ obligation due to payments made in 2005 and the release of the obligation to pay a $1.0 million promissory note entered into in connection with the asset purchase of Prescription City (see Part II, Item 1, "Legal Proceedings").

The Company's current liquidity needs include those related to working capital needs for the servicing of its debt, approximately $19.9 million in interest expense, paid semi-annually, related principally to the Company's outstanding senior notes, a $0.8 million obligation payable to the DOJ related to the settlement of its litigation previously disclosed and the expansion of the Company's branch network of full-service pharmacies, including capital expenditure requirements of approximately $4.0 million. As previously disclosed, the Company hired a financial advisor to assess the financial alternatives available to the Company given its significant debt and continuing losses. In addition, an ad hoc committee comprised of the holders of approximately 80% of the Company's senior notes hired a financial advisor as well. Also as previously disclosed, the Company expected to receive a tax refund of approximately $3.4 million, and during the third quarter of 2005, the Company received approximately $3.1 million of those tax refunds. On May 2, 2005, the Company made the first 2005 semi-annual interest payment of approximately $9.75 million on the senior notes, and on October 23, 2005, the Company paid the $3.0 million convertible note related to the purchase of Home Care. The Company made these payments by drawing against its revolving credit facility. The Company did not, however, pay the November 1, 2005 coupon due on the senior notes and instead elected to use the 30-day grace period under the Note agreement to continue to negotiate with the ad hoc committee of the bondholders and their financial advisor regarding a restructuring of the senior notes. In the absence of significantly improved operating cash flow, a restructuring of the senior notes or some other event that improves liquidity, the Company currently does not

expect to be able to service its debt obligations coming due in fiscal 2006. Any restructuring of the senior notes resulting from the current discussions with the ad hoc committee of the bondholders would likely include a conversion of some or all of this debt to some form and amount of equity. The amount, form and timing of any conversion to equity cannot be predicted at this time. The Company cannot guarantee that any restructuring or other agreement providing additional liquidity for the Company will be reached.

The Company's longer term cash requirements include working capital for the expansion of its Specialty Infusion business branch pharmacy network and servicing of the Company's substantial debt. Other cash requirements are anticipated for capital expenditures in the normal course of business, including the acquisition of software, computers and equipment related to the Company's management information systems. As of September 30, 2005, the Company had senior notes, bank debt and convertible and promissory notes totaling $212.8 million payable over various periods through 2011.

As of September 30, 2005, the Company had approximately $16.7 million of availability under its revolving credit facility with GE Capital. The credit facility contains both financial and non-financial covenants. The financial covenants include a total leverage ratio, fixed charges coverage ratio, senior secured leverage ratio, capital expenditures and accounts receivable days outstanding limits. In the event of default under any of these covenants, the Company may seek a waiver or amendment of the covenants. Effective September 30, 2005, the Company and GE Capital executed a waiver agreement to the revolving credit facility related to the financial covenants of total leverage ratio and senior secured leverage ratio as the Company was not in compliance with those covenants. Additionally, this waiver agreement included a temporary waiver until December 1, 2005 of any default under the credit facility related to the Company's not paying the November 1, 2005 coupon on the senior notes for 30 days. The Company also received a waiver during the quarter related to the non-payment of the promissory note in connection with the 2002 purchase of Apex. There can be no assurance, however, that such waivers or amendments that may be needed in the future will be obtained. In the event of any such default, the lender may suspend or terminate advances under the credit facility, or the lender may accelerate the debt and demand immediate payment of any outstanding balance. An acceleration of the debt under the Company's senior secured credit facility

would result in an event of default under the indenture for the Company's senior notes as well. The Company was in compliance with the other covenants, as amended, under the credit facility at September 30, 2005.

Recently Issued Accounting Standard

In December 2004, the FASB issued SFAS No. 123(R) which eliminated the alternative of accounting for share-based compensation transactions under the intrinsic value method of APB No. 25. Instead, SFAS No. 123(R) requires companies to measure the cost of employee services received in exchange for an award of equity instruments based on the grant-date fair value of the award. The grant-date fair value of employee share options and similar instruments will be estimated using option-pricing models adjusted for the unique characteristics of those instruments.

The Company will adopt SFAS No. 123(R) on January 1, 2006. The adoption of SFAS No. 123(R)'s fair value method is expected to have a significant impact on the Company's results of operations.

Cautionary Statement and Risk Factors

The statements contained in this Quarterly Report on Form 10-Q include forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995 (the "PSLRA"). When used in this Quarterly Report on Form 10-Q and in future filings by us with the Securities and Exchange Commission (the "SEC"), in our news releases, presentations to securities analysts or investors, and in oral statements made by or with the approval of one of our executive officers, the words or phrases "believes," "anticipates," "expects," "plans," "seeks," "intends," "will likely result," "estimates," "projects" or similar expressions are intended to identify such forward-looking statements. These statements are only predictions. Although we believe that the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee future results, levels of activity, performance or achievements. Actual events or results may differ materially from the results discussed in the forward-looking statements.

The following text contains cautionary statements regarding our business that investors and others should consider. This discussion is intended to take advantage of the "safe harbor" provisions of the PSLRA. Except to the extent otherwise required by federal securities laws, we do not undertake to address or update forward-looking statements in future filings with the SEC or communications regarding our business or operating results, and do not undertake to address how any of these factors may have caused results to differ from discussions or information contained in previous filings or communications. You should not place undue reliance on forward-looking statements, which speak only as of the date they are made. In addition, any of the matters discussed below may have affected past, as well as current, forward-looking statements about future results so that our actual results in the future may differ materially from those expressed in prior communications.

Risks Related to our Business

Our substantial level of indebtedness could adversely affect our financial condition and prevent us from fulfilling our debt obligations.

We had approximately $213.6 million in outstanding debt as of September 30, 2005, including $185.0 million aggregate principal amount of 10.75% senior notes due 2011 (the "Notes") and a $23.3 million revolving credit facility with General Electric Capital Corporation ("GE Capital"), and incurred significant losses over the past several quarters. We hired a financial advisor to assist us in evaluating the financial alternatives available given our significant debt and continuing losses. In October 2005, we commenced discussions with an ad hoc committee representing holders of approximately 80% of the aggregate principal amount of the Notes regarding a possible restructuring of the Notes. In connection with these discussions, we elected not to pay the interest payment due on the Notes on November 1, 2005 and instead elected to use the 30-day grace period under the Note agreement. In addition, we executed a waiver agreement with GE Capital for failing to meet the financial covenants of total leverage ratio and senior secured leverage ratio related to our revolving credit facility for the quarter ended September 30, 2005, and it is uncertain whether we will be able to meet those obligations in the future. Therefore, all of our outstanding debt has been classified as current in the accompanying financial statements. These conditions raise substantial doubt about our ability to continue as a going concern (see Note 1 of Notes to Condensed Consolidaated Financial Statements).

Our high level of indebtedness could have important consequences. For

example, it could:

- make it more difficult for us to satisfy our obligations on the Notes or under our revolving credit facility;
- require us to dedicate a substantial portion of our cash flow from operations to interest and principal payments on our indebtedness, reducing the availability of our cash flow for other purposes, such as branch pharmacy expansion, capital expenditures, acquisitions and working capital;
- limit our flexibility in planning for, or reacting to, changes in our business and the industry in which we operate;
- increase our vulnerability to general adverse economic and industry conditions;
- place us at a disadvantage compared to our competitors that have less debt;
- limit our ability to obtain or renew managed care contracts;
- expose us to fluctuations in the interest rate environment because the Company's revolving credit facility is at a variable rate of interest; and
- limit our ability to borrow additional funds.

We expect to obtain the money to pay our expenses and to pay the interest on the Notes, our revolving credit facility and other debt from cash flow from our operations and from additional loans under our revolving credit facility. Our ability to meet our expenses thus depends on our future performance, which will be affected by financial, business, economic and other factors. For example, in 2004, our business was adversely affected by reimbursement reductions in the State of California for the hemophilia related products we sell. We will not be able to control many of these factors, such as economic conditions in the markets where we operate and pressure from competitors. We cannot be certain that our cash flow will be sufficient to allow us to pay principal and interest on our debt (including the Notes) and meet our other obligations, such as those relating to the expansion of our branch pharmacy network. If we do not have enough money, we may be required to refinance all or part of our existing debt (including the Notes), sell assets or borrow more money. We cannot guarantee that we will be able to do so on terms acceptable to us. In addition, the terms of existing or future debt agreements, including our revolving credit facility and the indenture, may restrict us from adopting any of these alternatives. In October 2005, we commenced discussions with an ad hoc committee representing holders of approximately 80% of the aggregate principal amount of the Notes regarding a possible restructuring of the Notes. In connection with these discussions, we elected not to pay the interest payment due on the Notes on November 1, 2005. The failure to generate sufficient cash flow, to refinance or restructure a significant portion of our debt or otherwise improve our liquidity would significantly adversely affect the value of the Notes and our ability to pay principal of and interest on the Notes.

Our substantial outstanding debt subjects us to covenant default risk under our senior secured credit facility.

We are highly leveraged. If we are unable to achieve our forecasted operating results, we may violate covenants under our senior secured credit facility which include a total leverage ratio, fixed charges coverage ratio, senior secured leverage ratio, capital expenditures and accounts receivable days outstanding limits. In the event we default under any of these covenants, we may

seek a waiver or amendment of the covenants. Effective December 31, 2004, the Company executed an amendment to its revolving credit facility to amend the financial covenants of total leverage ratio and fixed charges, in addition to other changes made to the credit agreement. Effective September 30, 2005, the Company and GE Capital executed a waiver agreement to the revolving credit facility related to the financial covenants of total leverage ratio and senior secured leverage ratio as the Company was not in compliance with those covenants. The other financial covenants were amended through December 31, 2005 and

may need to be amended again depending on the Company's operating results. There can be no assurance, however, that we will be able to obtain such a waiver or amendment. In the event we are unable to obtain a waiver or amendment to remedy any such default, the lender may suspend or terminate advances under the credit facility, or the lender may accelerate the debt and demand immediate payment of any outstanding balance. An acceleration of the debt under our senior secured credit facility would result in an event of default under the indenture for the Notes as well.

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

On December 28, 2001, we entered into a settlement with the U.S. Department of Justice ("DOJ"), the U.S. Attorney for the Southern District of New York, the U.S. Attorney for the Middle District of Florida and the U.S. Department of Health and Human Services, Office of the Inspector General, in connection with all federal investigations and legal proceedings related to whistleblower lawsuits previously pending against us in the U.S. District Court for the Southern District of New York and the U.S. District Court for the District of Columbia. These lawsuits included allegations that we improperly caused our hospital customers to seek reimbursement for a portion of our management fees that included costs related to advertising and marketing activities by our personnel and allegations that we violated the federal anti-kickback law and the federal False Claims Act. Under the terms of the settlement, the lawsuits were dismissed, the United States and the whistleblowers released us from the claims asserted in the lawsuits, and we agreed to pay to the United States a $9.0 million initial payment, with an additional $7.5 million to be paid over the next four years. As of September 30, 2005, a balance of approximately $0.8 million was outstanding on this obligation. Pursuant to the settlement, we have been required to fulfill certain additional obligations, including abiding by a five-year Corporate Integrity Agreement, avoiding violations of law and providing certain information to the DOJ from time to time. As of December 17, 2003, we were released from part of our obligations under the Corporate Integrity Agreement. The independent review organization that conducts the audit of our records pursuant to the Corporate Integrity Agreement is no longer required to conduct the general compliance review. If we fail or if we are accused of failing to comply with the terms of the settlement, we may be subject to additional litigation or other governmental actions, including our Wound Care Management business unit being barred from participating in the Medicare program and other federal health care programs. In addition, as part of the settlement, we consented to the entry of a judgment against us for $28.0 million, less any amounts previously paid under the settlement, that would be imposed only if we fail to comply with the terms of the settlement, which, if required to be paid, could have a material adverse effect on our financial position. In July 2002, we settled a shareholders' class action suit for $10.5 million that had been consolidated from four lawsuits involving allegations stemming from the whistleblower lawsuits and DOJ

investigations.

If DHS enforces its audit findings against third-party pharmacies and appeals are unsuccessful, it is likely that the third-party pharmacies would seek indemnification from us. Any requirement for us to indemnify the pharmacies could have a material adverse effect on our financial position and results of operations.

As previously disclosed, we intend to dispute the results of audits conducted by the California Department of Health Services ("DHS") of three independent retail California pharmacies which previously did business with two of our subsidiaries, Apex Therapeutic Care, Inc. ("Apex") and eBioCare.com, Inc. ("eBioCare"). These subsidiaries provided contract pharmacy and billing services to the three independent retail pharmacies audited by DHS.

The pharmacies recently have undergone audits by DHS which included a review of their Medi-Cal billing for clotting factor supplied to the pharmacies by Apex and eBioCare. The audits at issue covered the period from October 1, 2001 to May 30, 2004. Although Apex and eBioCare are not being audited, their previous contract pharmacy relationships with the three independent retail pharmacies are potentially implicated because the pharmacies may assert indemnification claims against Apex and eBioCare.

Although no final audit findings have been issued, the Company's legal counsel recently has learned through discussions with DHS that final audit findings assessed against the three independent retail pharmacies may include up to $38.0 million in alleged overpayments.

Approximately 85% of the assessment against the three independent retail pharmacies is for claims that DHS alleges were improperly reimbursed at 1% over the retail pharmacies' cost of acquiring the product from the Company's subsidiaries. DHS alleges that such reimbursement was improper because, in its view, payments should have been made at 1% over the cost the retail pharmacies would have incurred had they acquired the product directly from the product manufacturer.

Substantially all of the balance of the assessment against the three independent retail pharmacies is based on allegedly improper reimbursement for the medically necessary anti-inhibitor product called FEIBA. DHS alleges that the retail pharmacies submitted claims for FEIBA improperly, in its view, when they used factor product service codes. Apex and eBioCare used the factor product service codes when submitting claims on behalf of the retail pharmacies because EDS, the company that processes claims for payment on behalf of DHS, could not accept the FEIBA-specific service code into its systems. DHS auditors have not confirmed whether they will include the FEIBA assessments in their final findings.

The Company plans to work closely with the three independent retail pharmacies to appeal any assessments resulting from the audits. The Company believes the allegations asserted by DHS against the pharmacies are without merit, and the Company expects the pharmacies to vigorously defend against these allegations through administrative and judicial proceedings. The Company is also aware that other similar retail pharmacy relationships in California are being audited by DHS.

The Company anticipates that the three independent retail pharmacies may assert claims for indemnification from the Company's subsidiaries for any liabilities resulting from the audits. Based on facts and circumstances known to

date, the Company believes some amount of monetary loss is reasonably possible if the pharmacies assert and prevail on indemnification claims. While the Company is unable to estimate the range of potential loss due to the uncertainty of various issues involved in this matter, it does not believe the loss will exceed $38.0 million. No related loss provision has been accrued in the condensed consolidated financial statements as of September 30, 2005.

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

In the normal course of our business, we are involved in lawsuits, claims, and investigations, including any arising out of services or products provided by or to our operations, personal injury claims, employment disputes and contractual claims, the outcome of which, in our opinion, should not have a material adverse effect on our financial position and results of operations. However, we may become subject to future lawsuits, claims, audits and investigations that could result in substantial costs and divert our attention and resources. In addition, since our current growth strategy includes acquisitions, among other things, we may become exposed to legal claims for the activities of an acquired business prior to the respective acquisition.

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

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

A substantial percentage of our revenue is attributable to the Medicaid and Medicare programs. Our business has been significantly adversely impacted by recent changes in Medi-Cal reimbursement policies and will continue to be subject to changes in reimbursement policies and other legislative or regulatory initiatives aimed at reducing costs associated with various government programs.

In the year ended December 31, 2004, approximately 40% of our Specialty Infusion business unit's revenues were derived from products and/or services provided to patients covered under various state Medicaid programs, most of which were from California, and approximately 7% of our Specialty Infusion business unit's revenues were derived from products and/or services provided to patients covered under the Medicare program. During the nine months ended September 30, 2005, approximately 31% and 8% of our Specialty Infusion business unit's revenues were derived from products and/or services provided to patients covered under various state Medicaid and Medicare programs, respectively. Such programs are highly regulated and subject to frequent and substantial changes and cost-containment measures that may limit and reduce payments to providers. In the recent past, many states have been experiencing budget deficits that may require future reductions in health care related expenditures. According to a Kaiser Family Foundation report issued in October 2004, all 50 states and the

District of Columbia implemented Medicaid cost containment measures in fiscal year 2004, and each of these states planned to put in additional spending constraints in fiscal year 2005. State cost containment activity continued to focus heavily on reducing provider payments and controlling prescription drug spending.

In December 2003, the Medicare Prescription Drug Improvement and Modernization Act of 2003 ("MMA") was signed into federal law, providing for a Medicare prescription drug benefit and other changes to the Medicare program, including changes to payment methodologies for products we distribute that are covered by Medicare. Prior to MMA, Medicare reimbursement for many of the products we distribute was based on 95% of the products' average wholesale price ("AWP"). Under MMA, Medicare reimbursement for many of the products we distribute, including most physician-administered drugs and biologicals, was lowered to 80-85% of AWP effective January 1, 2004. This 2004 change did not affect Medicare reimbursement for blood-clotting factor products, which continued to be reimbursed at 95% of AWP during 2004.

Effective January 1, 2005, the Medicare reimbursement methodology for blood-clotting factor products changed from an AWP-based system to one based upon Average Selling Price ("ASP") which has lowered Medicare reimbursement. In addition to the payment we receive from the Medicare program for blood-clotting factor, beginning in January 2005, we receive a separate payment of $0.14 for each unit of factor furnished to Medicare beneficiaries. It is possible that states and/or commercial payors may adopt the new Medicare reimbursement methodology. The conversion to a system based upon ASP could have a material adverse effect on our business, financial condition and results of operations. In addition, MMA changes the relationship between the Medicare and Medicaid programs such that we may receive less reimbursement in the future for individuals who receive benefits under both of these programs.

In addition to these federal initiatives, many states are also making modifications to the manner with which they reimburse providers of pharmacy services. For example, in California, where approximately 12% and 7% of our total revenues for the year ended December 31, 2004 and for the nine months ended September 30, 2005, respectively, were derived from blood-clotting products reimbursed by California state funded health programs, the state legislature in 2003 passed legislation that modified the reimbursement methodology for blood-clotting factor products under various California state funded health programs. Under the new reimbursement methodology, blood-clotting factor products are reimbursed based upon ASP, as provided by the manufacturers, plus 20%. In addition, payments for California's Medicaid program ("Medi-Cal") and certain other state-funded health programs were to be reduced by 5% for services provided on and after January 1, 2004 and through December 31, 2007. On December 23, 2003, the United States District Court for the Eastern District of California issued an injunction in California Medical Association, et al v. Bonta ("CMA v. Bonta") enjoining that scheduled 5% Medi-Cal reimbursement rate cut. DHS appealed the decision to the federal Ninth Circuit Court of Appeals. The Ninth Circuit issued a decision on August 2, 2005 reversing the District Court's grant of the preliminary injunction. However, because a petition for rehearing and rehearing en banc has been filed, the preliminary injunction remains in effect until the Ninth Circuit rules on the petition. It is not known when the Ninth Circuit will rule. Further, subsequent to the issuance of the decision by the Ninth Circuit, the California legislature amended Welfare & Institutions Code Section 14105.19 to eliminate the 5% reduction for dates of service from January 1, 2004 through December 31, 2005. Thus, there is no possibility of

recoupment of payments made pursuant to the preliminary injunction during this period. It is not possible to determine whether the current Medi-Cal rates will be reduced after January 1, 2006, should the petition for rehearing or rehearing en banc be denied. It is possible that the 5% reduction will go into effect at some point, or it is possible that the California legislature will pass further legislation to eliminate the 5% reduction. The District Court order enjoining the 5% Medi-Cal rate reduction did not apply to other state funded programs for hemophilia patients, and California implemented the 5% reduction for these other programs. However, the 5% reduction as applied to the other state funded programs was repealed on or about July 31, 2004 for services provided on and after July 1, 2004.

Effective June 1, 2004, Medi-Cal implemented the ASP reimbursement methodology for blood-clotting factor products. The change amounted to an approximate 30-40% cut from rates previously in effect. The implementation of the reduction in the reimbursement from Medi-Cal, and changes in regulations governing such reimbursement, has adversely impacted our revenues and profitability from the sale of products by us or by retail pharmacies to which we provide products or services for hemophilia patients who are Medi-Cal beneficiaries or beneficiaries of other state funded programs for hemophilia patients.

In December, 2004, we and certain named individual plaintiffs entered into a Settlement Agreement which resolved both a lawsuit previously filed on behalf of two individual Medi-Cal recipients with hemophilia in the United States District Court for the Eastern District of California against the State of California relating to the implementation of the new ASP reimbursement methodology, and a lawsuit previously filed by us in the Superior Court for the County of Sacramento relating to, among other things, the State of California's failure to comply with certain applicable federal procedural requirements relating to the reimbursement rates. In return for dismissal of both lawsuits, DHS agreed to process, on a priority basis, all pending and future Medi-Cal, California Children's Services and Genetically Handicapped Persons Program claims submitted by us. In addition, DHS agreed to expedite its efforts to implement electronic billing and payment for blood-clotting factor claims. There can be no assurance, however, that the Company's accounts receivable collections from the State of California will improve as the result of this settlement agreement. A failure of the Company to improve its accounts receivable collections from the State of California could have a material adverse effect on the Company's business, financial condition and operating results.

In addition, the California legislature approved a proposal by the Governor of California to expand the Medi-Cal managed care program into 13 additional counties and to phase in mandatory enrollment for parents and children who are Medi-Cal beneficiaries. The Governor's proposal for mandatory enrollment of seniors and disabled individuals was rejected by the legislature, except for those individuals who may reside in an expansion county where a County Organized Health System ("COHS") model is proposed. Under the COHS model, all eligible Medi-Cal beneficiaries are mandatorily enrolled into the managed care plan, including seniors and persons with disabilities. We understand there may be significant concern by various constituencies over mandatory enrollment of medically fragile populations, and the outcome of these proposals is uncertain at this time.

We are in the process of evaluating the impact various federal and state legislative and related initiatives may have on our business, financial position and results of operations.

Our growth strategy includes the expansion of our branch pharmacy network by the opening of new branch pharmacy locations.

An important element of the growth strategy of our Specialty Infusion

business unit is the expansion of our branch pharmacy network through the opening of new branch locations. This expansion will involve significant planning and execution processes, such as identifying new markets, leasing facility space, hiring qualified personnel, obtaining payor contracts and obtaining patient referrals. In addition, the Company will need to invest capital in facility build out, computers, offices and other furniture and equipment. It is expected that these branch pharmacies will incur losses during their startup periods. Any failure by us to effectively execute this expansion strategy, including the successful transition of expansion branches from loss positions to profitability, could have a material adverse effect on the Company's business, financial condition, operating results and cash flows.

We have experienced rapid growth by acquisitions. If we are unable to manage our growth effectively or purchase or integrate new companies, our business could be harmed.

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

As part of our growth strategy, we may evaluate acquisition opportunities. Acquisitions involve many risks, including the following:

- Since the specialty pharmacy industry is undergoing consolidation, we may experience difficulty in identifying suitable candidates and negotiating and consummating acquisitions on attractive terms, if at all.

- In the industry in which our Specialty Infusion business unit operates, there are customers who have a strong affiliation with their community-based representatives; accordingly, we may experience difficulty in retaining and assimilating the community-based representatives of companies we acquire.

- Because of the relationships between community-based representatives and customers in certain of our product lines, the loss of a single community-based representative may entail the loss of a significant amount of revenue.

- Our operational, financial and management systems may be incompatible with or inadequate to cost effectively integrate and manage the acquired business' systems. As a result, billing practices could be interrupted, and cash collections on the newly acquired business could be delayed pending conversion of patient files onto our billing systems and receipt of provider numbers from government payors.

- A growth strategy that involves significant acquisitions diverts our management's attention from existing operations.

- Acquisitions may involve significant transaction costs which we may not be able to recoup.

- We may not be able to integrate newly acquired businesses appropriately.

In addition, we may become subject to litigation and other liabilities resulting from the conduct of an acquired business prior to their acquisition by us.

Our growth strategy may include acquisitions. If we fail to implement our acquisition growth strategy as intended, or incur unknown liabilities for the past practices of acquired companies, our results of operations could be adversely affected.

An element of the growth strategy of our Specialty Infusion business unit may be expansion through the acquisition of complementary businesses. Our competitors may acquire or seek to acquire many of the businesses that would also be suitable acquisition candidates for us. This competition could limit our ability to grow by acquisition or increase the cost of our acquisitions. There can be no assurance that we will be able to acquire any complementary businesses that meet our target criteria on satisfactory terms, or at all.

We may acquire businesses with significant unknown or contingent liabilities, including liabilities for failure to comply with health care or reimbursement laws and regulations. We have policies to conform the practices of acquired businesses to our standards and applicable laws and generally intend to seek indemnification from prospective sellers covering these matters. We may, however, incur material liabilities for past activities of acquired businesses.

While we generally obtain contractual rights to indemnification from owners of the businesses we acquire, our ability to realize on any indemnification claims will depend on many factors, including, among other things, the availability of assets of the indemnifying parties. These indemnifying parties are often individuals who may not have the resources to satisfy an indemnification claim.

We operate in a rapidly changing, consolidating and competitive environment. If we are unable to adapt quickly to these changes, our business and results of operations could be seriously harmed.

The specialty infusion industry is experiencing rapid consolidation. We believe that technological and regulatory changes will continue to attract new entrants to the market. Industry consolidation among our competitors may increase their financial resources, enabling them to compete more effectively based on price and services offered. This could require us either to reduce our prices or increase our service levels, or risk losing market share. Moreover, industry consolidation may result in stronger competitors that are better able to compete. If we are unable to effectively execute our growth strategy, our ability to compete in a rapidly changing and consolidating specialty pharmacy industry may be negatively impacted.

The anticipated benefits of combining Curative and CCS may not be realized.

In April of 2004, we purchased CCS with the expectation that the combination of both companies will result in various benefits including, among other things, benefits relating to increased infrastructure of added pharmacies, increased leverage with a greater number of payor contracts, an essential and demonstrably cost-effective therapy offering, increased clinical backbone and expertise, cost savings and operating efficiencies. There can be no assurance that we will realize any of these benefits or that the acquisition will not

result in the deterioration or loss of significant business of the combined company. Costs incurred and liabilities assumed in connection with the acquisition, including pending and/or threatened disputes and litigation, could have a material adverse effect on the combined company's business, financial condition and operating results.

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

In order to implement our present growth strategy, we may need substantial capital resources and may incur, from time to time, short- and long-term indebtedness, the terms of which will depend on market and other conditions. Due to uncertainties inherent in the capital markets (e.g., availability of capital, fluctuation of interest rates, etc.), we cannot be certain that existing or additional financing will be available to us on acceptable terms, if at all. Even if we are able to obtain additional debt financing, we may incur additional interest expense, which may decrease our earnings, or we may become subject to contracts that restrict our operations. As a result, we could be unable to fully pursue our growth strategy. Further, additional financing may involve the issuance of equity securities that would dilute the interests of our existing shareholders and potentially decrease the market price of our common stock.

An impairment of the significant amount of goodwill on our financial statements could adversely affect our results of operations.

Our specialty infusion acquisitions resulted in the recording of a significant amount of goodwill on our financial statements. The goodwill was recorded because the fair value of the net assets acquired was less than the purchase price. We may not realize the full value of this goodwill. As such, we evaluate, at least on an annual basis, whether events and circumstances indicate that all or some of the carrying value of goodwill is no longer recoverable, in which case we would write off the unrecoverable goodwill as a charge against our earnings. Due primarily to changes in the economics of the Specialty Infusion business unit we recorded a non-cash impairment charge of $78.5 million in goodwill and $0.2 million in other intangible assets, respectively, in the third quarter of 2005. We will continue to monitor our goodwill and intangibles for impairment indicators.

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

As of September 30, 2005, we had goodwill of approximately $36.9 million, or 21% of total assets.

Failure to achieve and maintain effective internal control over financial reporting could have a material adverse effect on our business, results of operations and stock price.

We must continue to document and test our internal control procedures in order to satisfy the requirements of Section 404 of the Sarbanes-Oxley Act of 2002, which requires annual management assessments of the effectiveness of our

internal control over financial reporting and a report by our independent registered public accounting firm attesting to these assessments. During this process, management may identify control deficiencies and material weaknesses in our internal control over financial reporting and in our disclosure controls and procedures. Although management's evaluation concluded that our internal control over financial reporting was effective as of December 31, 2004, we cannot predict the outcome of testing in future periods. Additionally, for the year ended December 31, 2005, our report on internal controls will include an evaluation of the internal controls of the acquired CCS branches which have not previously had such an evaluation. If we fail to maintain the adequacy of our internal controls and disclosure controls, as such standards are modified, supplemented or amended from time to time, we may not be able to conclude on an ongoing basis that we have effective internal control over financial reporting. If we cannot provide reliable financial reports, our business and operating results could be harmed, investors could lose confidence in our reported financial information and the trading price of our stock could decline.

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

The biopharmaceutical and pharmaceutical industries are susceptible to product shortages. Some of the products that we distribute, such as factor VIII blood-clotting products and IVIG, have experienced shortages in the past due to the inability of suppliers to increase production to meet rising global demand. Although such shortages have ended, demand continues to grow. We are currently experiencing allocation restrictions of IVIG products. Suppliers were unable to increase production to meet rising global demand. For the year ended December 31, 2004, approximately 32%, or $81.3 million, and for the nine months ended September 30, 2005, approximately 25%, or $52.5 million, of our Specialty Infusion business unit's revenues were derived from our sale of factor VIII. We purchase the majority of our supplies of blood-clotting products from five suppliers: Baxter Healthcare Corporation, Wyeth-Ayerst Pharma, Bayer Direct, Novo Nordisk and ZLB Behring. We believe that these five suppliers represent substantially all of the production capacity for recombinant factor VIII. In the event that one of these suppliers is unable to continue to supply us with products, it is uncertain whether the remaining suppliers would be able to make up any shortfall resulting from such inability. Our ability to take on additional customers or to acquire other specialty pharmacy or infusion services businesses with significant hemophilia customer bases could be affected negatively in the event we are unable to secure adequate supplies of our products from these suppliers. In addition, MedImmune, Inc. is the sole manufacturer of Synagis(R), a product used to treat RSV in infants. For the year ended December 31, 2004, approximately 17%, or $43.7 million, and for the nine months ended September 30, 2005, approximately 14%, or $28.1 million, of our Specialty Infusion business unit's revenues were derived from our sale of Synagis(R). In particular, RSV occurs primarily during the winter months and thus the demand for Synagis(R) is greater during this time. A shortage in the supply of Synagis(R) or our failure to adequately plan for the demand could adversely affect our financial results. MedImmune has designated us as an indirect participant in their distribution network for the 2005-2006 Synagis(R) season, and we have had to secure arrangements with other product wholesalers for supply of Synagis(R). MedImmune has declined to supply the product directly to us as a result of their evaluation of our financial statements. We have recently been put on allocation of product for IVIG by our largest supplier of IVIG product. Although we believe we will have sufficient supply of IVIG to service our existing customers, we may not be able to increase our market share

of providing infusion services related to IVIG. There can be no assurance as to when the allocation for IVIG products will terminate. In addition, it is possible that we will experience price increases for these products. Although we believe the price increase for these products will be absorbed by our customers, there can be no assurance that we will be successful in passing on any such price increase. If these products, or any of the other drugs or products that we distribute, are in short supply for long periods of time, our business could be harmed.

Some biopharmaceutical suppliers in the specialty pharmacy industry have chosen to limit the number of distributors of their products. If we are not selected as a preferred distributor of one or more of our core products, our business and results of operations could be seriously harmed.

We have identified a trend among some of our suppliers toward the retention of a limited number of preferred distributors to market certain of their biopharmaceutical products. If this trend continues, we cannot be certain that we will be selected and retained as a preferred distributor or can remain a preferred distributor to market these products. Although we believe we can effectively meet our suppliers' requirements, there can be no assurance that we will be able to compete effectively with other specialty pharmacy companies to retain our position as a distributor of each of our core products. Adverse developments with respect to this trend could have a material adverse effect on our business and results of operations.

The seasonal nature of a portion of our business may cause significant fluctuations in our quarterly operating results.

For the year ended December 31, 2004, approximately 17%, or $43.7 million, and for the nine months ended September 30, 2005, approximately 14%, or $28.1 million, of our Specialty Infusion business unit's revenues were derived from our sale of Synagis(R). Synagis(R) is used to prevent RSV in infants. As RSV occurs primarily during the winter months, the major portion of our Synagis(R) sales may be higher during the first and fourth quarters of the calendar year which may result in significant fluctuations in our quarterly operating results.

If we fail to cultivate new or maintain established relationships with the physician referral sources, our revenues may decline.

Our success, in part, is dependent upon referrals and our ability to maintain good relationships with physician referral sources. Physicians referring patients to us are not our employees and are free to refer their patients to our competitors. If we are unable to successfully cultivate new referral sources and maintain strong relationships with our current referral sources, our revenues and profits may decline.

If additional providers obtain access to products we handle at more favorable prices, our business could be harmed.

Because we do not receive federal grants under the Public Health Service Act, we are not eligible to participate directly in a federal pricing program administered by the Federal Health Resources and Services Administration's Public Health Service, which allows certain entities with such grants, such as certain hospitals and hemophilia treatment centers, to obtain discounts on drugs, including certain biopharmaceutical products (e.g., hemophilia-clotting factor and IVIG) that represented approximately 45% of our total Company revenues at December 31, 2004 and for the nine months ended September 30, 2005. To the best of our knowledge, these entities benefit by being able to acquire, pursuant to this federal program, products competitive with ours at prices lower than our cost for the same products. Our customers, where eligible, may elect to obtain hemophilia-clotting factor, or other products, from such lower-cost

entities, which could result in a reduction of revenue to us.

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

Many government payors, including Medicare (in 2004) and many state Medicaid programs, as well as a number of private payors, pay us directly or indirectly based upon a drug's AWP. In fact, most of our Specialty Infusion business unit's revenues result from reimbursement methodologies based on the AWP of our products. The AWP for most drugs is compiled and published by third-party price reporting services, such as First DataBank, Inc.,

from information provided by manufacturers and/or wholesalers. Various federal and state government agencies have been investigating whether the published AWP of many drugs, including some that we distribute and sell, is an appropriate or accurate measure of the market price of the drugs. There are also several lawsuits pending against various drug manufacturers in connection with the appropriateness of the manufacturers' AWP for a particular drug(s). These government investigations and lawsuits involve allegations that manufacturers reported artificially inflated AWPs of various drugs to third-party price reporting services, which, in turn, reported these prices to its subscribers, including many state Medicaid agencies who then included these AWPs in the state's reimbursement policies.

Moreover, as discussed above, as a result of MMA, Medicare reimbursement for many of the products we distribute, including most physician-administered drugs and biologicals, was lowered to 80-85% of AWP effective January 1, 2004. Although this 2004 change did not affect Medicare reimbursement for blood-clotting factor products, which continued to be reimbursed at 95% of AWP in 2004, effective January 1, 2005, the Medicare reimbursement methodology for blood-clotting factor products changed from an AWP-based system to a system based upon ASP (plus, in the case of hemophilia products, 6% plus an additional administrative fee most recently proposed by Centers for Medicare & Medicaid Services ("CMS") to be $0.14 per unit), which has lowered Medicare reimbursement. It is possible that states and/or commercial payors may adopt the new Medicare reimbursement methodology. While we cannot predict the eventual results of any law changes, government proposals, investigations or lawsuits, if government or private payors revise their pricing based on new methods of calculating AWP for products we supply, or implement reimbursement methodology based on a value other than AWP, this could have a material adverse effect on our business, financial condition and results of operations.

A reduction in the demand for our products and services could result in our reducing the pricing and margins on certain of our products.

A number of circumstances could reduce demand for our products and services, including:

- customer shifts to treatment regimens other than those we offer;
- new treatments or methods of delivery of existing drugs that do not require our specialty products and services;
- the recall of a drug or adverse reactions caused by a drug;
- the expiration or challenge of a drug patent;
- competing treatment from a new drug, a new use of an existing drug

or genetic therapy;

- drug companies ceasing to develop, supply and generate demand for drugs that are compatible with the services we provide;
- drug companies stopping outsourcing the services we provide or failing to support existing drugs or develop new drugs;
- governmental or private initiatives that would alter how drug manufacturers, health care providers or pharmacies promote or sell products and services;
- the loss of a managed care or other payor relationship covering a number of high-revenue customers; or
- the cure of a disease we service.

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

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

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

Our operations expose us to product and professional liability risks that are inherent in managing the delivery of wound care services and the provision and marketing of biopharmaceutical and pharmaceutical products. We currently maintain professional and product liability insurance coverage of $15.0 million in the aggregate. Because we cannot predict the nature of future claims that may be made, there can be no assurance that the coverage limits of our insurance would be adequate to protect us against any potential claims, including claims based upon the transmission of infectious diseases, contaminated products, negligent services or otherwise. In addition, we may not be able to obtain or maintain professional or product liability insurance in the future on acceptable terms, if at all, or with adequate coverage against potential liabilities.

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

The success of our Specialty Infusion business unit depends upon our ability to retain key employees known as community-based representatives, and the loss of their services could adversely affect our business and prospects. Our community-based representatives are our chief contacts and maintain the primary relationship with our customers, and the loss of a single community-based representative could result in the loss of a significant number

of customers. We do not have key person insurance on any of our community-based representatives. In addition, our success depends upon, among other things, the successful recruitment and retention of qualified personnel, and we may not be able to retain all of our key management personnel or be successful in recruiting additional replacements should that become necessary. For example, six of our customer sales and service representatives servicing hemophilia patients resigned from Curative on October 21, 2005. We estimate that the patients serviced by these employees represent approximately $25.0 million of revenue annually to Curative. We immediately implemented an action plan to communicate with and retain patients who were formerly serviced by these employees. We are monitoring compliance by these former employees with their continuing obligations under their respective employment agreements and will evaluate our legal remedies with respect to any of these employees who fail to comply with those obligations. At this time, it is not possible to forecast the impact that the departure of these individuals will have on our business.

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

Substantially all of the revenues of our Wound Care Management operations are derived from management contracts with acute care hospitals. At September 30, 2005, we had 107 management contracts (102 operating and 5 contracted). The contracts generally have initial terms of three to five years, and many have automatic renewal terms unless specifically terminated. The contracts often provide for early termination either by the client hospital if specified performance criteria are not satisfied, or by us under various other circumstances. Historically, some contracts have expired without renewal, and others have been terminated by us or the client hospital for various reasons prior to their scheduled expiration. During 2004, one contract expired without renewal, and an additional five contracts were terminated prior to their scheduled expiration. During the nine months ended September 30, 2005, one contract expired without renewal, and three contracts were terminated prior to the scheduled expiration. Hospital contracts have been

terminated for reasons such as hospital financial difficulties, Medicare reimbursement changes which reduced hospital revenues and the desire of the hospital to exit the business or manage it on its own. Our continued success is subject to, among other things, our ability to renew or extend existing management contracts and obtain new management contracts. Any hospital may decide not to continue to do business with us following expiration of its management contract, or earlier if such management contract is terminable prior to expiration. In addition, any changes in the Medicare program or third-party reimbursement levels which generally have the effect of limiting or reducing reimbursement levels for health services provided by programs managed by us could result in the early termination of existing management contracts and could adversely affect our ability to renew or extend existing management contracts and to obtain new management contracts. The termination or non-renewal of a material number of management contracts could harm our business.

Our business will suffer if we lose relationships with payors.

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

of a significant number of payors, could result in the loss of a significant number of patients and harm our business.

Changes in reimbursement rates which cause reductions in the revenues of our operations have adversely affected our Wound Care Management business unit.

As a result of the Balanced Budget Act of 1997, the CMS implemented the Outpatient Prospective Payment System ("OPPS") for most hospital outpatient department services furnished to Medicare patients beginning August 2000. Under OPPS, a predetermined rate is paid to each hospital for clinical services rendered, regardless of the hospital's cost. We believe the new payment system does not provide comparable reimbursement for services previously reimbursed on a reasonable cost basis, and we believe the payment rates for many services are insufficient for many of our hospital customers, resulting in revenue and income shortfalls for the Wound Care Center(R) programs we manage on behalf of the hospitals. As a result, during 2004 and 2003, we renegotiated and modified many of our management contracts related to our Wound Care Management business unit, which has resulted in reduced revenue and income to us from those modified contracts and, in numerous cases, contract termination. These renegotiations resulted in reduced revenues of approximately $1.0 million in the year ended December 31, 2004. In addition, we lost approximately $0.4 million in revenues in the year ended December 31, 2004 as the result of contract terminations. We expect that contract renegotiation and modification with many of our hospital customers will continue, and this could result in reduced revenues and income to us from those contracts and even contract terminations. These results could harm our business.

The Wound Care Center(R) programs managed by our Wound Care Management business unit on behalf of acute care hospitals are generally treated as "provider based entities" for Medicare reimbursement purposes. This designation is required for the hospital-based program to be covered under the Medicare outpatient reimbursement system. With OPPS, Medicare published criteria for determining when programs may be designated "provider based entities." Programs that existed prior to October 1, 2000 were grandfathered by CMS to be "provider based entities" until the start of the hospital's next cost-reporting period beginning on or after July 1, 2003. At that time, the hospital could have submitted an attestation to the appropriate CMS Regional Office, attesting that the program met all the requirements for provider-based designation. Programs that started on or after October 1, 2000 could have voluntarily applied for provider based designation status. We timely advised each of our hospital clients of the mandatory application procedures. Although we believe that the programs we manage substantially meet the current criteria to be designated "provider based entities," a widespread denial of such designation could harm our business.

We are subject to pricing pressures and other risks involved with third-party payors.

In recent years, competition for patients, efforts by traditional third-party payors to contain or reduce health care costs, and the increasing influence of managed care payors, such as health maintenance organizations, have resulted in reduced rates of reimbursement. Commercial payors, such as managed care organizations and traditional indemnity insurers, increasingly are requesting fee structures and other arrangements providing for health care providers to assume all or a portion of the financial risk of providing care. Changes in reimbursement policies of governmental third-party payors, including policies relating to Medicare, Medicaid and other federally funded programs, could reduce the amounts reimbursed to our customers for our products and, in

turn, the amount these customers would be willing to pay for our products and services, or could directly reduce the amounts payable to us by such payors. The lowering of reimbursement rates, increasing medical review of bills for services and negotiating for reduced contract rates could harm our business. Pricing pressures by third-party payors may continue, and these trends may adversely affect our business.

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

There is substantial competition in the specialty pharmacy, home infusion and wound care services industries, and we may not be able to compete successfully.

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

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

Political, economic and regulatory influences are subjecting the health care industry in the United States to fundamental change. We anticipate that Congress and state legislatures may continue to review and assess alternative health care delivery and payment systems and may in the future propose and adopt legislation effecting fundamental changes in the health care delivery system as well as changes to Medicare's coverage and payments of the drugs and services we provide.

As discussed above, in December 2003, MMA was signed into law, substantially changing the Medicare reimbursement system insofar as it pertains to biopharmaceuticals and drugs, as well as enacting various other changes to the Medicare program. It is possible that MMA, as well as any future legislation enacted by Congress or state legislatures, could harm our business or could change the operating environment of our targeted customers (including hospitals and managed care organizations). Health care industry participants may react to such legislation by curtailing or deferring expenditures and initiatives, including those relating to our programs and services. It is possible that the changes to the Medicare program reimbursement may serve as precedent to possible changes in other payors' reimbursement policies in a manner adverse to us. In addition, MMA and its related regulatory changes could

encourage integration or reorganization of the health care delivery system in a manner that could materially and adversely affect our ability to compete or to continue our operations without substantial changes.

There are a number of state and federal laws and regulations that apply to our operations which could harm our business.

A number of state and federal laws and regulations apply to, and could harm, our business. These laws and regulations include, among other things, the following:

- The federal "anti-kickback law" prohibits the offering or solicitation of remuneration in return for the referral of patients covered by almost all governmental programs, or the arrangement or recommendation of the purchase of any item, facility or service covered by those programs. The Health Insurance Portability and Accountability Act of 1996, or HIPAA, created new violations for fraudulent activity applicable to both public and private health care benefit programs and prohibits inducements to Medicare or Medicaid eligible patients to influence their decision to seek specific items and services reimbursed by the government or to choose a particular provider. The potential sanctions for violations of these laws include significant fines, exclusion from participation in Medicare and Medicaid and criminal sanctions. Although some "safe harbor" regulations attempt to clarify when an arrangement may not violate the anti-kickback law, our business arrangements and the services we provide may not fit within these safe harbors. Failure to satisfy a safe harbor requires further analysis of whether the parties violated the anti-kickback law. In addition to the anti-kickback law, many states have adopted similar kickback and/or fee-splitting laws, which can affect the financial relationships we may have with our customers, physicians, vendors, other retail pharmacies and patients. The finding of a violation of the federal laws or one of these state laws could harm our business.

- The Department of Health and Human Services issued final regulations implementing the Administrative Simplification Provisions of HIPAA concerning the maintenance, transmission, and security of individually identifiable health information. The privacy regulations, with which compliance was required as of April 2003, impose on covered entities (including hospitals, pharmacies and other health care providers) significant new restrictions on the use and disclosure of individually identifiable health information. The security regulations, with which compliance was required as of April 2005, impose on covered entities certain administrative, technical, and physical safeguard requirements with respect to individually identifiable health information maintained or transmitted electronically. The regulations establishing electronic transaction standards that all health care providers must use when electronically submitting or receiving individually identifiable health information in connection with certain health care transactions became effective October 2002, but Congress extended the compliance deadline until October 2003 for organizations, such as ours, that submitted a request for an extension. As a result of these HIPAA regulations, we have taken the appropriate actions to ensure that patient data kept on our computer networks are in compliance with these regulations. We believe that we are

substantially in compliance with the HIPAA electronic standards and are capable of delivering HIPAA standard transactions electronically. In addition, if we choose to distribute drugs through new distribution channels, such as the Internet, we will have to comply with government regulations that apply to those distribution channels, which could harm our business. In addition to HIPAA, a number of states have adopted laws and/or regulations applicable to the use and disclosure of patient health information that are more stringent than comparable provisions under HIPAA. The finding of a violation of HIPAA or one of these state laws could harm our business.

- The Ethics in Patient Referrals Act of 1989, as amended, commonly referred to as the "Stark Law," prohibits physician referrals to entities with which the physician or his or her immediate family members have a "financial relationship" and prohibits the entity receiving the referral from presenting a claim to Medicare or Medicaid programs for services furnished under the referral. On March 26, 2004, the CMS issued the second phase of its final regulations, addressing physician self-referrals, which became effective July 24, 2004. A violation of the Stark Law is punishable by civil sanctions, including significant fines, a denial of payment or a requirement to refund certain amounts collected, and exclusion

from participation in Medicare and Medicaid. A number of states have adopted laws and/or regulations that contain provisions that track, or are otherwise similar to, the Stark Law. The finding of a violation of the Stark Law or one or more of these state laws could harm our business.

- State laws prohibit the practice of medicine, pharmacy and nursing without a license. To the extent that we assist patients and providers with prescribed treatment programs, a state could consider our activities to constitute the practice of medicine. Our nurses must obtain state licenses to provide nursing services to some of our patients. In addition, in some states, coordination of nursing services for patients could necessitate licensure as a home health agency and/or could necessitate the need to use licensed nurses to provide certain patient-directed services. If we are found to have violated those laws, we could face civil and criminal penalties and be required to reduce, restructure or even cease our business in that state.

- Pharmacies (retail, mail-order and wholesale) as well as pharmacists often must obtain state licenses to operate and dispense drugs. Pharmacies must also obtain licenses in some states in order to operate and provide goods and services to residents of those states. In addition, our pharmacies may be required by the federal Drug Enforcement Agency, as well as by similar state agencies, to obtain registration to handle controlled substances, including certain prescription drugs, and to follow specified labeling and recordkeeping requirements for such substances. If we are unable to maintain our pharmacy licenses, or if states place burdensome restrictions or limitations on non-resident pharmacies, this could limit or otherwise affect our ability to operate in some states, which could harm our business.

- Federal and state investigations and enforcement actions continue to

focus on the health care industry, scrutinizing a wide range of items such as joint venture arrangements, referral and billing practices, product discount arrangements, home health care services, dissemination of confidential patient information, promotion of off-label drug indications use, clinical drug research trials and gifts for patients or referral sources. From time to time, and like others in the health care industry, we receive requests for information from government agencies in connection with their regulatory or investigative authority.

- We are subject to federal and state laws prohibiting entities and individuals from knowingly and willfully making claims to Medicare and Medicaid and other governmental programs and third-party payors that contain false or fraudulent information. The federal False Claims Act encourages private individuals to file suits on behalf of the government against health care providers such as us. As such suits are generally filed under seal with a court to allow the government adequate time to investigate and determine whether it will intervene in the action, the implicated health care providers are often unaware of the suit until the government has made its determination and the seal is lifted. Violations or alleged violations of such laws, and any related lawsuits, could result in significant financial or criminal sanctions (including treble damages) or exclusion from participation in the Medicare and Medicaid programs. Some states also have enacted statutes similar to the False Claims Act which may provide for large penalties, substantial fines and treble damages if violated.

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

Billing and collection for our services is a complex process requiring constant attention and involvement by senior management and ongoing enhancements to information systems and billing center operating procedures.

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

We are paid for our services by various payors, including patients, insurance companies, Medicare, Medicaid and others, each with distinct billing requirements. We recognize revenue when we provide services to patients. However, our ability to collect these receivables depends, in part, on our submissions to payors of accurate and

complete documentation. In order for us to bill and receive payment for our services, the physician and the patient must provide appropriate billing information. Following up on incorrect or missing information generally slows down the billing process and the collection of accounts receivable. Failure to meet the billing requirements of the different payors could have a significant impact on our revenues, profitability and cash flow.

Further, even if our billing procedures comply with all third party-payor requirements, some of our payors may experience financial difficulties or may otherwise not pay accounts receivable when due, which could result in increased

write-offs or provisions for doubtful accounts. There can be no assurance that we will be able to maintain our current levels of collectibility or that third-party payors will not experience financial difficulties. If we are unable to collect our accounts receivable on a timely basis, our revenues, profitability and cash flow could be adversely affected.

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

A significant portion of our revenues result from the sale of drugs we deliver to our patients, and a significant amount of our products are delivered by overnight mail or courier or through our retail pharmacies. The costs incurred in shipping are not passed on to our customers and, therefore, changes in these costs directly impact our margins. We depend heavily on these outsourced shipping services for efficient, cost-effective delivery of our products. The risks associated with this dependence include: any significant increase in shipping rates; strikes or other service interruptions by these carriers; and spoilage of high-cost drugs during shipment since our drugs often require special handling, such as refrigeration.

If we do not maintain effective and efficient information systems, our operations may be adversely affected.

Our operations depend, in part, on the continued and uninterrupted performance of our information systems. Failure to maintain reliable information systems or disruptions in our information systems could cause disruptions in our business operations, including billing and collections, loss of existing patients and difficulty in attracting new patients, patient and payor disputes, regulatory problems, increases in administrative expenses or other adverse consequences, any or all of which could have a material adverse effect on our operations.

Risks Related to our Outstanding Debt and Equity Securities

The Notes are unsecured.

The Notes are not secured by any of our or our subsidiaries' assets. The indenture governing the Notes permits us and our subsidiaries to incur secured indebtedness, including pursuant to our revolving credit facility, purchase money instruments and other forms of secured indebtedness. As a result, the Notes and the guarantees will be effectively subordinated to all of our and the guarantors' secured obligations to the extent of the value of the assets securing such obligations. As of September 30, 2005, we had approximately $23.3 million of secured indebtedness.

If we or the subsidiary guarantors were to become insolvent or otherwise fail to make payment on the Notes or the guarantees, the holders of any of our and the subsidiary guarantors' secured obligations would be paid first and would receive payments from the assets securing such obligations before the holders of the Notes would receive any payments. The holders of the Notes may, therefore, not be fully repaid if we or the subsidiary guarantors become insolvent or otherwise fail to make payment on the Notes.

We may not be able to satisfy our obligations to holders of the Notes upon a change of control.

Upon the occurrence of a "change of control," as defined in the indenture, each holder of the Notes will have the right to require us to purchase its Notes at a price equal to 101% of the principal amount, together with any accrued and unpaid interest. Our failure to purchase, or give notice of purchase of, such Notes would be a default under the indenture, which would, in turn, be a default under our revolving credit facility. In addition, a change of control may

constitute an event of default under our revolving credit facility. A default under our revolving credit facility would result in an event of default under the indenture if the lenders accelerate the debt under our revolving credit facility.

If a change of control occurs, we may not have enough assets to satisfy all obligations under our revolving credit facility and the indenture related to the Notes. Upon the occurrence of a change of control, we could seek to refinance the indebtedness under our revolving credit facility and the Notes or obtain a waiver from the lenders or holders of the Notes. There can be no assurance, however, that we would be able to obtain a waiver or refinance our indebtedness on commercially reasonable terms, if at all.

There is no established trading market for the Notes, and holders of these Notes may not be able to sell them quickly or at the price that they paid.

The Notes are a new issue of securities, and there is no established trading market for the Notes. We do not intend to apply for the Notes to be listed on any securities exchange or to arrange for quotation on any automated dealer quotation systems. The initial purchaser has advised us that it intends to make a market in the Notes, but the initial purchaser is not obligated to do so. The initial purchaser may discontinue any market making in the Notes at any time, in its sole discretion. As a result, there can be no assurance as to the liquidity of any trading market for the Notes.

There also can be no assurance that holders of the Notes will be able to sell such Notes at a particular time or that the prices that holders of such Notes will receive when these Notes are sold will be favorable. Further, there can be no assurance as to the level of liquidity of the trading market for these Notes. Future trading prices of the outstanding Notes will depend on many factors, including:

- our operating performance and financial condition;
- the interest of securities dealers in making a market; and
- the market for similar securities.

Historically, the market for non-investment grade debt has been subject to disruptions that have caused volatility in prices. It is possible that the market for the Notes will be subject to disruptions. Any disruptions may have a negative effect on noteholders, regardless of our prospects and financial performance.

Any guarantees of the Notes by our subsidiaries may be voidable, subordinated or limited in scope under laws governing fraudulent transfers and insolvency.

Under federal and foreign bankruptcy laws and comparable provisions of state and foreign fraudulent transfer laws, a guarantee of the Notes by a guarantor could be voided if, among other things, at the time the guarantor issued its guarantee, such guarantor:

- intended to hinder, delay or defraud any present or future creditor; or
- received less than reasonably equivalent value or fair consideration for the incurrence of such indebtedness and:

- was insolvent or rendered insolvent by reason of such incurrence;
- was engaged in a business or transaction for which such guarantor's remaining assets constituted unreasonably small capital; or
- intended to incur, or believed that it would incur, debts beyond its ability to pay such debts as they mature.

The measures of insolvency for purposes of the foregoing considerations will vary depending upon the law applied in any proceeding with respect to the foregoing. Generally, however, a guarantor in the United States would be considered insolvent if:

- the sum of its debts, including contingent liabilities, was greater than the saleable value of all of its assets;
- the present fair saleable value of its assets was less than the amount that would be required to pay its probable liabilities on its existing debts, including contingent liabilities, as they become absolute and mature; or
- it could not pay its debts as they become due.

Possible volatility of stock price in the public market.

The market price of our common stock has experienced, and may continue to experience, substantial volatility. Over the past eight quarters ended September 30, 2005, the market price of our common stock ranged from a low of $0.94 in the third quarter of 2005 to a high of $18.44 in the fourth quarter of 2003. Many factors have influenced the common stock price in the past, including fluctuations in our earnings and changes in our financial position, management changes, low trading volume, and negative publicity and uncertainty resulting from the legal actions brought against us. In addition, the securities markets have, from time to time, experienced significant broad price and volume fluctuations that may be unrelated to the operating performance of particular companies. All of these factors could adversely affect the market price of our common stock. Our listing on Nasdaq is dependent on maintaining certain criteria, including with respect to a minimum bid price and minimum value of publicly held shares, and certain other factors. Changes in our stock price and other variations in market factors may cause us not to comply with such requirements and, in any such event, trading of our common stock on the Nasdaq National Market System could be terminated.

Provisions of our articles of incorporation and Minnesota law may make it more difficult for a person to receive a change-in-control premium.

Our Board's ability to designate and issue up to 10 million shares of preferred stock and issue up to 50 million shares of common stock could adversely affect the voting power of the holders of common stock, and could have the effect of making it more difficult for a person to acquire, or could discourage a person from seeking to acquire, control of the Company. If this occurred, a person could lose the opportunity to receive a premium on the sale of his or her shares in a change of control transaction.

In addition, the Minnesota Business Corporation Act contains provisions

that would have the effect of restricting, delaying or preventing altogether certain business combinations with any person who becomes an interested stockholder. Interested stockholders include, among others, any person who, together with affiliates and associates, acquires 10% or more of a corporation's voting stock in a transaction which is not approved by a duly constituted committee of the Board of the corporation. These provisions could also limit a person's ability to receive a premium in a change of control transaction.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

The Company currently does not have market risk sensitive instruments entered into for trading purposes and does not have operations subject to risks of material foreign currency fluctuations. The Company places its investments in instruments that meet high credit quality standards, as specified in the Company's investment policy guidelines, and does not expect any material loss with respect to its investment portfolio. The Company does not enter into derivative instruments other than for cash flow hedging purposes and does not speculate using derivative instruments.

For non-trading purposes, the Company is subject to interest rate risk under its current revolving credit facility. In conjunction with the acquisition of CCS on April 23, 2004, the Company restructured its previous credit facility with GE Capital to provide for a $40.0 million senior secured revolving credit facility. Loans under this credit facility may, at the Company's option, be obtained as Base Rate loans, LIBOR loans or any combination thereof. This credit facility will terminate on April 23, 2009.

The table below provides information about the Company's financial instruments, in accordance with stated terms of related agreements, that are sensitive to changes in interest rates. For debt obligations, the table presents principal amounts outstanding and related weighted average interest rates at September 30, 2005 and for each of the next five years ended December 31 and thereafter. The following table provides information about the Company's financial instruments (dollars in millions):

	September 30, 2005		Outstanding Bala December 31,			
	Balance	Fair Value	2005	2006	2007	20
Liability:						
Long-term debt (Senior Notes)						
Fixed rate ($US)(1)	$185.0	$64.75	$185.0	$185.0	$185.0	$18
Average interest rate(1)	10.75%	22.03%	10.75%	10.75%	10.75%	10
Long-term debt (Revolver)						
Variable rate ($US)(2)	$ 23.3	$ 23.3	$ 23.3	$ 23.3	$ 23.3	$ 2
Average interest rate(2)	7.34%	7.34%	7.59%	8.31%	8.41%	8
Convertible note used in purchase of Apex	$ 1.5	$ 1.5	$ 1.5	$ 1.5		
Average interest rate(3)	4.4%	4.4%	4.4%	4.4%	$ --	$

Convertible note used in purchase of Home Care	$ 3.0	$ 3.0				
Average interest rate(4)	3.0%	3.0%	$ --	$ --	$ --	$
Department of Justice obligation	$ 0.7	$ 0.7				
Average interest rate(4)	6.0%	6.0%	$ --	$ --	$ --	$

(1) The Senior Notes mature in May of 2011 and bear interest at a fixed rate of 10.75%.

(2) The average interest rates are based on the LIBOR forward yield curves at September 30, 2005 plus the applicable 3.5% premium. The senior secured revolving credit facility terminates on April 23, 2009. The LIBOR interest rate in effect at September 30, 2005 was the 30-day LIBOR rate of 3.84% plus 3.5%. On a monthly basis, a Base Rate of prime plus 2.25% is applied to the difference between the LIBOR period loan and the actual outstanding balance of the revolving facility. As of September 30, 2005, the prime rate in effect was 6.75%. In addition to the LIBOR and Base Rate interest rate, there is a monthly unused line fee of between 0.5% and 0.75% of the unused balance on the facility.

(3) Average interest rates are contractual amounts. The Company is disputing this obligation (see Part II, Item 1, "Legal Proceedings").

(4) Average interest rates are contractual amounts.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

Under the supervision and with the participation of the Company's management, including its Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO"), the Company evaluated the effectiveness of the design and operation of the Company's disclosure controls and procedures (as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange")). Based upon that evaluation, the CEO and CFO concluded that, as of the end of the period covered by this report, the Company's disclosure controls and procedures were effective.

Any system of controls, however well designed and operated, can provide only reasonable, and not absolute, assurance that the objectives of the system will be met. In addition, the design of any control system is based, in part, upon certain assumptions about the likelihood of future events. Because of these and other inherent limitations of control systems, there is only reasonable assurance that the Company's controls will succeed in achieving their goals under all potential future conditions.

Changes in Internal Controls

In connection with the Company's headquarters consolidation, which was substantially completed as of September 30, 2005, there were significant changes to the Company's personnel and their duties and responsibilities with respect to the financial close and control activities; however, the Company believes that these changes did not materially affect, and are not reasonably likely to materially affect, the Company's internal control over financial reporting (as

defined in Rule 13 a-15(f) under the Exchange Act).

Accordingly, there have been no changes in the Company's internal control over financial reporting that occurred during the Company's most recently completed fiscal quarter to which this report relates that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

Management's evaluation of the effectiveness of its internal control over financial reporting as of December 31, 2004, which was included in the Company's Annual Report on Form 10-K for fiscal 2004, was not inclusive of the Critical Care Systems, Inc. acquisition, which is included in the 2004 consolidated financial statements of the Company and constituted approximately 15% of total assets as of December 31, 2004 and approximately 29% and 10% of revenues and net loss, respectively, for the year then ended.

Curative Health Services, Inc. and Subsidiaries

Part II Other Information

Item 1. Legal Proceedings

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

Apex Therapeutic Care Litigation

On October 26, 2005, the Company commenced litigation in the United States District Court for the Central District of California, entitled "Curative Health Services, Inc. vs. James H. Williams, et al.," against former stockholders of Apex alleging, among other things, that stockholders of Apex made material misrepresentations in connection with their sale of Apex stock to Curative in 2002. As part of the action, in addition to seeking compensatory and punitive damages, the Company is disputing its obligation to make further payments under an amended and restated promissory note, dated May 30, 2002, made in favor of the former stockholders in connection with the acquisition of Apex. Prior to commencement of the action, Curative sent a letter to the representative of the former stockholders indicating that Curative would not be making the installment payment due on September 30, 2005 or any further payments pending resolution of this dispute. The stockholders' representative responded with a notice on October 18, 2005 declaring an event of default under the above-referenced note and an acceleration of payment of the outstanding principal balance under the note in the amount of approximately $1.6 million. This event is not expected to cause a default under, or acceleration of, any other obligations of the Company.

Prescription City Litigation

As previously disclosed in a Form 8-K filed on July 27, 2005, on July 26, 2005, the Company announced that it has reached a settlement with Prescription City in connection with a complaint filed by the Company in November 2003 seeking rescission, compensatory and punitive damages and other relief. Under the terms of the settlement, the Company received $4.5 million in cash and is released from its obligation to pay a $1.0 million promissory note entered into in connection with the asset purchase of Prescription City.

Item 6. Exhibits

2.1 Plan of Merger, dated as of August 15, 2003, by and among Curative Health Services, Inc., Curative Holding Co., and Curative Health Services Co. (incorporated by reference to Exhibit 2.1 to the Company's Current Report on Form 8-K, filed August 19, 2003, of Curative Health Services, Inc., the predecessor company)

2.2 Stock Purchase Agreement relating to Critical Care Systems, Inc., by and among Curative Health Services, Inc., Critical Care Systems, Inc. and each of the persons listed therein, dated February 24, 2004 (incorporated by reference to Exhibit 2.1 to the Company's Current Report on Form 8-K, filed April 30, 2004)

2.3 Letter Agreement supplementing the Stock Purchase Agreement, dated April 23, 2004, by and between Curative Health Services, Inc. and Christopher J. York, as Seller's Representative (incorporated by reference to Exhibit 2.2 to the Company's Current Report on Form 8-K, filed April 30, 2004)

3.1 Amended and Restated Articles of Incorporation of Curative Health Services, Inc. (incorporated by reference to Exhibit 3.1 to the Company's Current Report on Form 8-K, filed August 19, 2003)

3.2 By-Laws of Curative Health Services, Inc. (incorporated by reference to Exhibit 3.2 to the Company's Current Report on Form 8-K, filed August 19, 2003)

Item 6. Exhibits (continued)

4.1 Rights Agreement, dated as of October 25, 1995, between Curative Technologies, Inc. and Wells Fargo Bank Minnesota, National Association, as Rights Agent (incorporated by reference to Exhibit 4 of the Company's Current Report on Form 8-K, dated November 6, 1995)

4.2 Indenture, dated April 23, 2004, by and among Curative Health Services, Inc., certain of its subsidiaries as Guarantors and Wells Fargo Bank, N.A., as Trustee (incorporated by reference to Exhibit 4.1 to the Company's Current Report on Form 8-K, filed April 30, 2004)

4.3 Registration Rights Agreement, dated April 23, 2004, by and among Curative Health Services, Inc., certain of its subsidiaries as Guarantors and UBS Securities LLC (incorporated by reference to Exhibit 4.2 to the Company's Current Report on Form 8-K, filed April 30, 2004)

4.4 Specimen of 144A Notes (incorporated by reference to Exhibit 4.3 to the Company's Current Report on Form 8-K, filed April 30, 2004)

4.5 Specimen of Regulation S Notes (incorporated by reference to Exhibit 4.4 to the Company's Current Report on Form 8-K, filed April 30, 2004)

4.6 Specimen of Guarantees (incorporated by reference to Exhibit 4.5 to the Company's Current Report on Form 8-K, filed April 30, 2004)

4.7 Specimen of Registered Notes (incorporated by reference to Exhibit 4.6 to the Company's Quarterly Report on Form 10-Q, filed November 9, 2004)

10.1 Lease and Agreement, dated June 10, 1991, by and between Executive Tower,

Inc. and Critical Care Systems Inc.

10.2 Amendment to Lease, dated as of June 4, 2001, by and between Brookhaven (Nashua), LLC and Critical Care Systems, Inc.

10.3 Second Amendment to Lease, dated as of June 25, 2001, by and between Brookhaven (Nashua), LLC and Critical Care Systems, Inc.

10.4 Third Amendment to Lease, dated as of November 7, 2003, by and between Brookhaven (Nashua), LLC and Critical Care Systems, Inc.

10.5 Fourth Amendment to Lease, dated as of July 11, 2005, by and between Brookhaven (Nashua), LLC and Critical Care Systems, Inc.

10.6 Waiver Agreement, dated as of October 14, 2005, entered into among the Company, its subsidiaries and General Electric Capital Corporation

10.7 Waiver Agreement, dated as of November 7, 2005, entered into among the Company, its subsidiaries and General Electric Capital Corporation

31.1 Certification of the Chief Executive Officer pursuant to Rule 13a-14(a)/15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

31.2 Certification of the Chief Financial Officer pursuant to Rule 13a-14(a)/15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

32.1 Certification of the Chief Executive Officer, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

32.2 Certification of the Chief Financial Officer, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

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

SIGNATURES

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

Date: November 14, 2005

CURATIVE HEALTH SERVICES, INC.
(Registrant)

By: /s/ Paul F. McConnell

Paul F. McConnell
Chief Executive Officer

(Principal Executive Officer)

By: /s/ Thomas Axmacher

Thomas Axmacher
Chief Financial Officer
(Principal Financial Officer)