BioScrip, Inc.
Form 10-K
March 05, 2009

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

Form 10-K

(Mark One)

þ ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2008

OR

o PERIODIC REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to

Commission file number: 0-28740

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

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

Registrant's telephone number, including area code:
914-460-1600

Securities registered pursuant to Section 12(b) of the Act:
None

Securities registered pursuant to section 12(g) of the Act:
Common Stock, $.0001 par value

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

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the

Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes þ No o

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

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

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

The aggregate market value of the registrant's Common Stock held by non-affiliates of the registrant as of June 30, 2008, the last business day of the registrant's most recently completed second fiscal quarter, was approximately $73,200,585 based on the closing price of the Common Stock on the Nasdaq Global Market on such date.

On February 27, 2009 there were outstanding 38,718,278 shares of the registrant's Common Stock.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's definitive proxy statement for its 2009 Annual Meeting of Stockholders to be filed with the SEC within 120 days after the close of the registrant's fiscal year are incorporated by reference into Part III of this Annual Report.

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PART I

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

- our expectations regarding financial condition or results of operations for periods after December 31, 2008;
- our future sources of, and needs for, liquidity and capital resources;
- our expectations regarding general economic and business conditions;
- our critical accounting policies;
- our expectations regarding the size and growth of the market for our products and services;
- our business strategies and our ability to grow our business;
- the implementation or interpretation of current or future regulations and legislation, particularly governmental oversight of our business; and
- our ability to maintain contracts and relationships with our customers;

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

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

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

Item 1. Business

Overview

We are a specialty pharmaceutical healthcare organization that partners with patients, physicians, healthcare payors and pharmaceutical manufacturers to provide access to medications and management solutions to optimize outcomes for chronic and other complex healthcare conditions.

Our business is reported under two operating segments: (i) specialty pharmaceutical services ("Specialty Services"); and (ii) pharmacy benefit management ("PBM") services ("PBM Services"). Our Specialty Services include comprehensive support, dispensing and distribution, patient care management, data reporting as well as a range of other complex therapy management services for certain chronic health conditions. The medications we dispense include oral, injectable and infusible medications used to treat patients living with chronic and other complex health conditions and are provided directly to patients and physicians. Our PBM Services include pharmacy network management, claims processing, formulary and benefit design, clinical services, drug utilization review, discount prescription card programs and traditional mail order pharmacy fulfillment.

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Revenues from Specialty Services and PBM Services are derived from our relationships with healthcare payors including managed care organizations, government-funded and/or operated programs, pharmaceutical manufacturers, patients and physicians, as well as a variety of third party payors, including third party administrators ("TPAs") and self-funded employer groups (collectively "Plan Sponsors").

Our Specialty Services are marketed and/or sold to Plan Sponsors, pharmaceutical manufacturers, physicians, and patients, and target certain specialty medications that are used to treat patients living with chronic and other complex health conditions. These services include the distribution of biotech and other high cost injectable, oral and infusible prescription medications and the provision of therapy management services.

Our PBM Services are marketed to Plan Sponsors and are designed to promote a broad range of cost-effective, clinically appropriate pharmacy benefit management services through our national PBM retail network and our own mail order facilities. We also administer prescription discount card programs on behalf of commercial Plan Sponsors, most typically TPAs. Under such programs we derive revenue on a per claim basis from our dispensing network pharmacies.

Specialty Services

Our Specialty Services business offers a comprehensive integrated healthcare service model providing: (i) local prescription fulfillment, distribution and patient management services through our BioScrip community pharmacy network where we stock medications and provide specialized support and counseling to patients at the point of sale or through delivery; (ii) national specialty drug fulfillment, distribution and patient management services to patients, health plans, manufacturers and physicians through our mail order facilities; and (iii) drug infusion services through our infusion pharmacies for patients requiring infused medications in the home, a physician's office or ambulatory infusion site.

We own and operate 39 specialty pharmacies comprised of community pharmacies, located in major metropolitan areas across the United States; mail order pharmacies; and infusion pharmacies. While all of our locations are full-service pharmacies that carry both traditional and specialty medications and are able to treat people with a variety of diseases and medical conditions, we primarily focus on serving patient populations with chronic health conditions, including:

- Dermatology
  - Psoriasis
- Endocrinology
  - Growth Hormones, Thyroid Cancer
- Hematology
  - Sickle Cell Anemia/Thalassemia, Myelodysplastic Syndromes, Bleeding Disorders/Hemophilia
- Neurology
  - Multiple Sclerosis, Neuropathies
- Oncology
  - In office Infusions, Oral Oncolytics, Supportive Medications
- Rheumatology/Orthopedic
  - Rheumatoid Arthritis, Osteoarthritis, Osteoporosis

- Transplant
  - Solid Organ, Bone Marrow Transplant
- Virology
  - HIV/AIDS, Hepatitis A, B & C, Respiratory Syncytial Virus

The patients we service typically have prescription or medical drug coverage through commercial insurance, Medicare, Medicaid and/or other governmental programs, and we are primarily reimbursed by the patient's insurer at a contracted rate or our "usual and customary" rate for the specific drug and/or service provided to the customer. Our Specialty Services programs are designed to optimize the therapeutic outcomes for patients while achieving

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Plan Sponsors' and/or pharmaceutical manufacturer's program goals. These goals include appropriate utilization of therapies, improved patient compliance and adherence rates, reduced expenditures through discounted drug rates and utilization reporting. Our software and data management tools permit Plan Sponsors, pharmaceutical manufacturers and physicians to: (i) access utilization data to manage better healthcare outcomes; and (ii) measure cost, utilization, prescribing and other pharmacy trends.

Medication Dispensing and Distribution

We carry a full range of prescription medications and are able to dispense nearly all prescription medications for acute and chronic diseases and conditions. As a specialty pharmacy provider our mail and community pharmacy locations also carry hard to find and hard to handle medications that are generally more expensive or more complex than medications carried by retail or traditional pharmacies which typically focus on acute care.

Special shipping and handling techniques in compliance with a manufacturer's specific requirements are employed, including refrigeration and shipping with dry-ice packs. When necessary, we provide the drug product along with supplies and equipment needed for administration.

Our pharmacies also deliver medications to physicians' offices for in-office administration. The majority of our business is patient-specific dispensing, whereby we receive a prescription for a medication and bill the appropriate party or parties for reimbursement of the drug, which may include Plan Sponsors, manufacturers and/or the patient. In some instances we deliver drugs on a wholesale basis directly to qualified healthcare professionals or institutions including physicians and in some cases other specialty pharmacy providers or wholesalers.

Billing and Coordination of Benefits

Our pharmacies offer comprehensive billing, patient reimbursement and coordination of benefits ("COB") services under both a patient's pharmacy and medical benefits. Our pharmacy locations are contracted with nearly all Federal and state governmental benefit programs including Medicare, Medicaid, and state benefit programs such as AIDS Drug Assistance Programs ("ADAPs") as well as other Ryan White-funded programs. In addition, our pharmacies participate in most of the pharmacy benefit management networks; as well as with managed care organizations directly.

Our comprehensive COB services help patients with multiple sources of insurance and/or government assistance handle complex insurance billing and reimbursement challenges which, if not performed properly, can lead to non-compliance with the prescribed drug therapy and prescription refills. Retail pharmacies and many of our competitors in the specialty pharmacy arena do not typically provide COB services; we believe providing this service is a major differentiator from our competitors. We facilitate comprehensive assistance to patients through third party sources in order to identify financial programs and obtain funding for patients who are unable to afford their out-of-pocket expenditures, including co-payments. We work with a variety of assistance organizations and pharmaceutical manufacturers to obtain this type of funding on the patients' behalf. Co-payments and coinsurance payments are diligently pursued for collection unless approved financial hardship exemptions are in effect.

Specialty Therapy Management

We design and administer clinical programs to maximize the benefits of pharmaceutical utilization as a tool in achieving pharmaceutical therapy goals for certain targeted disease states. Our programs focus on preventing high-risk adverse events through the appropriate use of pharmaceuticals while eliminating unnecessary or duplicate therapies. Key components of these programs include patient education and training, integration of care between pharmacy and medical health disciplines, monitoring of patient compliance, measurement of the care process and quality, and

providing feedback for continuous improvement in achieving therapy goals. The goal of these services is to improve patient outcomes and lower overall healthcare costs.

Our bioscripcare™ patient care programs are designed to address the changing nature of pharmaceutical care. The complexity of therapy has increased greatly resulting in the need for improved patient therapy management. Interactions with nurses and physicians have been reduced primarily to scheduled follow-up appointments leaving days, weeks and potentially months for patients to navigate their therapy regimen on their own. We believe the added complexity combined with reduced follow-up has created a void in the healthcare delivery process. Improvements in therapy have not necessarily resulted in significant improvement of health outcomes. Compliance continues to be one of the most significant determinants in health outcomes.

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In addition to therapy complexity and healthcare delivery, changes in the specialty pharmacy environment have impacted care delivery. The acquisition of specialty pharmacies by large PBMs has resulted in considerable inconsistency among the programs available today. Consequently, we believe patient care and compliance has deteriorated resulting in unmet patient needs.

We believe that our bioscripcare™ patient care programs address these unmet needs by providing the optimal structure of patient care through consistent assessment and intervention, ongoing education management and adherence and persistence management resulting in improved patient healthcare delivery. Also, as part of our normal business operations for refill management, we initiate monthly telephonic interactions with patients. During the course of these calls, important demographic, therapy and compliance data are gathered. Modifying the existing refill call process by including additional scripted survey questions specific to targeted disease states results in a significantly more robust data gathering process that lead to important health outcome measures.

Our programs incorporate Healthcare Effectiveness Data and Information Set ("HEDIS"), National Committee for Quality Assurance ("NCQA") measures and Disease Management Association of America ("DMAA"): The Care Continuum Alliance guidelines. Measurement, analysis, as well as improvement and repetition are key components of our regular program reviews. Our programs remain dynamic through our focus on continual improvement. Some of the components of the programs are described below:

- Professional Intervention

Most of the disease states and conditions we support require complex, multi-drug regimens for treatment, many of which have potential adverse side effects and drug interactions. Our pharmacists review prescriptions presented for a patient against that patient's medical history, his or her past and current medication usage, and clinical references known to us in order to insure that the therapy selected is clinically appropriate. If our pharmacists find a potential or actual problem they contact the prescriber or patient to discuss that patient's case and alternative medications.

Our pharmacists and clinical staff stay informed about new medications and changing treatment protocols which are utilized in our target disease states and conditions. We regularly send information on new medications to local prescribers and recommend those patients that may be candidates for a change in therapy. Most healthcare providers have limited time to keep abreast of the rapid pace of change in pharmaceuticals; therefore we believe that they benefit from these services.

- Patient Education

Due to the complexity of the regimens associated with the medications we dispense and the need to educate patients on the importance of compliance and proper dosing and administration, we make great efforts to help our patients, including their caregivers, understand how their drug regimen may affect their health status and lifestyle. We routinely consult with each patient when they receive a prescription from us. We consult on what each medication is for, how it works, and what adverse side effects are most likely to occur, as well as potential interactions between or among multiple medications. Our goal is to inform fully each patient in order to prevent missed doses, delayed starts, and loss of other healthcare treatment options in some cases. We also provide patients with information concerning how medications might influence their lifestyle and give them recommendations on how to fit drug therapies into alternative schedules and travel plans.

Many of the specialty medications we dispense are given by injection. We teach patients how to prepare their medications for administration, how to inject themselves, and how to deal with any site reactions that may occur. We often have the patient administer their first dose in the pharmacy so they feel comfortable with taking the medications when they get home. Our pharmacists are available by telephone in case a patient has questions and generally

follow-up with the patient as needed.

Our pharmacies also provide physicians, patients and their caregivers with a broad range of written educational materials. We create some of those materials and receive others from pharmaceutical manufacturers and not-for-profit organizations. We promote local and national disease-related events.

- Adherence and Persistence Management

“Adherence” is defined as taking medications on a timely basis, as and when prescribed — for example, twice daily. “Persistence” is defined as taking a regimen of medications for the length of time prescribed. People with the diseases and conditions we treat often struggle with both of these self-management issues, since their medications are often difficult to take and require months or years of use.

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Adherence and persistence are key factors in achieving optimal medication effectiveness and our pharmacists and professional staffs are active with patients, caregivers and physicians in an effort to ensure the highest success rates. From the start of therapy and throughout the treatment cycle we stress the importance of adherence and persistence through initial teaching sessions and ongoing communications with each medication refill. We provide refill reminders to alert people when a prescription refill is due or to take their daily medication regimen. We proactively contact patients in instances of missed refills and alert physicians and other healthcare providers when the patient cannot be located. We reinforce these activities with nurse-based adherence management and therapy optimization programs for select conditions that carry a higher risk of complications or treatment failures. The management methodology applied to each specific therapy constantly evolves to reflect such things as new available treatments, revised treatment guidelines, and other market developments. Since the inception of these programs, we have observed results that indicate the achievement of higher compliance rates as compared to industry averages and other documented and available metrics.

PBM Services

We offer employers, managed care organizations, TPAs and other Plan Sponsors a broad range of PBM Services designed to ensure the cost-effective delivery of clinically appropriate pharmacy benefits. PBM Services available to our customers include the following:

Clinical Services, Formulary and Benefit Design

We work closely with our Plan Sponsors to offer formularies and benefit plan designs to meet their specific program requirements. Formulary design assists in controlling program costs to the extent consistent with accepted medical and pharmacy practices and applicable law, primarily through three principal techniques: (i) tiered co-pay or percentage coinsurance designs, which provide lower co-pays for formulary preferred medications and higher co-pays for non-preferred medications, or charge a percentage of the prescription price to the member at different percentages based on the preferred or non-preferred status of a drug; (ii) generic substitution, which involves the selection of a generic drug as a cost-effective alternative to its bio-equivalent brand name drug; and/or (iii) therapeutic interchange, which involves the selection of a lower cost brand name drug as an alternative to a higher priced brand name drug within a therapeutic class. Formulary rebates on brand name drugs are negotiated with drug manufacturers based on the drug's preferred status and are typically shared with Plan Sponsors. We do not manage a rebate program on our own. Rather, our rebates are managed and administered by a third party vendor.

Many commercial Plan Sponsors do not restrict coverage to a specific list of pharmaceuticals and are said to have no formulary or an "open" formulary that generally covers all FDA-approved drugs except certain classes of excluded pharmaceuticals, such as certain vitamins and cosmetics, experimental, investigative or over-the-counter drugs. Other Plan Sponsors utilize a "restricted" or "closed" formulary. BioScrip actively involves our clinical staff with a Plan Sponsor's Pharmacy and Therapeutics Committee ("P&T Committee") to assist with the design of clinically appropriate formularies in order to control pharmacy costs. Typically, the P&T Committee consists of a Plan Sponsor's physicians, pharmacists and others, including independent healthcare professionals. The ultimate composition and approval of the formulary resides with the Plan Sponsor. The primary method for assuring formulary compliance on behalf of a Plan Sponsor is by managing pharmacy reimbursement to ensure that non-formulary drugs are not dispensed, or dispensed with higher co-payments, subject to certain limited exceptions. Closed formularies typically identify a limited number of drugs for preferred status within each therapeutic class to be the preferred drug agent in order to treat most medical conditions appropriately. Provision is also made for coverage of non-formulary or non-preferred drugs, other than certain excluded products, when documented to be clinically appropriate for a particular Member. Since non-formulary drugs are rejected for coverage by the real-time POS system, we employ procedures to override restrictions on non-formulary medications for a particular Member and period of treatment when necessary.

Drug Usage Evaluation

Drug usage is evaluated on a concurrent, prospective and/or retrospective basis utilizing the real-time POS system and proprietary information systems for multiple drug interactions, duplication of therapy, step therapy protocol enforcement, minimum/maximum dose range edits, compliance with prescribed utilization levels and early refill notification. In addition, we maintain a drug utilization review program in which select medication therapies are reviewed and data is collected, analyzed and reported for management applications. At the request of Plan Sponsors our clinical pharmacy team also provides clinical reviews of a patient's prescription history and medical condition, and our clinical pharmacist provides analysis and recommendations for the patient's future treatment.

Pharmacy Data Services

Our proprietary software and data management tools permit Plan Sponsors to access key industry measures, updated daily and delivered through secure internet-based access. Plan Sponsors often monitor these key measures

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associated with their Members in order to review the effectiveness and success of our PBM programs. In addition we also build custom PBM reporting systems to support specific customer projects.

Pharmacy Dispensing Facility

Pharmacy benefit program costs may also be reduced by distributing pharmaceutical products directly to Members by the use of mail service programs implemented at our own pharmacy dispensing facilities. BioScrip provides mail service pharmacy services to our own PBM customers and to members of managed care organizations, TPAs, and other Plan Sponsors. In addition to providing members with convenient access to plan members for maintenance medications, the use of mail service affords Plan Sponsors the ability to reduce cost as compared to the retail distribution of prescription products because of the lower reimbursement associated with mail service distribution.

Discount Prescription Card Programs

In addition to the managed pharmacy benefit services described above, we administer numerous cash card or discount card programs on behalf of consumer marketing organizations and to a lesser extent other Plan Sponsors. Those cards may be "stand-alone" pharmacy discount programs or bundled with other healthcare or other discount arrangements. Under those discount programs, individuals who present a discount card at one of our participating network pharmacies or who order medications through one of our mail service pharmacies receive prescription medications at a discounted price off of the retail or "cash" price.

Sales and Marketing

Our sales and marketing efforts are focused on payors, manufacturers, patients and physicians, and are driven by dedicated Managed Markets, Pharmaceutical Relations and Physician Sales teams. Contracts with healthcare payors, including managed care organizations, are an integral component for sales success. Additionally, contracting with pharmaceutical manufacturers for distribution and management services for newly approved and/or marketed specialty medications continue to contribute to our revenue growth.

Loss of Major Customers

From July 1, 2006 through December 31, 2008, we operated under contract as the sole vendor for the Centers for Medicare and Medicaid Services' ("CMS") Competitive Acquisition Program ("CAP") for certain Medicare Part B drugs and biologicals. CAP was a voluntary program for physicians that offered them the option to obtain many of their Medicare Part B drugs and biologicals from us and have us, rather than them, bill CMS for the price of the drug. As the proposed 2009 CAP program was designed, it represented unacceptable profit risk to us due to provisions which delayed, for up to one year, reimbursement rate increases to correspond to cost increases from drug manufacturers. Following the CAP contract's expiration on December 31, 2008, we are no longer servicing CAP. The exit of the CAP business is expected to reduce 2009 revenues by approximately $71 million compared to 2008; however, it is expected to increase our gross profit as a percentage of revenue.

Since August 1, 2007, we have been the sole national specialty pharmacy providers of HIV/AIDS and solid organ transplant drugs and services to patients insured by United Healthcare ("UHC") and its participating affiliates. On September 11, 2008, we were notified by UHC of its intention to internalize services for HIV/AIDS and solid organ transplant drugs for their members effective January 31, 2009 and March 31, 2009, respectively. This contract termination had no impact on 2008 results of operations and is expected to reduce 2009 revenues by $91 million as compared to 2008; however it is expected to increase gross profit as a percentage of revenue.

The combined effects of these contractual changes are expected to reduce 2009 revenues by approximately $162 million, or 13.0%. However, the gross profit percentages on these contracts were below our historical average gross profit percentages on our Specialty Services business. As such, gross profit as a percentage of revenues is expected to increase. We have developed cost reduction plans that are expected to lower operating expenses in conjunction with the volume decreases as we cease serving these contracts.

Competition

We face substantial competition within the pharmaceutical healthcare services industry and the past year has seen even more consolidation among PBMs, specialty pharmacy providers and pharmaceutical wholesalers. We expect to see this trend continue in the coming year and it is uncertain what effect, if any, these consolidations will have on us or the industry as a whole. The industry also includes a number of large, well-capitalized companies

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with nationwide operations and capabilities in the Specialty Services and PBM Services arenas, such as CVS Caremark, Express Scripts, Medco Health Solutions, Walgreen Co., MedImpact Healthcare Systems, and WellPoint Pharmacy Management, as well as many smaller organizations that typically operate on a local or regional basis. In the Specialty Services segment, we compete with several national and regional specialty pharmaceutical distribution companies that have substantial financial resources and which also provide products and services to the chronically ill such as CVS Caremark, Express Scripts and Medco Health Solutions and Walgreen Co.

Some of our Specialty Services competitors are under common control with, or are owned by, pharmaceutical wholesalers and distributors or retail pharmacy chains and may be better positioned with respect to the cost-effective distribution of pharmaceuticals. Some of our primary competitors, such as US BioServices, owned by AmeriSource Bergen Corporation, and McKesson Specialty Pharmacy, owned by McKesson HBOC Corporation, have a substantially larger market share in many of our specialty disease therapies than our existing market share. Moreover, some of our competitors may have secured long-term supply or distribution arrangements for prescription pharmaceuticals necessary to treat certain chronic disease states on price terms substantially more favorable than the terms currently available to us. As a result of such advantageous pricing, we may be less price competitive than some of these competitors with respect to certain pharmaceutical products. However we do not believe that we compete strictly on the selling price of particular products in either business segment; rather, we offer customers the opportunity to lower overall pharmaceutical and medical costs through therapy management while receiving high quality care.

Information Technology

Over the last two years we have made a significant investment in an integrated pharmacy dispensing, clinical management and accounts receivable management system. We believe that this new system will yield increased efficiencies and improved controls when dispensing or transferring prescriptions and provide improved data reporting and management. This new system will enhance our opportunities to partner with pharmaceutical companies, physicians and payors. In 2008 we began our migration from a number of different systems and platforms into this new consolidated architecture and will continue the rollout the system implementation throughout 2009.

Financial Information about Segments

The following table presents revenue and income from operations by segment. Operating segment financial information is provided in Note 3 of Notes to Consolidated Financial Statements. The 2006 information below includes Intravenous Therapy Services, Inc. (“Infusion West”) beginning March 1, 2006 (in thousands).

Segment Financial Information

	2008	2007	2006
Revenue: (1)			
Specialty Services	$ 1,196,587	$ 974,571	$ 868,828
PBM Services	205,324	223,161	283,112
Total	$ 1,401,911	$ 1,197,732	$ 1,151,940
(Loss) income from operations (2)			
Specialty Services (3)	$ (94,275)	$ (2,453)	$ (19,970)
PBM Services	10,758	11,304	3,729
Total	$ (83,517)	$ 8,851	$ (16,241)

(1) Certain prior period amounts have been reclassified to conform to the current year presentation. Such reclassifications had no material effect on the Company's previously reported consolidated financial position, results of operations or cash flows.
(2) Certain Corporate expenses have been allocated between the two segments for reporting purposes.
(3) The year ended December 31, 2008 includes $93.9 million of goodwill and intangible asset impairment in the Specialty Services segment.

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Government Regulation

As a participant in the healthcare industry our operations and relationships are subject to Federal and state laws and regulations and enforcement by Federal and state governmental agencies. Various Federal and state laws and regulations govern the purchase, dispensing or distribution, and management of prescription drugs and related services we provide and may affect us. We believe that we are in substantial compliance with all legal requirements material to our operations.

We conduct ongoing educational programs to inform employees regarding compliance with relevant laws and regulations and maintain a formal reporting procedure to disclose possible violations of these laws and regulations to the Office of Inspector General ("OIG") of the U.S. Department of Health and Human Services.

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

Mail Service Pharmacy Regulation. Many of the states into which we deliver pharmaceuticals have laws and regulations that require out-of-state mail service pharmacies to register with, or be licensed by, the boards of pharmacy or similar regulatory bodies in those states. These states generally permit the dispensing pharmacy to follow the laws of the state within which the dispensing pharmacy is located.

However, various state pharmacy boards have enacted laws and/or adopted rules or regulations directed at restricting or prohibiting the operation of out-of-state pharmacies by, among other things, requiring compliance with all laws of the states into which the out-of-state pharmacy dispenses medications, whether or not those laws conflict with the laws of the state in which the pharmacy is located, or requiring the pharmacist-in-charge to be licensed in that state. To the extent that such laws or regulations are found to be applicable to our operations, we comply with them. To the extent that any of the foregoing laws or regulations prohibit or restrict the operation of mail service pharmacies and are found to be applicable to us, they could have an adverse effect on our prescription mail service operations. A number of state Medicaid programs prohibit the participation in those states by out-of-state retail or mail service pharmacies, whether in-state or out-of-state.

There are other statutes and regulations which may also affect our mail service operations. The Federal Trade Commission requires mail order sellers of goods generally to engage in truthful advertising, to stock a reasonable supply of the products to be sold, to fill mail orders within 30 days, and to provide clients with refunds when appropriate.

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

We dispense prescription drugs pursuant to orders received through our BioScrip.com web site, as well as other affiliated private label web sites. Accordingly, we may be subject to laws affecting on-line pharmacies. Several states have proposed laws to regulate on-line pharmacies and require on-line pharmacies to obtain state pharmacy licenses. Additionally, Federal regulation by the United States Food and Drug Administration (the "FDA"), or another Federal agency of on-line pharmacies that dispense prescription drugs has been proposed. To the extent that such state or Federal regulation could apply to our operations, certain of our operations could be adversely affected by such licensure legislation. Management does not believe that the adoption of any of these internet related laws would have a material adverse effect on our business or operations.

Other Laws Affecting Pharmacy Operations. We are subject to Federal and state statutes and regulations governing the operation of pharmacies, repackaging of drug products, wholesale distribution, dispensing of controlled substances, medical waste disposal, and clinical trials. Federal statutes and regulations govern the labeling, packaging, advertising and adulteration of prescription drugs and the dispensing of controlled substances. Federal controlled substance laws require us to register our pharmacies and repackaging facilities with the United States Drug Enforcement Administration and to comply with security, recordkeeping, inventory control and labeling standards in order to dispense controlled substances.

State controlled substance laws require registration and compliance with state pharmacy licensure, registration or permit standards promulgated by the state's pharmacy licensing authority. Such standards often address the qualification of an applicant's personnel, the adequacy of its prescription fulfillment and inventory control practices and the adequacy of its facilities. In general, pharmacy licenses are renewed annually. Pharmacists and pharmacy technicians employed at each of our dispensing locations must also satisfy applicable state licensing requirements.

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FDA Regulation. The FDA generally has authority to regulate drug promotional information and materials that are disseminated by a drug manufacturer or by other persons on behalf of a drug manufacturer. In January 1998, the FDA issued Draft Guidance regarding its intent to regulate certain drug promotion and switching activities of pharmaceutical manufacturers that control, directly or indirectly, a PBM. The FDA effectively withdrew the Draft Guidance and has indicated that it would not issue new draft guidance. However, there can be no assurance that the FDA will not assert jurisdiction over certain aspects of our PBM business, including the internet sale of prescription drugs.

Network Access Legislation. A majority of states now have some form of legislation affecting our ability to limit access to a pharmacy provider network or remove network providers from our PBM pharmacy network. Subject to various geographic, managed care or other exceptions, such legislation ("any willing provider" legislation) may require us or our clients to admit any retail pharmacy willing to meet the Plan's price and other terms for network participation, or may prohibit the removal of a provider from a network except in compliance with certain procedures ("due process" legislation) or may prohibit days' supply limitations or co-payment differentials between mail and retail pharmacy providers. Many states with any willing provider statutes also permit a Member suspected of substance abuse or who otherwise needs oversight by a pharmacist to be "locked into" one particular pharmacy for the purchase of his or her prescription medicine. Many states have exceptions to the applicability of these statutes for managed care arrangements or other government benefit programs. As a dispensing pharmacy, however, such legislation benefits us by ensuring us access to all networks in those states. Additionally, as a specialty provider, these any willing provider regulations enable us to participate in other PBM's networks, restricting their ability to lock our pharmacies out of their networks.

Legislation Imposing Plan Design Mandates. Some states have enacted legislation that prohibits Plan Sponsors from implementing certain restrictions on design features, and many states have introduced legislation to regulate various aspects of managed care plans including legislation that prohibits or restricts therapeutic substitution, requires coverage of all drugs approved by the FDA, or prohibits denial of coverage for non-FDA approved uses. For example, some states provide that Members may not be required to use network providers, but that they must instead be provided with benefits even if they choose to use non-network providers ("freedom of choice" legislation), or provide that a Member may sue his or her health plan if care is denied. Some states have enacted, and other states have introduced, legislation regarding plan design mandates. Some states mandate coverage of certain benefits or conditions. Such legislation does not generally apply to our business, but it may apply to certain of our customers (generally, HMOs and health insurers). If any such legislation were to become widespread and broad in scope, it could have the effect of limiting the economic benefits achievable through pharmacy benefit management. To the extent that such legislation is applicable and is not preempted by the Employee Retirement Income Security Act of 1974, as amended ("ERISA") (as to plans governed by ERISA), certain of our operations could be adversely affected. The Federal government, as well as a number of states, have re-enacted legislation purporting to prohibit health plans from requiring or offering Members financial incentives for use of mail order pharmacies.

Anti-Kickback Laws. Subject to certain statutory and regulatory exceptions (including exceptions relating to certain managed care, discount, bona fide employment arrangements, group purchasing and personal services arrangements), Federal "anti-kickback" law prohibits the knowing and willful offer or payment of any remuneration to induce the referral of an individual or the purchase, lease or order (or the arranging for or recommending of the purchase, lease or order) of healthcare items or services paid for in whole or in part by Medicare, Medicaid or other government-funded healthcare programs (including both traditional Medicaid fee-for-service programs as well as Medicaid managed care programs). Violation of the Federal anti-kickback statute could subject us to criminal and/or civil penalties including suspension or exclusion from Medicare and Medicaid programs and other government-funded healthcare programs. A number of states also have enacted anti-kickback laws that sometimes apply not only to state-sponsored healthcare programs but also to items or services that are paid for by private insurance and self-pay patients. State anti-kickback

laws can vary considerably in their applicability and scope and sometimes have fewer statutory and regulatory exceptions than does the federal law. Management carefully considers the importance of such anti-kickback laws when structuring our operations, and believes that we are in compliance therewith.

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

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one drug to another. Anti-kickback laws have been cited as a partial basis, along with state consumer protection laws discussed below, for investigations and multi-state settlements relating to financial incentives provided by drug manufacturers to retail pharmacies in connection with such programs.

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

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

On April 18, 2003, the OIG released Compliance Program Guidance for Pharmaceutical Manufacturers (the "Guidance") which is designed to provide voluntary, nonbinding guidance in devising effective compliance programs to assist companies that develop, manufacture, market and sell pharmaceutical products or biological products in devising effective compliance programs. The Guidance provides the OIG's view of the fundamental elements of pharmaceutical manufacturer's compliance programs and principles that should be considered when creating and implementing an effective compliance program, or as a benchmark for companies with existing compliance programs. We currently maintain a compliance program that includes the key compliance program elements described in the Guidance. We believe that the fundamental elements of our compliance program are consistent with the principles, policies and intent of the Guidance.

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

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

Statutes Prohibiting False Claims and Fraudulent Billing Activities. A range of Federal civil and criminal laws target false claims and fraudulent billing activities. One of the most significant is the Federal False Claims Act (the "False Claims Act"), which imposes civil penalties for knowingly making or causing to be made false claims in order to secure a reimbursement from government-sponsored programs, such as Medicare and Medicaid. Investigations or actions commenced under the False Claims Act may be brought either by the government or by private individuals on behalf of the government, through a "whistleblower" or "qui tam" action. The False Claims Act authorizes the payment of a portion of any recovery to the individual bringing suit. Such actions are initially required to be filed under seal pending their review by the Department of Justice. If the government intervenes in the lawsuit and prevails, the whistleblower (or plaintiff filing the initial complaint) may share with the Federal Government in any settlement or judgment. If the government does not intervene in the lawsuit, the whistleblower plaintiff may pursue the action independently. The False Claims Act generally provides for the imposition of civil penalties and for treble damages, resulting in the possibility of substantial financial penalties for small billing errors that are replicated in a large number of claims, as each individual claim could be deemed to be a separate violation of the False Claims Act.

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Some states also have enacted statutes similar to the False Claims Act which may include criminal penalties, substantial fines, and treble damages. In recent years, Federal and state governments have launched several initiatives aimed at uncovering practices that violate false claims or fraudulent billing laws. Under Section 1909 of the Social Security Act, which became effective January 1, 2007, if a state false claim act meets certain requirements as determined by the Office of the Inspector General in consultation with the U.S. Attorney General the state is entitled to an increase of ten percentage points in its share of any amounts recovered under a state action brought under such a law. Some of the larger states in terms of population that have had the OIG review such laws include: California, Florida, Illinois, Indiana, Massachusetts, Michigan, Nevada, Tennessee and Texas. We operate in all nine of these states and submit claims for Medicaid reimbursement to the respective state Medicaid agencies. We expect the list of states that enact qualifying false claims act to continue to grow. This legislation has led to increased auditing activities by state healthcare regulators. As such, we have been the subject of an increased number of audits. While we believe that we are in compliance with Medicaid and Medicare billing rules and requirements, there can be no assurance that regulators would agree with the methodology employed by us in billing for our products and services and a material disagreement between us and these governmental agencies on the manner in which we provide products or services could have a material adverse effect on our business and operations, our financial position and our results of operations.

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

Reimbursement. Approximately 25% of our revenues are derived directly from Medicare, Medicaid or other government-sponsored healthcare programs. Also, we indirectly provide benefits to managed care entities that provide services to beneficiaries of Medicare, Medicaid and other government-sponsored healthcare programs. Should there be material changes to Federal or state reimbursement methodologies, regulations or policies, our direct reimbursements from government-sponsored healthcare programs, as well as services fees that relate indirectly to such reimbursements, could be adversely affected. In addition, certain state Medicaid programs only allow for reimbursement to pharmacies residing in the state or in a border state. While we believe that we can service our current Medicaid patients through existing pharmacies, there can be no assurance that additional states will not enact in-state dispensing requirements for their Medicaid programs. To the extent such requirements are enacted, certain therapeutic pharmaceutical reimbursements could be adversely affected.

Legislation and Other Matters Affecting Drug Prices. Some states have adopted legislation providing that a pharmacy participating in the state Medicaid program must give the state the best price that the pharmacy makes available to any third party plan (“most favored nation” legislation). Such legislation may adversely affect our ability to negotiate discounts in the future from network pharmacies. At least one state has enacted “unitary pricing” legislation, which mandates that all wholesale purchasers of drugs within the state be given access to the same discounts and incentives. Such legislation has not yet been enacted in the states where our mail service pharmacies are located. Such legislation, if enacted in other states, could adversely affect our ability to negotiate discounts on our purchase of prescription drugs to be dispensed by the mail service pharmacies.

In 2006, First DataBank, a leading provider of electronic drug information to the healthcare industry, entered into a proposed settlement to address certain practices regarding the establishment of the benchmark Average Wholesale

Price ("AWP") for medications. In 2007, Medi-Span, another provider of electronic drug information, entered into a proposed settlement agreement similar to that agreed to by First DataBank. The court, presiding in both settlements, denied without prejudice final approval of the proposed settlements. In May and July 2008, First DataBank and Medi-Span, respectively, submitted amended and restated settlement agreements for the court's approval. The court granted preliminary approval of the revised settlements, and recently held a hearing on final approval, which is pending. If the proposed settlements, or one including similar provisions, is ultimately approved, it may have industry-wide impact on prescription pricing. We generally utilize Medi-Span for determining AWP. We are paid by many Plan Sponsors and PBMs as a mail order and specialty pharmacy using AWP as reported by First DataBank. In addition, in our capacity as a pharmacy benefit manager, we have fully funded prescription benefit programs where we reimburse our network pharmacies and third party payors in turn reimburse us based on Medi-Span and First DataBank reported pricing.

Most of our provider and payor agreements contain provisions that allow us to manage the impact of this proposed settlement, if ratified as is or modified by the parties or the court. At this time we are unable to determine

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whether changes to AWP pricing methodology or the First DataBank and Medi-Span AWP settlements would have a material adverse effect on us or our business, operations, financial condition or prospects.

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

On April 14, 2003 the final regulations issued by United States Department of Health and Human Services ("HHS"), regarding the privacy of individually identifiable health information (the "Privacy Regulations") pursuant to the Health Insurance Portability and Accountability Act of 1996 ("HIPAA") took effect. The Privacy Regulations are designed to protect the medical information of a healthcare patient or health plan enrollee that could be used to identify the individual. We refer to this information as protected health information ("PHI"). The Privacy Regulations apply directly to certain entities known as "covered entities," which include Plan Sponsors and most healthcare providers. In addition, the Privacy Regulations require covered entities to enter into contracts requiring their "business associates" to agree to certain restrictions regarding the use and disclosure of PHI. The Privacy Regulations apply to PHI maintained in any format, including both electronic and paper records, and impose extensive restrictions on the way in which covered entities (and indirectly their business associates) may use and disclose PHI. In addition, the Privacy Regulations also give patients significant rights to understand and control how their PHI is used and disclosed. Often, use and disclosure of PHI must be limited to the minimum amount necessary to achieve the purpose of the use or disclosure. Certain of our businesses are covered entities directly subject to the Privacy Regulations, and other of our businesses are "business associates" of covered entities, such as Plan Sponsors.

Since October 16, 2003 we have been subject to compliance with the rules governing transaction standards and code sets issued by HHS pursuant to HIPAA (the "Transactions Standards"). The Transactions Standards establish uniform standards to be utilized by covered entities in the electronic transmission of health information in connection with certain common healthcare financing transactions, such as healthcare claims. Under the new Transactions Standards, any party transmitting or receiving health transactions electronically must send and receive data in a single format, rather than the large number of different data formats currently used. The Transactions Standards apply to us in connection with submitting and processing healthcare claims. The Transactions Standards also applies to many of our payors and to our relationships with those payors.

In addition, in February 2003, HHS issued final regulations governing the security of PHI pursuant to HIPAA (the "Security Standards"). The Security Standards impose substantial requirements on covered entities and their business associates regarding the storage, utilization of, access to and transmission of electronic PHI.

The requirements imposed by the Privacy Regulations, the Transactions Standards, and the Security Standards are extensive and have required substantial cost and effort to assess and implement. We have taken and will continue to take steps that we believe are reasonable to ensure that our policies and procedures are in compliance with the Privacy Regulations, the Transactions Standards and the Security Standards. The requirements imposed by HIPAA have increased our burden and costs of regulatory compliance (including our health improvement programs and other information-based products), altered our reporting to Plan Sponsors and reduced the amount of information we can use or disclose if Members do not authorize such uses or disclosures.

Most states also have enacted health information privacy laws which restrict the use and disclosure of patient health information. In addition, several states recently have enacted pharmacy-related privacy legislation that applies not only to patient records but that also prohibits the transfer or use for commercial purposes of pharmacy data that identifies prescribers. In response to concerns about identity theft, many states also have adopted so-called "security breach" notification laws that may impose requirements regarding the safeguarding of personal information such as

social security numbers and bank and credit card account numbers, and that impose an obligation to notify persons when their personal information has or may have been accessed by an unauthorized person. Many of these laws apply to our business and have and will continue to increase our burden and costs of privacy and security related regulatory compliance.

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

Disease Management Services Regulation. All states regulate the practice of medicine. To our knowledge, no PBM has been found to be engaging in the practice of medicine by reason of its disease management services. However, there can be no assurance that a Federal or state regulatory authority will not assert that such services constitute the practice of medicine, thereby subjecting such services to Federal and state laws and regulations

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applicable to the practice of medicine.

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

Antitrust Laws. Numerous lawsuits have been filed throughout the United States by retail pharmacies against drug manufacturers challenging certain brand drug pricing practices under various state and Federal antitrust laws. A settlement in one such suit would require defendant drug manufacturers to provide the same types of discounts on pharmaceuticals to retail pharmacies and buying groups as are provided to managed care entities to the extent that their respective abilities to affect market share are comparable, a practice which, if generally followed in the industry, could increase competition from pharmacy chains and buying groups and reduce or eliminate the availability to us of certain discounts, rebates and fees currently received in connection with our drug purchasing and formulary administration programs. In addition, to the extent that we, or an associated business, appear to have actual or potential market power in a relevant market, business arrangements and practices may be subject to heightened scrutiny from an anti-competitive perspective and possible challenge by state or Federal regulators or private parties.

While management believes that we are in substantial compliance with all of the existing laws and regulations stated above, such laws and regulations are subject to rapid change and often are uncertain in their application. As controversies continue to arise in the healthcare industry, Federal and state regulation and enforcement priorities in this area may increase, the impact of which cannot be predicted. There can be no assurance that we will not be subject to scrutiny or challenge under one or more of these laws or that any such challenge would not be successful. Any such challenge, whether or not successful, could have a material adverse effect upon our business and results of operations.

Employees

At February 27, 2009, we had 825 full-time, 33 part-time and 300 per diem employees, including 202 licensed pharmacists. Per diem employees are defined as those available on an as-needed basis. None of our employees are represented by any union and, in our opinion, relations with our employees are satisfactory.

Available Information

We maintain a website at www.bioscrip.com. We make available, free of charge, through our web site our reports on Forms 10-K, 10-Q, and 8-K, and amendments to those reports, as soon as reasonably practicable after they are filed with or furnished to the SEC.

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

Item 1A. Risk Factors

Unfavorable economic and market conditions could reduce our sales and profitability and increase the cost of financing, possibly adversely affecting our operating results.

Economic conditions deteriorated in the U.S. in 2008 and are expected to continue to deteriorate in 2009, and as such, credit markets have tightened and the outlook for the economy and financial markets is uncertain.

Factors and conditions that could affect us include short-term and long-term interest rates, unemployment, inflation, limited availability of consumer financing and actions taken at both the Federal and state levels to reduce healthcare costs and balance state budgets. The effect of these actions could reduce enrollment in governmental programs or benefits available to enrollees.

Limited or expensive access to credit could reduce the ability of the patients we serve to pay deductibles and co-insurance. Higher unemployment rates and significant employment layoffs and downsizings may lead to lower numbers of patients enrolled in employer-provided plans. The adverse economic conditions could also cause employers to stop offering, or limit, certain health care coverage as an employee benefit or cause them to offer this coverage on a voluntary, employee-funded basis as a means to reduce their operating costs, leaving the patient's ability to pay in question and increasing the likelihood that compliance to drug therapies will be interrupted.

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During an economic downturn, Federal and state budgets could be adversely affected, resulting in reduced reimbursements or payments by our Federal and state government health care coverage programs in which we participate, including Medicare, Medicaid and other Federal or state assistance plans. Also, a reduction in state Medicaid reimbursement rates could be implemented to agreements already negotiated with the government and could adversely affect our revenues and financial results. Government programs could also slow or temporarily suspend payments on Medicaid obligations, negatively impacting our cash flow and increase our working capital needs and interest payments.

Availability of financing sources

The 2008 economic crisis caused contraction in the credit markets and the availability of credit has remained restricted into 2009. While we believe our existing financing relationship is good and our credit facility is adequate to cover our needs, this agreement has historically been our largest source of funding and expires in the fourth quarter of 2010. There can be no assurances that this agreement will continue beyond its current maturity. In addition, if extreme market conditions continue or if our primary financing source were to fail, we can provide no assurance that any financing sources would be available or favorably priced. Also, future growth may be limited by our ability to gain access to additional capital.

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

As a participant in the pharmaceutical healthcare services industry, our operations are subject to complex and evolving Federal and state laws and regulations and enforcement by Federal and state governmental agencies. These laws and regulations are described in detail at Part I, Item 1, “Business — Government Regulation.” While we believe we are operating our business in substantial compliance with all existing legal requirements material to the operation of our business, different interpretations and enforcement policies of these laws and regulations could subject our current practices to allegations of impropriety or illegality, or could require us to make significant changes to our operations. In addition, if we fail to comply with existing or future applicable laws and regulations, we could suffer civil or criminal penalties, including our ability to participate in Federal and state healthcare programs. In addition, we cannot predict the impact of future legislation and regulatory changes on our business or assure that we will be able to obtain or maintain the regulatory approvals required to operate our business.

In addition, under the Deficit Reduction Act of 2006, additional Federal government matching of state Medicaid funding was provided for states that commit resources to additional auditing of Medicaid and Medicare fraud. This initiative has led to increased auditing activities by state healthcare regulators. As such, we have been the subject of increased audits by these state regulators. While we believe that we are in compliance with Medicaid and Medicare billing rules and requirements, there can be no assurance that regulators disagree with the methodology employed by us in billing for our products and services. While we believe that we are in material and substantial compliance with the billing rules and requirements of Medicaid and Medicare, a material disagreement between us and these governmental agencies on the manner in which we provide products or services could have a material adverse effect on our business, operations, financial position and results of operations.

Competition in the pharmaceutical healthcare services industry could reduce profit margins.

The pharmaceutical healthcare services industry is very competitive. Our competitors include large and well-established companies that may have greater financial, marketing and technological resources than we do.

The specialty pharmacy industry is highly competitive. Some of our competitors are under common control with, or ownership by, pharmaceutical wholesalers and distributors, pharmacy benefit managers or retail pharmacy chains and

may be better positioned with respect to the cost-effective distribution of pharmaceuticals. In addition, some of our competitors may have secured long-term supply or distribution arrangements for prescription pharmaceuticals necessary to treat certain chronic disease states on price terms substantially more favorable than the terms currently available to us. As a result of such advantageous pricing, we may be less price competitive than some of these competitors with respect to certain pharmaceutical products. Our competitive position could also be adversely affected by any inability to obtain access to new biotech pharmaceutical products.

Over the last several years competition in the marketplace has caused many PBMs, including us, to reduce the prices charged to clients for core services and share a larger portion of the formulary fees and rebates received from pharmaceutical manufacturers with clients. This combination of lower pricing and increased rebate sharing, as well as increased demand for enhanced service offerings and higher service levels, have put pressure on operating margins. In addition, some of our larger competitors may offer services and pricing terms that we may not be able to offer. This competition may make it more difficult to maintain existing customers and attract new customers and may cause us to face the risk of declining reimbursement levels without achieving corresponding reductions in costs of revenues. Competition may also come from other sources in the future.

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As a result, we may not continue to remain competitive in the PBM marketplace, and competition could have an adverse effect on our business and financial results.

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

Contracts in the prescription drug industry, including our contracts with our retail pharmacy networks and our PBM Services and Specialty Services pharmacy clients, generally use certain published benchmarks to establish pricing for prescription medications. These benchmarks include AWP, wholesale acquisition cost and average manufacturer price. Most of our contracts utilize the AWP benchmark.

In 2006, First DataBank, a leading provider of electronic drug information to the healthcare industry, entered into a proposed settlement to address certain practices regarding the establishment of the benchmark AWP for medications. In 2007, Medi-Span entered into a proposed settlement agreement similar to that agreed to by First DataBank. We are paid by many Health Plans and PBMs as a mail order and specialty pharmacy using AWP as reported by First DataBank. The court, presiding in both settlements, denied without prejudice final approval of the proposed settlements. In May and July 2008, First DataBank and Medi-Span, respectively, submitted amended and restated settlement agreements for the courts approval. The court granted preliminary approval of the revised settlements, and recently held a hearing on final approval, which is pending. If the proposed settlements, or another settlement including similar provisions is ultimately approved, it may have industry-wide impact on prescription pricing.

Most of our provider and payor agreements contain provisions that allow us to manage the impact of this proposed settlement, if ratified as is or modified by the parties or the court. However, we can give no assurance that the short or long-term impact of changes to industry pricing benchmarks will not have a material adverse effect on our financial performance, results of operations and financial condition in future periods.

Client demands for enhanced service levels or possible loss or unfavorable modification of contracts with clients or providers could pressure margins.

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

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

More than 58,000 retail pharmacies, which represent more than 98% of all United States retail pharmacies, participate in our PBM pharmacy network. The top ten retail pharmacy chains represent approximately 48% of the total number of stores and over 60% of prescriptions filled in our network. Our contracts with retail pharmacies, which are non-exclusive, are generally terminable on relatively short notice. If one or more of the top pharmacy chains elects to terminate its relationship with us, our members' access to retail pharmacies and our business could be materially adversely affected. In addition, many large pharmacy chains either own PBMs today, or could attempt to acquire a PBM in the future. Ownership of PBMs by retail pharmacy chains could have material adverse effects on our

relationships with such pharmacy chains and on our consolidated results of operations, consolidated financial position and/or consolidated cash flow from operations.

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

We are subject to risks relating to litigation and other proceedings in connection with our operations, including the dispensing of pharmaceutical products by our mail service and community pharmacies. A list of the more material proceedings pending against us is included under Part I, Item 3, “Legal Proceedings.” While we believe that these suits are without merit and intend to contest them vigorously, we can give no assurance that an adverse outcome in one or more of these suits would not have a material adverse effect on our consolidated results of operations, consolidated financial position and/or consolidated cash flow from operations, or would not require us to make material changes to our business practices. We are presently responding to several subpoenas and requests for information from governmental agencies. We confirmed that BioScrip is not a target or a potential subject of those investigations and requests. We cannot predict with certainty what the outcome of any of the foregoing might be. In addition to potential monetary liability arising from these suits and proceedings, we are incurring costs in the

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defense of the suits and in providing documents to government agencies. Certain of the costs are covered by our insurance, but certain other costs are not insured. Such costs have become material to our financial performances and we can give no assurance that such costs will not increase in the future.

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

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

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

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

Failure to develop new products, services and delivery channels may adversely affect our business.

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

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

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

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

The use of personal health information in our business is regulated at Federal, state and local levels. These laws and rules change frequently and developments often require adjustments or modifications to our technology infrastructure. Noncompliance with these regulations could harm our business, financial condition and results of operations.

Problems in the implementation and conversion of our new pharmacy system could result in additional expense.

The Company has committed significant resources in a new pharmacy dispensing, clinical management and accounts receivable management system designed to streamline our business processes, provide improved data reporting, data management, scalability and cash posting and billing and collections. Delays in the implementation of this system could result in higher operating costs, additional charges for system design changes or delays

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in the execution of our strategic plan due to our inability to scale our current operating systems.

Our failure to maintain controls and processes over billing and collecting could have a significant negative impact on our results of operations and financial condition.

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

Efforts to reduce healthcare costs and alter health care financing practices could adversely affect our business.

During the past several years, the U.S. healthcare industry has been subject to an increase in governmental regulation at both the
Federal and state levels. Certain proposals have been made at the Federal and state government levels in an effort to control healthcare costs, including lowering reimbursement and/or proposing to lower reimbursement under Medicaid and Medicare programs. These proposals include “single payor” government funded healthcare and price controls on prescription drugs. If these or similar efforts are successful our business and operations could be materially adversely affected. In addition, changing political, economic and regulatory influences may affect healthcare financing and reimbursement practices. If the current healthcare financing and reimbursement system changes significantly, our business could be materially adversely affected. Congress periodically considers proposals to reform the U.S. healthcare system. These proposals may increase government involvement in healthcare and regulation of PBM services, or otherwise change the way our clients do business. Plan Sponsors may react to these proposals and the uncertainty surrounding them by reducing or delaying purchases of cost control mechanisms and related services that we provide. We cannot predict what effect, if any, these proposals may have on our business. Other legislative or market-driven changes in the healthcare system that we cannot anticipate could also materially adversely affect our consolidated results of operations, consolidated financial position and/or consolidated cash flow from operations.

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

We process significant volumes of pharmacy claims for brand-name and generic drugs from our mail service and community pharmacies and through our network of retail pharmacies. These volumes are the basis for our net revenues and profitability. When products are withdrawn by manufacturers, or when increased safety risk profiles of specific drugs or classes of drugs result in utilization decreases, physicians may cease writing or reduce the numbers of prescriptions written for these drugs. Additionally, negative media reports regarding drugs with higher safety risk profiles may result in reduced consumer demand for such drugs. In cases where there are no acceptable prescription drug equivalents or alternatives for these prescription drugs, our prescription volumes, net revenues, profitability and cash flows may decline.

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

Where we do not have preferred or exclusive arrangements with Plan Sponsors, our contracts for reimbursement with Plan Sponsors are often on a perpetual or “evergreen” basis. These evergreen contracts are subject to termination by a Plan Sponsor upon 30, 60 or 90 days notice. Depending on the significance of the Plan Sponsor or Plan Sponsors in the aggregate as a percentage of revenue, one or more terminations could have a material and adverse effect on our results of operations and financial performance. We are unaware of any intention by a Plan Sponsor to terminate or not renew an agreement with us.

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

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

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Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

Our executive offices are located in Elmsford, New York, and our business offices are located in Eden Prairie, Minnesota. Our mail operations are located in Columbus, Ohio, Roslyn Heights, New York and Burbank, California. Our pharmacies are located in major metropolitan locations across the United States. We currently lease all of our properties from third parties under various lease terms expiring over periods extending to 2018. Property locations are as follows:

Corporate Offices	Community and Infusion Pharmacies(2)		
Elmsford, NY	California		Minnesota
Eden Prairie, MN		Burbank (Infusion)	Minneapolis
		San Diego	Missouri
		San Francisco	Kansas City
		Sherman Oaks	St. Louis
Mail Operations		West Hollywood	Nevada
Columbus, OH (1)	District of Columbia		Las Vegas (Community & Infusion)
Burbank, CA (2)		Washington, D.C.	New Jersey
Roslyn Heights, NY (2)	Florida		Morris Plains (Infusion)
		Ft. Lauderdale	New York
		Miami Beach	Hawthorne
		Orlando	Bronx
		Pompano Beach (Infusion)	New York
		St. Petersburg	Ohio
		Tampa Bay	Columbus
		West Palm Beach	Pennsylvania
	Georgia		Philadelphia
		Atlanta	King of Prussia (Infusion)
	Illinois		Tennessee
		Chicago	Memphis
	Indiana		Texas
		Indianapolis (two locations)	Dallas (two locations)
	Maryland		Houston
		Baltimore	Washington
	Massachusetts		Seattle
		Boston	Wisconsin
			Milwaukee

(1) Facility houses operations for both Specialty and PBM Services
(2) Facility houses operations for Specialty Services.

Item 3. Legal Proceedings

On February 14, 2005, a complaint was filed in the Alabama Circuit Court for Barbour County, captioned Eufaula Drugs, Inc. v. ScriptSolutions [sic], one of approximately fourteen substantially identical complaints commenced in Alabama courts against various unrelated pharmacy benefit management companies. On April 8, 2005, the plaintiff filed an amended complaint substituting our BioScrip PBM Services f/k/a ScripSolutions ("PBM Services") subsidiary as the defendant, alleging breach of contract and related tort and equitable claims on behalf of a putative nationwide class of pharmacies alleging insufficient reimbursement for prescriptions dispensed, principally on the theory that PBM Services was obligated to update its prescription pricing files on a daily rather than weekly basis. The complaint seeks unspecified money damages and injunctive relief. PBM Services sought unsuccessfully to remove the action

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to Federal court. On February 5, 2007, the court denied PBM Services' motion to dismiss the action for lack of jurisdiction and failure to state a claim, and on February 16, 2007, PBM Services answered the complaint denying the material allegations. The parties are now engaged in discovery into the question of class certification only. While we are confident in our position, we do not believe that an adverse ruling in this matter would have a material adverse effect on our business, operations, financial position or results of operations.

Several members of the DiCello family, who sold us of one of our subsidiaries called Northland, are claiming a right to additional purchase price of at least $5.64 million from us under the terms of the stock purchase agreement between us and them. The sellers first sued us in July 2007 in federal court in the Southern District of Ohio, but the court stayed the case and directed arbitration of the disagreement with the accounting firm KPMG LLP as arbitrator as the stock purchase agreement provides. The action is captioned JPD, Inc., et al. v. Chronimed Holdings, Inc. We deny owing the sellers any additional purchase price and intend to defend the matter vigorously. There have been no arbitration proceedings. We are confident in our position and do not believe an adverse ruling would have a material adverse effect on our business, operations, or financial position.

On September 18, 2008, a complaint was filed in the Federal court in the District of New Mexico, naming our subsidiary BioScrip Pharmacy Services, Inc. as a defendant. The action is captioned Hope Huerta as Next Friend and Parent of Blanca M. Valdez-Huerta, a minor v. Spectrum Chemicals and Laboratory Products, et al., 1:08-cv-00853 (D. NM). The complaint alleges that we and the other defendants actions proximately caused plaintiff's injuries after receiving medication that had been allegedly recalled by the manufacturer Spectrum Chemicals and dispensed by us, asserting various tort causes of action, including but not limited to, strict products liability and negligence, breaches of warranties, and violations of various New Mexico statutes. The complaint seeks unspecified money damages, including punitive damages. We have answered the complaint denying the material allegations. We intend to deny the allegations and defend vigorously against the action. Given the preliminary stage in the matter, we are unable to assess the probable outcome of this proceeding or its financial impact.

Item 4. Submission of Matters to a Vote of Security Holders

There were no matters submitted to a vote of security holders during the fourth quarter of the fiscal year reported on in this Form 10-K.

PART II

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

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

		High	Low
2007	First Quarter	$ 3.85	$ 2.88
	Second Quarter	$ 4.96	$ 3.00
	Third Quarter	$ 6.84	$ 4.44
	Fourth Quarter	$ 9.82	$ 6.35
2008	First Quarter	$ 8.47	$ 5.65

Second Quarter	$ 7.06	$ 2.55
Third Quarter	$ 5.07	$ 1.94
Fourth Quarter	$ 5.00	$ 1.26

As of February 27, 2009, there were 284 stockholders of record in addition to approximately 6,100 stockholders whose shares were held in nominee name. On February 27, 2009 the closing sale price of our Common Stock on Nasdaq was $1.49.

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

Between January 1, 2008 and December 31, 2008, we did not issue any shares of common stock without registration under the Securities Act of 1933, as amended (the “Act”).

The graph set forth below compares, for the five-year period of December 31, 2003 through December 31, 2008, the total cumulative return to holders of the Company’s Common Stock with the cumulative total return of the Nasdaq Composite Index and the Nasdaq Health Services Index.

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Item 6. Selected Consolidated Financial Data

The selected consolidated financial data presented below should be read in conjunction with, and is qualified in its entirety by reference to, Management's Discussion and Analysis and our Consolidated Financial Statements and the Notes thereto appearing elsewhere in this Report. The 2005 information below includes Chronimed, Inc. beginning March, 2005 and Northland beginning October, 2005. The 2006 information below includes Infusion West beginning March, 2006.

Balance Sheet Data (in thousands)	December 31, 2008	2007	2006	2005	2004
Cash and cash equivalents	$ -	$ -	$ -	$ 1,521	$ 2,957
Working capital	$ 58,844	$ 49,213	$ 37,023	$ 67,488	$ 13,968
Total assets (3)	$ 246,957	$ 296,822	$ 305,456	$ 298,629	$ 185,788
Stockholders' equity (3)	$ 95,537	$ 166,203	$ 161,833	$ 195,765	$ 115,683

Statement of Operations Data (in thousands, except per share amounts)	Year Ended December 31, 2008	2007	2006	2005	2004
Revenue (1)	$ 1,401,911	$ 1,197,732	$ 1,151,940	$ 1,072,895	$ 629,890
Merger related expenses (2)	$ -	$ -	$ 58	$ 4,575	$ -
Goodwill and intangible impairment (3)	$ 93,882	$ -	$ -	$ 25,165	$ -
Net (loss) income (4, 5, 6, 7)	$ (74,032)	$ 3,317	$ (38,289)	$ (23,847)	$ 7,033
Net (loss) income per basic share	$ (1.93)	$ 0.09	$ (1.03)	$ (0.70)	$ 0.32
Net (loss) income per diluted share	$ (1.93)	$ 0.09	$ (1.03)	$ (0.70)	$ 0.31
Weighted average shares outstanding used in computing:					
basic (loss) income per share	38,417	37,647	37,304	34,129	22,245
diluted (loss) income per share	38,417	38,491	37,304	34,129	22,702

(1) Revenue includes: excelleRx PBM Services revenue of $15.0 million, $29.7 million, $21.7 million and $14.3 million for the years 2007, 2006, 2005, and 2004, respectively; Centene Corporation PBM Services revenue of $47.1 million, $133.1 million and $102.1 million for the years 2006, 2005 and 2004, respectively; and Value Options revenue of $19.7 million for 2004. Revenue from Value Options of Texas, Inc. ended in 2004. Revenue from Centene Corporation ended in 2006. Revenue from excelleRx ended in 2007.

(2) Reflects merger, integration and re-branding expenses related to the acquisition of Chronimed on March 12, 2005.

(3) 2008 includes a $90.0 million charge related to impairment of goodwill, and a $3.9 million charge related to write-off of remaining intangible assets. 2005 includes a $6.6 million charge related to

write-off of non-compete agreements, trade names and customer lists due to our rebranding strategy in the Specialty Services segment, and an $18.6 million charge, related to goodwill impairment in the PBM Services segment.

(4) Net income in 2004 includes a $0.5 million charge, net of tax, related to a settlement with Value Options of Texas, Inc

(5) Net loss in 2005 includes a $4.3 million charge, net of tax, to reflect an increase in the allowance for doubtful accounts receivable created by lower than expected collections during the merger integration period.

(6) Net loss in 2006 includes a $25.7 million income tax charge for the establishment of a valuation allowance recorded against deferred tax assets.

(7) The 2008, 2006 and 2005 net loss per diluted share excludes the effect of common stock equivalents, as their inclusion would be anti-dilutive.

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

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

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

This report contains statements not purely historical and which may be considered forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 as amended (the "Securities Act"), and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), including statements regarding our expectations, hopes, beliefs, intentions or strategies regarding the future. These forward looking statements may include statements relating to our business development activities, sales and marketing efforts, the status of material contractual arrangements, including the negotiation or re-negotiation of such arrangements, future capital expenditures, the effects of regulation and competition on our business, future operating performance and the results, benefits and risks associated with integration of acquired companies. Investors are cautioned that any such forward-looking statements are not guarantees of future performance and involve risks and uncertainties; that actual results may differ materially from those possible results discussed in the forward-looking statements as a result of various risks, uncertainties and other factors. You should not place undue reliance on such forward-looking statements as they speak only as of the date they are made, and we assume no obligation to publicly update or revise any forward-looking statement even if experience or future changes make it clear that any projected results expressed or implied therein will not be realized.

These factors include, among other things, risks associated with increased government regulation related to the healthcare and insurance industries in general and more specifically, pharmacy benefit management and specialty pharmaceutical distribution organizations, changes in reimbursement rates from government and private payors, the existence of complex laws and regulations relating to our business, increased competition from our competitors, including competitors with greater financial, technical, marketing and other resources. This report contains information regarding important factors that could cause such differences.

Business Overview

We are a specialty pharmaceutical healthcare organization that partners with patients, physicians, healthcare payors and pharmaceutical manufacturers to provide access to medications and management solutions to optimize outcomes for chronic and other complex healthcare conditions.

Our business is reported under two operating segments: (i) specialty pharmaceutical services ("Specialty Services"); and (ii) pharmacy benefit management ("PBM") services ("PBM Services"). Our Specialty Services include comprehensive support, dispensing and distribution, patient care management, data reporting as well as a range of other complex therapy management services for certain chronic health conditions. The medications we dispense include oral, injectable and infusible medications used to treat patients living with chronic and other complex health conditions and are provided to patients and physicians. Our PBM Services include pharmacy network management, claims processing, benefit design, drug utilization review, formulary management and traditional mail order pharmacy fulfillment.

Revenues from Specialty Services and PBM Services are derived from our relationships with healthcare payors including managed care organizations, government-funded and/or operated programs, pharmaceutical manufacturers, patients and physicians, as well as a variety of third party payors, including third party administrators (“TPAs”) and self-funded employer groups (collectively “Plan Sponsors”).

Our Specialty Services are marketed and/or sold to Plan Sponsors, pharmaceutical manufacturers, physicians, and patients, and target certain specialty medications that are used to treat patients living with chronic and other complex health conditions. These services include the distribution of biotech and other high cost injectable, oral and infusible prescription medications and the provision of therapy management services.

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We were the sole vendor for the Centers for Medicare and Medicaid Services' ("CMS") Competitive Acquisition Program ("CAP") for certain Medicare Part B drugs and biologicals which commenced July 1, 2006. CAP was a voluntary program for physicians that offered them the option to obtain many of their Medicare Part B drugs and biologicals from us and have us, rather than the physician, bill CMS for the price of the drug. As it was designed, CAP represented unacceptable profit risk to us due to provisions which delayed, for up to one year, reimbursement rate increases to correspond to cost increases from drug manufacturers. Our CAP contract expired December 31, 2008, we are no longer servicing CAP, and it is unclear if CMS will continue the CAP program. The exit of the CAP business is expected to reduce 2009 revenues by approximately $71 million and is expected to increase our gross margin as a percentage of revenue.

Since August 1, 2007, we have been the sole national specialty pharmacy providers of HIV/AIDS and solid organ transplant drugs and services to patients insured by United Healthcare ("UHC") and its participating affiliates. On September 11, 2008, we were notified by UHC of its intention to internalize services for HIV/AIDS and solid organ transplant drugs for their members effective January 31, 2009 and March 31, 2009, respectively. This contract termination had no impact on 2008 results of operations and is expected to reduce 2009 revenues by $91 million and increase gross profit as a percentage of revenue.

The combined effects of these two contractual changes are expected to reduce 2009 revenues by approximately $162 million, or 13.0%. However, the gross profit percentages on these two contracts were significantly below our historical gross profit percentages on our Specialty Services business. As such, gross profit as a percentage of revenues is expected to increase to more historical levels before the commencement of these high volume, lower margin contracts. We have developed cost reduction plans that are expected to lower operating expenses in conjunction with the volume decreases as we cease serving these contracts.

Our PBM Services are marketed to Plan Sponsors and are designed to promote a broad range of cost-effective, clinically appropriate pharmacy benefit management services through our national PBM retail network and our own mail service distribution facility. We also administer prescription discount card programs on behalf of commercial Plan Sponsors, most typically TPAs. Under such programs we derive revenue on a per claim basis from the dispensing network pharmacy.

Critical Accounting Estimates

Our consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles ("GAAP"). In preparing our financial statements, we are required to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. We evaluate our estimates and judgments on an ongoing basis. We base our estimates and judgments on historical experience and on various other factors that we believe to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that may not be readily apparent from other sources. Our actual results may differ from these estimates, and different assumptions or conditions may yield different estimates. The following discussion highlights what we believe to be the critical accounting estimates and judgments made in the preparation of our consolidated financial statements.

The following discussion is not intended to be a comprehensive list of all the accounting estimates or judgments made in the preparation of our financial statements, and in many cases the accounting treatment of a particular transaction is specifically dictated by GAAP, with no need for management's judgment in its application. See our audited consolidated financial statements and notes thereto which appear in Item 8 — Financial Statements and Supplementary Data of this Annual Report, which contain accounting policies and other disclosures required by GAAP.

Revenue Recognition

We generate revenue principally through the sale of prescription drugs, which are dispensed either through a pharmacy participating in our pharmacy network or a pharmacy owned by us. Revenue is generally derived under fee-for-service agreements; however, an immaterial amount of revenue is derived from capitated agreements where the fee is based on a per patient basis.

Fee-for-service agreements include: (i) specialty and mail service agreements, where we dispense prescription medications through our pharmacy facilities and (ii) PBM agreements, where prescription medications are dispensed through pharmacies participating in our retail pharmacy network as well as through our traditional mail service facility. Under fee-for-service agreements, revenue for Specialty Services is recognized either at the time the drug is shipped in the case of most Specialty agreements or at the time of infusion when nursing services are provided and billed by us. Customers receive medication either from one of our retail locations or through deliver service.

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In those cases where we ship the medication, revenue is recognized at the point of shipment. At that point, the earnings process is considered complete and we have substantially accomplished the terms of our transaction Revenue for PBM Services is recognized when the pharmacy services are reported to us through the point of sale ("POS") claims processing system and the drug is dispensed to the Member.

Revenue generated under PBM agreements is classified as either gross or net by us based on whether we are acting as a principal or an agent in the fulfillment of prescriptions through our retail pharmacy network. When we independently have a contractual obligation to pay a network pharmacy provider for benefits provided to its Plan Sponsors' Members, and therefore are the "primary obligor" as defined by Emerging Issues Task Force Issue No. 99-19, Reporting Revenue Gross as a Principal versus Net as an Agent, we include payments (which include the drug ingredient cost) from these Plan Sponsors as revenue and payments to the network pharmacy providers as cost of revenue. These transactions require us to pay network pharmacy providers, assume credit risk of Plan Sponsors and act as a principal. If we merely act as an agent, and consequently administer Plan Sponsors' network pharmacy contracts, we do not have the primary obligation to pay the network pharmacy and assume credit risk and as such record only the administrative fees (and not the drug ingredient cost) as revenue.

Allowance for Doubtful Accounts

Allowances for doubtful accounts are based on estimates of losses related to customer receivable balances. The procedure for estimating the allowance for doubtful accounts requires significant judgment. The risk of collection varies based upon the product, the payor (commercial health insurance, government, physician), the patient's ability to pay the amounts not reimbursed by the payor and point of distribution (retail, mail service and infusion). We estimate the allowance for doubtful accounts based upon a variety of factors including the age of the outstanding receivables and our historical experience of collections, adjusting for current economic conditions and, in some cases, evaluating specific customer accounts for risk of loss. We periodically review the estimation process and make changes to the estimates as necessary. When it is deemed that a customer account is uncollectible, that balance is written off against the existing allowance.

Allowance for Contractual Discounts

We are reimbursed for the medications and services we sell by Plan Sponsors. Revenues and related accounts receivable are recorded net of payor contractual discounts to reflect the estimated net billable amounts for the products and services delivered. We estimate the allowance for contractual discounts, based on historical experience and in certain cases on a customer-specific basis, given our interpretation of the contract terms or applicable regulations. However, the reimbursement rates are often subject to interpretation that could result in payments that differ from our estimates. Additionally, updated regulations and contract negotiations occur frequently, necessitating our continual review and assessment of the estimation process.

Rebates

Manufacturers' rebates are recorded as estimates until such time as the rebate monies are received. These estimates are based on historical results and trends and are revised on a regular basis depending upon our latest forecasts, as well as information received from rebate sources. Should actual results differ, adjustments will be recorded in future earnings. In some instances, rebate payments are shared with our managed care organizations. Rebates are recorded as a reduction of both inventory and cost of goods sold.

Payables to Plan Sponsors

Payables to Plan Sponsors primarily represent payments made by Plan Sponsors in excess of the invoiced reimbursement. These amounts are refunded to Plan Sponsors in Specialty Services. In addition, these payables include the sharing of manufacturers' rebates with the Plan Sponsors in the PBM Services segment.

Income Taxes

As part of the process of preparing our consolidated financial statements, management is required to estimate income taxes in each of the jurisdictions in which we operate. We account for income taxes under Statement of Financial Accounting Standards ("SFAS") No. 109, Accounting for Income Taxes ("SFAS 109"). SFAS 109 requires the use of the asset and liability method of accounting for income taxes. Under this method, deferred taxes are determined by calculating the future tax consequences attributable to differences between the financial accounting and tax bases of existing assets and liabilities. A valuation allowance is recorded against deferred tax assets when, in the opinion of management, it is more likely than not that we will not be able to realize the benefit from our deferred tax assets.

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On January 1, 2007, we adopted the provisions of Financial Accounting Standards Board ("FASB"), Interpretation No. 48 Accounting for Uncertainty in Income Taxes – an interpretation of FASB Statement No. 109 ("FIN 48"). FIN 48 establishes the accounting for uncertain tax positions. FIN 48 clarifies the accounting for income taxes by prescribing a recognition threshold and measurement attribute that a tax position is required to meet before being recognized in the financial statements and provides guidance on derecognition, measurement, classification, interest and penalties, accounting in interim periods, disclosure and transition. We file income tax returns, including returns for our subsidiaries, as prescribed by Federal tax laws and the tax laws of the state and local jurisdictions in which we operate. Our uncertain tax positions are related to tax years that remain subject to examination. Interest and penalties related to unrecognized tax benefits are recorded as income tax expense. See Note 8 - Income Taxes of the Notes to the Consolidated Financial Statements for discussion of the effects of our adoption of FIN 48.

Purchase Price Allocation

We account for acquisitions under the purchase method of accounting in accordance with SFAS No. 141, Business Combinations ("SFAS 141"). Accordingly, any assets acquired and liabilities assumed are recorded at their respective fair values. The recorded values of assets and liabilities are based on third party estimates and independent valuations. The remaining values are based on management's judgments and estimates. Accordingly, our financial position or results of operations may be affected by changes in estimates and judgments used to value these assets and liabilities.

Goodwill

In accordance with SFAS No. 142, Goodwill and Other Intangible Assets ("SFAS 142"), we evaluate goodwill for impairment on an annual basis and whenever events or circumstances exist that indicate that the carrying value of goodwill may no longer be recoverable. The impairment evaluation is based on a two-step process. The first step compares the fair value of a reporting unit with its carrying amount, including goodwill. If the first step indicates that the fair value of the reporting unit is less than its carrying amount, the second step must be performed which determines the implied fair value of reporting unit goodwill. The measurement of possible impairment is based upon the comparison of the implied fair value of reporting unit to its carrying value.

The Company has two reporting units: Specialty Services and PBM Services. The goodwill associated with the Specialty Services segment was evaluated and an impairment was recorded at December 31, 2008. There is no goodwill associated with the PBM Services segment.

Impairment of Long Lived Assets

We evaluate whether events and circumstances have occurred that indicate that the remaining estimated useful life of long-lived assets, including intangible assets, may warrant revision or that the remaining balance of an asset may not be recoverable in accordance with the provisions of SFAS No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets ("SFAS 144"). The measurement of possible impairment is based on the ability to recover the balance of assets from expected future operating cash flows on an undiscounted basis. Impairment losses, if any, would be determined based on the present value of the cash flows using discount rates that reflect the inherent risk of the underlying business. As a result of the analysis performed at December 31, 2008, we recorded an impairment of long lived assets.

Accounting for Stock-Based Compensation

We adopted the fair value recognition provisions of SFAS No. 123(R), Share-Based Payment ("SFAS 123(R)"), using the modified-prospective-transition method. Under that transition method, compensation cost recognized during 2008 includes: (i) compensation cost for all share-based payments granted prior to, but not yet vested as of, January 1, 2006

based on the grant date fair value estimated in accordance with the original provisions of SFAS 123, and (ii) compensation cost for all share-based payments granted subsequent to January 1, 2006, based on the grant-date fair value estimated in accordance with the provisions of SFAS 123(R).

The fair value of each option award is estimated on the date of grant using a Binomial option-pricing model that uses the following assumptions: (i) expected volatility is based on the historical volatility of our stock, (ii) the risk-free interest rate for periods within the contractual life of the option is based on the U.S. Treasury yield curve in effect at the time of the grant, and (iii) the expected life of options granted is derived from previous history of stock exercises from the grant date and represents the period of time that options granted are expected to be outstanding. We use historical data to estimate option exercise and employee termination assumptions under the valuation model.

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The fair value of each restricted stock award on the date of grant is calculated by using a Monte Carlo valuation model for performance shares and 100% of the fair market value on date of grant for other restricted stock awards and is amortized to expense on a straight-line basis.

Off-Balance Sheet Arrangements

We do not participate in transactions that generate relationships with unconsolidated entities or financial partnerships, such as special purpose entities or variable interest entities, which would have been established for the purpose of facilitating off-balance sheet arrangements or other limited purposes. As of December 31, 2008, we are not involved in any unconsolidated special purpose entities or variable interest entities.

Reclassifications

Certain prior period amounts have been reclassified to conform to the current year presentation. Such reclassifications had no material effect on our previously reported consolidated financial position, results of operations or cash flows.

Results of Operations

CONSOLIDATED RESULTS

Year ended December 31, 2008 vs. December 31, 2007

	Year Ended December 31,			
	2008		2007	
Revenue	$ 1,401,911	100.0%	$ 1,197,732	100.0%
Gross profit	142,170	10.1%	137,015	11.4%
(Loss) income from operations	(83,517)	-6.0%	8,851	0.7%
Interest expense, net	(2,711)	-0.2%	(3,270)	-0.3%
(Loss) income before income taxes	(86,228)	-6.2%	5,581	0.5%
Net (loss) income	$ (74,032)	-5.3%	$ 3,317	0.3%

Revenue. Total reported revenue for the year ended December 31, 2008 increased $204.2 million, or 17.0%, to $1,401.9 million from $1,197.7 million for the same period in 2007.

Specialty Services revenue for the year ended December 31, 2008 was $1,196.6 million compared to $974.6 million for the same period in 2007, a $222.0 million, or 22.8%, increase. This increase was primarily due to additional revenues associated with sales from new Specialty Services payor contracts, including an agreement with UHC for the HIV/AIDS and solid organ transplant programs (the “UHC Agreement”) and the CAP agreement which will not continue throughout 2009, as well as growth in the sale of oncology drugs and the increase associated with drug cost inflation.

PBM Services revenue for the year ended December 31, 2008 was $205.3 million compared to $223.2 million for the same period in 2007, a $17.9 million, or 8.0%, decrease. The decline in revenue is due primarily to the loss of a PBM customer during 2007.

Cost of Revenue and Gross Profit. Reported cost of revenue for the year ended December 31, 2008 was $1,259.7 million compared to $1,060.7 million for the same period in 2007. This increase in cost of revenue was primarily the result of increased sales in our Specialty Services segment, which came in at lower than historical margins, offset by lower PBM Services segment cost of revenue which is a result of lower revenue. The decline in gross profit percentage is primarily the result of the planned addition of higher revenue, lower margin business including the UHC Agreement. The reduced profitability of the CAP business also contributed to the overall decline. Additionally, in the first quarter of 2008, the gross profit percentage was also impacted by timing delays in obtaining increases in reimbursement rates after drug acquisition cost increases were implemented by manufacturers of specialty drugs. Drug acquisition cost increases typically occur in the first quarter of each year along with a corresponding increase in reimbursement rates, however, there was a longer than usual delay in updating the industry price lists used by us and our peers to charge customers for reimbursement. As a result of all these factors, the total gross profit as a percentage of revenue for the year ended December 31, 2008 was 10.1%, compared to 11.4% for the same period in 2007.

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Selling, General and Administrative Expenses. For the year ended December 31, 2008, selling, general and administrative expenses ("SG&A") increased to $125.2 million, or 8.9% of total revenue, from $120.1 million, or 10.0% of total revenue, for the same period in 2007. The year-over-year increase in SG&A is primarily the result of increased salary and medical benefits, higher brokers' fees due to the growth in our cash card business and a settlement with the Office of the Inspector General ("OIG") of the U.S. Department of Health and Human Services during the third quarter of 2008. These increases were partially offset by the elimination of bonus expense as no management bonuses were earned in 2008.

Bad Debt Expense. For the year ended December 31, 2008 we recorded bad debt expense of $4.7 million, a decrease of $0.4 million, compared to $5.1 million in 2007. The decrease in bad debt expense is primarily the result of improved billing, cash collection and posting practices as well as a large bad debt recovery related to a prior year PBM customer bankruptcy claim. Our overall methodology used for determining our provision for bad debt remains essentially unchanged.

Amortization of Intangibles. For the year ended December 31, 2008 we recorded amortization expense of intangibles of $1.9 million compared to amortization expense of intangibles of $2.9 million in 2007. The decrease is due to certain intangible assets becoming fully amortized in the first quarter of 2007. Also we recorded a write-off of intangibles under SFAS 144 discussed further below. In addition, amortization of intangibles expense will be reduced by $1.9 million annually as a result of the write-off.

Net Interest Expense. Net interest expense was $2.7 million for the year ended December 31, 2008 compared to $3.3 million for the year ended December 31, 2007. The decrease in interest expense was the result of lower weighted average interest which is tied to LIBOR (defined below) partially offset by an increase in the average daily balance required to fund the growth of the Specialty Services segment.

Goodwill and Intangible Impairment. The goodwill and other impairment charges in 2008 consisted of $90.0 million of goodwill impairment charges related to our Specialty Services segment and $3.9 million related to intangible assets, such as customer lists and non-compete agreements. The goodwill charge relates primarily to certain acquisitions in the years 2000 through 2006.

We evaluate goodwill based upon the two-step process required in SFAS 142. As part of step one, we noted the significant decline in its market capitalization below book value, which was sustained through the fourth quarter of 2008. We also previously announced changes in the status of long-term Specialty Services contracts which are expected to reduce 2009 revenues. Those contract changes are (a) the decision by United Healthcare Group ("UHC") to internalize services for HIV/AIDS and solid organ transplant drugs starting in the first quarter of 2009, and (b) the expiration of the Competitive Acquisition Program ("CAP") with the Centers for Medicare and Medicaid Services effective December 31, 2008. The expiration of these contracts, our reduced market capitalization, and the reduced market capitalization of our peers in the healthcare industry were considered to be potential indicators of impairment in contemplation of the Company's annual impairment analysis.

Based on our annual assessment, we determined that the fair value of the Specialty Services reporting unit was less than the carrying value of its net assets. We then determined the fair value of the Specialty Services reporting unit using a combination of an income approach using the discounted cash flow method and a market approach using the guideline public company method. We completed step two of the impairment analysis and concluded that the carrying value of Specialty Services goodwill was impaired, resulting in a fourth quarter non-cash impairment charge of $90.0 million. The non-cash impairment charge does not change management's view of the Specialty Services segment reporting unit as our strategic business unit and will not affect liquidity, cash flows from operating activities, debt covenants or our ability to borrow under the existing credit facilities.

As part of the annual assessment and in consideration of the impairment indicators, we also evaluated the recoverability of our property and equipment and definite-lived intangible assets in accordance with SFAS 144. As a result, we determined that $3.9 million of definitive-lived intangible assets, consisting of $3.5 million of customer lists and $0.4 million of non-compete agreements, were impaired, and an impairment charge for this amount was recorded in the fourth quarter of 2008. These impairment tests were performed and the related impairment charges were recorded prior to completing the goodwill impairment analysis.

Benefit From/Provision For Income Taxes. We reported an income tax benefit of $12.2 million for 2008 compared to an income tax expense $2.3 million for 2007. The benefit in 2008 was due to the goodwill impairment which reduced the deferred tax liability associated with goodwill, partially offset by the increase in the valuation allowance on deferred tax assets. At December 31, 2008, we had Federal net operating loss carryforwards available to us of approximately $29.0 million, of which $5.9 million is subject to an annual limitation, all of which will begin expiring in 2017 and later. Our tax expense will be reduced by approximately $2.0 million annually as a result of decreased tax amortization on indefinite lived assets under SFAS 109.

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Net Income and Earnings Per Share. We reported a net loss of $74.0 million, or $1.93 per share, for the year ended December 31, 2008, compared to net income of $3.3 million, or $0.09 per share, for the same period a year ago. The number of weighted average shares for both the basic and diluted shares at December 31, 2008 was 38,416,644, compared to basic and diluted shares of 37,647,270 and 38,491,009, respectively, at December 31, 2007.

Year ended December 31, 2007 vs. December 31, 2006

	Year Ended December 31,			
	2007		2006	
Revenue	$ 1,197,732	100.0%	$ 1,151,940	100.0%
Gross profit	137,015	11.4%	118,056	10.2%
Income (loss) from operations	8,851	0.7%	(16,241)	-1.4%
Interest expense, net	(3,270)	-0.3%	(3,018)	-0.3%
Income (loss) before income taxes	5,581	0.5%	(19,259)	-1.7%
Net income (loss)	$ 3,317	0.3%	$ (38,289)	-3.3%

Revenue. Total reported revenue for the year ended December 31, 2007 increased $45.8 million, or 4.0%, to $1,197.7 million from $1,151.9 million for the same period in 2006. The year-over-year increase was concentrated in the Specialty Services segment partially offset by revenues associated with the loss of PBM contracts.

Specialty Services revenue for the year ended December 31, 2007 was $974.6 million compared to $868.8 million for the same period in 2006, a $105.8 million, or 12.2%, increase. This increase was due primarily to sales of new specialty drugs under exclusive or preferred distribution and managed care arrangements, strong growth in infusion products, new business related to CAP and the acquisition of Intravenous Therapy Services, Inc. in March 2006.

PBM Services revenue for the year ended December 31, 2007 was $223.2 million compared to $283.1 million for the same period in 2006, a $59.9 million, or 21.2%, decrease. The decline in revenue is due primarily to the loss of revenues associated with certain PBM customers partially offset by increased volume in our traditional mail business.

Cost of Revenue and Gross Profit. Reported cost of revenue for the year ended December 31, 2007 was $1,060.7 million compared to $1,033.9 million for the same period in 2006. This increase in cost of revenue was primarily the result of increased sales, offset by improved acquisition costs resulting from improved contracting. The total gross profit as a percentage of revenue for the year ended December 31, 2007 was 11.4%, compared to 10.2% for the same period in 2006. The Specialty Services segment gross margin percentage increased primarily as a result of improved drug acquisition costs and favorable business mix. The PBM Services segment gross margin percentage increased primarily due to a shift from lower margin customers to higher margin customers.

Selling, General and Administrative Expenses. For the year ended December 31, 2007, selling, general and administrative expenses (“SG&A”) increased to $120.1 million, or 10.0% of total revenue, from $115.3 million, or 10.0% of total revenue, for the same period in 2006. The year-over-year increase in SG&A is primarily the result of compensation related expense.

Bad Debt Expense. For the year ended December 31, 2007 we recorded bad debt expense of $5.1 million, a decrease of $7.3 million compared to $12.4 million in 2006. Bad debt expense has decreased due to improved billing, cash collection and posting practices and the favorable settlement of previously reserved doubtful accounts.

Amortization of Intangibles. For the year ended December 31, 2007 we recorded amortization expense of intangibles of $2.9 million compared to amortization expense of intangibles of $6.5 million in 2006. In the first quarter of 2007 the amortization of the intangible assets associated with the Chronimed acquisition expired, resulting in a decrease in amortization expense.

Net Interest Expense. Net interest expense was $3.3 million for the year ended December 31, 2007 compared to $3.0 million for the year ended December 31, 2006. The increase in interest expense was the result of higher average borrowing levels primarily created by growth in the Specialty Services segment and a reduction in claims payable.

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Provision for Income Taxes. The reported provision for income taxes was $2.3 million for 2007 compared to $19.0 million for 2006. The decrease in the provision from 2006 to 2007 was due primarily to the establishment of a valuation allowance recorded against deferred tax assets of $25.7 million in 2006. At December 31, 2007, we had Federal net operating loss carryforwards available to us of approximately $27.3 million, of which $8.6 million is subject to an annual limitation, all of which will begin expiring in 2017 and later.

Net Income and Earnings Per Share. We reported net income of $3.3 million, or $0.09 per share, for the year ended December 31, 2007, compared to a net loss of $38.3 million, or $1.03 per share, for the same period a year ago. The number of weighted average basic and diluted shares at December 31, 2007 was 37,647,270 and 38,491,009, respectively, compared to 37,303,531 for both at December 31, 2006.

Liquidity and Capital Resources

We utilize both funds generated from operations and available credit under our Facility (as defined below) for general working capital needs, capital expenditures and acquisitions.

Net cash used in operating activities was $8.7 million in 2008 compared to $24.2 million provided by operations in 2007. Significant working capital changes from December 31, 2007 to December 31, 2008 included: increases in accounts receivable of $34.3 million, increases in inventory of $11.6 million and an increase in accounts payable of $19.6 million. The increase in accounts receivable relates to the 18% growth in sales in the fourth quarter of 2008 over the fourth quarter of 2007. The increase in inventory relates to the purchase of inventory in anticipation of price increases in the first quarter of 2009. Partially offsetting the increased investment in receivables and inventories was an increase in accounts payable due to volume growth and the timing of inventory purchases. As discussed below the Company believes it has adequate financing arrangements to absorb these fluctuations in operating cash flow.

Net cash used in investing activities in 2008 was $7.5 million compared to net cash used in investing activities of $5.5 million in 2007. The change was primarily due to the investment in new information systems throughout the organization.

Net cash provided by financing activities in 2008 was $16.2 million compared to net cash used in financing activities in 2007 of $18.7 million primarily due to the increased borrowings on the line of credit to support the growth of the business in 2008.

At December 31, 2008, there were $50.4 million in outstanding borrowings under our revolving credit facility (the "Facility") with an affiliate of Healthcare Finance Group, Inc. ("HFG"), as compared to $33.8 million at December 31, 2007, due to increased working capital needs associated with 2008 growth. On August 11, 2008, our revolving Facility with HFG was amended and increased by $10.0 million to provide for borrowings of up to $85.0 million at the London Inter-Bank Offered Rate ("LIBOR") or a pre-determined minimum rate plus an applicable margin. The term of the Facility runs through November 1, 2010. Under the terms of the Facility, we may request to increase the amount available for borrowing up to $100.0 million, and convert a portion of any outstanding borrowings from a Revolving Loan into a Term Loan. The borrowing base utilizes receivable balances as security under the Facility. At December 31, 2008 we had $34.6 million of credit available under the Facility.

The weighted average interest rate on the line of credit was 5.0% during 2008 compared to 7.2% for 2007. At February 27, 2009, we had $37.7 million of credit available under the Facility.

The Facility contains various covenants that, among other things, require us to maintain certain financial ratios as defined in the agreements governing the Facility. We were in compliance with all the covenants contained in the agreements as of December 31, 2008.

We anticipate that our working capital needs will decrease in the coming year due to the termination of the UHC Agreement and the CAP contract, particularly due to the anticipated collection of CAP accounts receivable. We have made substantial information technology ("IT") systems investments in 2008 and will continue to invest in 2009 to improve efficiencies, internal controls, and data reporting and management. We believe that our cash on hand, together with funds available under the Facility and cash expected to be generated from operating activities will be sufficient to fund our anticipated working capital, IT systems investments and other cash needs for at least the next twelve months.

We also may pursue joint venture arrangements, business acquisitions and other transactions designed to expand our business, which we would expect to fund from borrowings under the Facility, other future indebtedness or, if appropriate, the private and/or public sale or exchange of our debt or equity securities.

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At December 31, 2008, we had Federal net operating loss carryforwards available to us of approximately $29.0 million, of which $5.9 million is subject to an annual limitation, all of which will begin expiring in 2017 and later. We have state net operating loss carryforwards remaining of approximately $15.3 million, the majority of which will begin expiring in 2017 and later.

During the fourth quarter, in consideration for more favorable payment terms, we granted our primary drug wholesaler a secured, first priority lien in our entire inventory. In addition, in the ordinary course of business, we have obtained certain letters of credit ("LC") from commercial banks in favor of various parties. At December 31, 2008, we had $0.9 million on deposit as collateral for these LCs.

The following table sets forth our contractual obligations affecting cash in the future:

	Payments Due in Period (in thousands)				
Contractual Obligations	Total	Less Than 1 Year	1-3 Years	4-5 Years	After 5 Years
Line of credit (1)	$ 50,411	$ 50,411	$ -	$ -	$ -
Operating leases	20,257	4,631	8,746	2,829	4,051
Purchase commitment	37,585	37,585	-	-	-
Total Contractual Cash Obligations	$ 108,253	$ 92,627	$ 8,746	$ 2,829	$ 4,051

(1) Interest on the line of credit is payable monthly. For additional information regarding the line of credit see information above.

Other Matters

Controls and Procedures

As of the end of the period covered by this Annual Report on Form 10-K, evaluations of disclosure controls and internal control over financial reporting were performed under the supervision and with the participation of management, including our Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO"). Based upon these evaluations, management believes our controls were effective as of December 31, 2008. See Part II, Item 9A. "Controls and Procedures" for a full discussion of the Evaluation of Disclosure Controls and Procedures, Management Report on Internal Control over Financial Reporting and our Management Remediation Plan.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

Exposure to market risk for changes in interest rates relates to our outstanding debt. At December 31, 2008 we did not have any long-term debt. We are exposed to interest rate risk primarily through our borrowing activities under our line of credit discussed in Item 7 of this report. A 1% increase in interest rates would result in an increase in annual interest expense of approximately $0.5 million, pre-tax, based upon the average daily balance during 2008. We do not use financial instruments for trading or other speculative purposes and are not a party to any derivative financial instruments.

At December 31, 2008, the carrying values of cash and cash equivalents, accounts receivable, accounts payable, claims payable, payables to plan sponsors and others, debt and line of credit approximate fair value due to their

short-term nature.

Because management does not believe that our exposure to interest rate market risk is material at this time, we have not developed or implemented a strategy to manage this market risk through the use of derivative financial instruments or otherwise. We will assess the significance of interest rate market risk from time to time and will develop and implement strategies to manage that market risk as appropriate.

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Item 8. Financial Statements and Supplementary Data

Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders
BioScrip, Inc.

We have audited the accompanying consolidated balance sheets of BioScrip, Inc. and subsidiaries as of December 31, 2008 and 2007, and the related consolidated statements of operations, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2008. Our audits also included the financial statement schedule listed in the Index at Item 15. These financial statements and schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of BioScrip, Inc. and subsidiaries at December 31, 2008 and 2007, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 2008, in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

As discussed in Note 2 to the consolidated financial statements, effective January 1, 2007, the Company adopted Financial Accounting Standards Board Interpretation No. 48, Accounting for Uncertainty in Income Taxes.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), BioScrip, Inc.'s internal control over financial reporting as of December 31, 2008, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated March 2, 2009, expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP
Minneapolis, Minnesota
March 2, 2009

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BIOSCRIP, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
December 31,
(in thousands, except for share amounts

	2008	2007
ASSETS		
Current assets		
Cash and cash equivalents	$ -	$ -
Receivables, less allowance for doubtful accounts of $11,629 and $12,083 at December 31, 2008 and 2007, respectively	158,649	128,969
Inventory	45,227	33,598
Prepaid expenses and other current assets	2,766	1,434
Total current assets	206,642	164,001
Property and equipment, net	14,748	11,742
Other assets	1,069	478
Goodwill	24,498	114,824
Intangible assets, net	-	5,777
Total assets	$ 246,957	$ 296,822
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities		
Line of credit	$ 50,411	$ 33,778
Accounts payable	76,936	57,342
Claims payable	5,230	5,164
Amounts due to plan sponsors	5,646	4,568
Accrued expenses and other current liabilities	9,575	13,936
Total current liabilities	147,798	114,788
Deferred taxes	533	12,754
Income taxes payable	3,089	3,077
Total liabilities	151,420	130,619
Stockholders' equity		
Preferred stock, $.0001 par value; 5,000,000 shares authorized; no shares issued or outstanding	$ -	$ -
Common stock, $.0001 par value; 75,000,000 shares authorized; shares issued: 41,622,629 and 41,331,346, respectively; shares outstanding: 38,691,356 and 38,250,633, respectively	4	4
Treasury stock, shares at cost: 2,624,186 and 2,436,642, respectively	(10,288)	(9,399)
Additional paid-in capital	248,441	244,186
Accumulated deficit	(142,620)	(68,588)
Total stockholders' equity	95,537	166,203
Total liabilities and stockholders' equity	$ 246,957	$ 296,822

The accompanying notes are an integral part of these consolidated financial statements.

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BIOSCRIP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
Years Ended December 31,
(in thousands, except per share amounts)

	2008	2007	2006
Revenue	$ 1,401,911	$ 1,197,732	$ 1,151,940
Cost of revenue	1,259,741	1,060,717	1,033,884
Gross profit	142,170	137,015	118,056
Selling, general and administrative expenses	125,202	120,147	115,316
Bad debt expense	4,667	5,119	12,443
Amortization of intangibles	1,936	2,898	6,538
Goodwill and intangible impairment	93,882	-	-
(Loss) income from operations	(83,517)	8,851	(16,241)
Interest expense, net	(2,711)	(3,270)	(3,018)
(Loss) income before income taxes	(86,228)	5,581	(19,259)
Tax (benefit) provision	(12,196)	2,264	19,030
Net (loss) income	$ (74,032)	$ 3,317	$ (38,289)
(Loss) income per common share			
Basic	$ (1.93)	$ 0.09	$ (1.03)
Diluted	$ (1.93)	$ 0.09	$ (1.03)
Weighted average common shares outstanding			
Basic	38,417	37,647	37,304
Diluted	38,417	38,491	37,304

The accompanying notes are an integral part of these consolidated financial statements.

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

	Common Stock	Treasury Stock	Additional Paid-in Capital	Accumulated Deficit	Total Stockholders' Equity
Balance December 31, 2005	$ 4	$ (8,002)	$ 234,958	$ (31,195)	$ 195,765
Exercise of stock options and other related activities	-	-	1,356	-	1,356
Tax benefit recorded from option exercises	-	-	456	-	456
Compensation under employee stock compensation plans	-	-	2,545	-	2,545
Net loss	-	-	-	(38,289)	(38,289)
Balance December 31, 2006	4	(8,002)	239,315	(69,484)	161,833
Exercise of stock options	-	-	1,867	-	1,867
Surrender of stock to satisfy minimum tax withholding	-	(1,397)	-	-	(1,397)
Compensation under employee stock compensation plans	-	-	3,004	-	3,004
Cumulative effect of FIN 48 adoption	-	-	-	(2,421)	(2,421)
Net income	-	-	-	3,317	3,317
Balance December 31, 2007	4	(9,399)	244,186	(68,588)	166,203
Exercise of stock options	-	-	465	-	465
Surrender of stock to satisfy minimum tax withholding	-	(889)	-	-	(889)
Compensation under employee stock compensation plans	-	-	3,790	-	3,790
Net loss	-	-	-	(74,032)	(74,032)
Balance December 31, 2008	$ 4	$ (10,288)	$ 248,441	$ (142,620)	$ 95,537

The accompanying notes are an integral part of these consolidated financial statements.

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BIOSCRIP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
Years Ended December 31,
(in thousands)

	2008	2007	2006
Cash flows from operating activities:			
Net (loss) income	$ (74,032)	$ 3,317	$ (38,289)
Adjustments to reconcile net income to net cash (used in) provided by operating activities:			
Depreciation	4,457	4,192	4,316
Amortization	1,936	2,898	6,538
Goodwill and intangible impairment	93,882	-	-
Change in deferred income tax	(12,221)	2,808	20,297
Tax benefit from exercise of stock options	-	-	456
Excess tax benefits relating to employee stock compensation	-	-	(19)
Compensation under stock-based compensation plans	3,790	3,004	2,545
Bad debt expense	4,667	5,119	12,443
Changes in assets and liabilities, net of acquired assets:			
Receivables, net	(34,347)	1,050	(15,764)
Inventory	(11,629)	(127)	(7,109)
Prepaid expenses and other assets	(1,923)	859	1,108
Loss on disposal of fixed assets	-	-	237
Accounts payable	19,594	5,618	9,056
Claims payable	66	(4,384)	(21,854)
Amounts due to plan sponsors	1,078	(5,712)	573
Accrued expenses and other liabilities	(4,064)	5,545	(4,396)
Net cash (used in) provided by operating activities	(8,746)	24,187	(29,862)
Cash flows from investing activities:			
Purchases of property and equipment, net of disposals	(7,463)	(5,526)	(5,436)
Acquisitions, net of cash acquired	-	-	(13,097)
Decrease in other assets	-	-	125
Net cash used in investing activities	(7,463)	(5,526)	(18,408)
Cash flows from financing activities:			
Borrowings on line of credit	1,409,003	1,200,760	1,031,383
Repayments on line of credit	(1,392,370)	(1,219,876)	(985,916)
Net proceeds from exercise of employee stock compensation plans	465	1,867	1,356
Excess tax benefits relating to employee stock compensation	-	-	19
Surrender of stock to satisfy minimum tax withholding	(889)	(1,397)	-
Principal payments on capital lease obligations	-	(15)	(93)
Net cash provided by (used in) financing activities	16,209	(18,661)	46,749
Net change in cash and cash equivalents	-	-	(1,521)
Cash and cash equivalents - beginning of period	-	-	1,521
Cash and cash equivalents - end of period	$ -	$ -	$ -
DISCLOSURE OF CASH FLOW INFORMATION:			
Cash paid during the period for interest	$ 4,011	$ 3,471	$ 2,849
Cash paid during the period for income taxes	$ 382	$ 1,599	$ 2,484

The accompanying notes are an integral part of these consolidated financial statements

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BIOSCRIP, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 — NATURE OF BUSINESS

Corporate Organization and Business

BioScrip, Inc. and subsidiaries (the "Company" or "BioScrip") is a specialty pharmaceutical healthcare organization that partners with patients, physicians, healthcare payors and pharmaceutical manufacturers to provide access to medications and management solutions to optimize outcomes for chronic and other complex healthcare conditions. The Company's specialty pharmaceutical services ("Specialty Services") include the comprehensive support, dispensing and distribution, patient care management, data reporting and a range of other complex management services for certain medications including orals, injectables and infusibles used to treat patients living with chronic health conditions and are provided in various capacities to patients, physicians, healthcare payors and pharmaceutical manufacturers. The Company's pharmacy benefit management ("PBM") services include pharmacy network management, claims processing, benefit design, drug utilization review, formulary management and traditional mail order pharmacy fulfillment. These services are reported under two operating segments: (i) Specialty Services; and (ii) PBM and Traditional Mail Services (collectively, "PBM Services").

The Company distributes high-cost pharmaceuticals and provides clinically focused case and disease management programs to Plan Sponsor enrollees afflicted with chronic illnesses or genetic impairments. The disease states or conditions for which the Company has such programs include Psoriasis, Growth Hormone Deficiency, Thyroid Cancer, Sickle Cell/Thalassemia, Hemophilia, Multiple Sclerosis, Rheumatoid Arthritis, Osteoarthritis, Osteoporosis, Solid Organ Transplants, HIV/AIDS, Hepatitis C&B and RSV. The specialty drugs distributed through the BioScrip programs are dispensed and serviced from the Company's 39 specialty pharmacy locations across the United States.

Basis of Presentation

The Company's consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles ("GAAP").

Reclassification

Certain prior period amounts have been reclassified to conform to the current year presentation. Such reclassifications had no material effect on the Company's previously reported consolidated financial position, results of operations or cash flows.

NOTE 2 — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Consolidation

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries. All acquisitions have been consolidated since the date of purchase and all significant intercompany accounts and transactions have been eliminated in consolidation.

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make certain estimates and assumptions. These estimates and assumptions affect the reported amounts of assets and liabilities and disclosure of

contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Receivables

Receivables include amounts due from certain third party payors and patient co-payments for pharmacies owned by the Company, amounts due from plan sponsors under the Company's PBM agreements, amounts due from pharmaceutical manufacturers for rebates, and service fees resulting from the distribution of certain drugs through retail pharmacies.

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Allowance for Doubtful Accounts

Allowances for doubtful accounts are based on estimates of losses related to customer receivable balances. The procedure for estimating the allowance for doubtful accounts requires significant judgment and assumptions. The risk of collection varies based upon the product, the payor (commercial health insurance, government, and physician), the patient's ability to pay the amounts not reimbursed by the payor and the point of distribution (retail, national mail). The Company estimates the allowance for doubtful accounts based upon a variety of factors including the age of the outstanding receivables and the historical experience of collections, adjusting for current economic conditions and, in certain cases, evaluating specific customer accounts for risk of loss. The Company periodically reviews the estimation process and makes changes to the estimates as necessary. When it is deemed that a customer account is uncollectible, that balance is written off against the existing allowance.

Allowance for Contractual Discounts

The Company is reimbursed for the medications and services it sells by Plan Sponsors. Revenues and related accounts receivable are recorded net of payor contractual discounts to reflect the estimated net billable amounts for the products and services delivered. The Company estimates the allowance for contractual discounts, based on historical experience and in certain cases on a customer-specific basis, given its interpretation of the contract terms or applicable regulations. However, the reimbursement rates are often subject to interpretation that could result in payments that differ from estimates. Additionally, updated regulations and contract negotiations occur frequently, necessitating the continual review and assessment of the estimation process.

Inventory

Inventory is recorded at the lower of cost or market. Cost is determined using the first-in, first-out method. Inventory consists principally of purchased prescription drugs for the Company's traditional mail and specialty distribution operations. Included in inventory is a reserve for expired inventory.

Property and Equipment

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

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

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

Costs relating to the development of software for internal purposes are charged to expense until technological feasibility is establish in accordance with Statement of Position 98-1 Accounting for the Costs of Computer Software Developed or Obtained for Internal Use ("SOP 98-1"). Thereafter, the remaining software production costs up to the date placed into production are capitalized and included as Property and Equipment. Amortization of the capitalized

amounts commences on the date the asset is ready for its intended use and is calculated using the straight-line method over the estimated useful life of the software.

Claims Payable

Claims payable represent the dollar value of prescriptions processed or “adjudicated” in the Company’s PBM Services business that are due to participating network pharmacies as of the balance sheet date. The Company is responsible for all covered prescriptions provided to PBM plan enrollees (“Members”) processed through its network pharmacies during the contract period. Claims are adjudicated through its on-line adjudication system. These claims become a liability to the Company at the point of adjudication, which is when it has agreed that the prescription claim is valid, correctly priced and due to the network pharmacy for a participating Member.

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Amounts due to Plan Sponsors

Amounts due to Plan Sponsors primarily represent overpayments that will be paid back to Plan Sponsors in Specialty Services. In addition, these payables include the sharing of manufacturer's rebates with the Plan Sponsors in the PBM Services segment.

Rebates

Manufacturers' rebates are primarily part of the Company's PBM Services segment and are recorded as estimates until such time as the rebate monies are received. These estimates are based on historical results and trends and are revised on a regular basis depending on the Company's latest forecasts, as well as information received from rebate sources. Should actual results differ, adjustments will be recorded in future earnings. In some instances, rebate payments are shared with the Company's managed care organizations. Rebates are recorded as a reduction of both inventory and cost of goods sold.

Revenue Recognition

The Company generates revenue principally through the sale of prescription drugs, which are dispensed either through a pharmacy participating in its pharmacy network or a pharmacy owned by the Company. Revenue is generally derived under fee-for-service agreements; however, an immaterial amount of revenue is derived from capitated agreements where the fee is based on a per patient basis.

Fee-for-service agreements include: (i) specialty and mail service agreements, where the Company dispenses prescription medications through its pharmacy facilities and (ii) PBM agreements, where prescription medications are dispensed through pharmacies participating in its retail pharmacy network as well as through our traditional mail service facility. Under fee-for-service agreements, revenue for Specialty Services is recognized either at the time the drug is shipped in the case of most Specialty agreements or at the time of infusion when nursing services are provided and billed by the Company. Customers receive medication from the Company either from one of the Company's retail locations or through a delivery service. In those cases where the Company ships the medication, revenue is recognized at the point of shipment. At that point, the earnings process is considered complete and the Company has substantially completed the transaction Revenue for PBM Services is recognized when the pharmacy services are reported to us through the point of sale ("POS") claims processing system and the drug is dispensed to the Member.

Revenue generated under PBM agreements is classified as either gross or net by based on whether the Company acts as a principal or an agent in the fulfillment of prescriptions through its retail pharmacy network. When the Company independently has a contractual obligation to pay a network pharmacy provider for benefits provided to its Plan Sponsors' Members, and therefore is the "primary obligor" as defined by Emerging Issues Task Force Issue No. 99-19, Reporting Revenue Gross as a Principal versus Net as an Agent, the Company includes payments (which include the drug ingredient cost) from these Plan Sponsors as revenue and payments to the network pharmacy providers as cost of revenue. These transactions require us to pay network pharmacy providers, assume credit risk of Plan Sponsors and act as a principal. If the Company merely acts as an agent, and consequently administers Plan Sponsors' network pharmacy contracts, the Company does not have the primary obligation to pay the network pharmacy and assume credit risk and as such records only the administrative fees (and not the drug ingredient cost) as revenue.

Cost of Revenue

Cost of revenue includes the costs of prescription medications, pharmacy claims, fees paid to pharmacies, shipping and other direct and indirect costs associated with pharmacy management and administration, claims processing operations, mail order services and nursing services, offset by volume and prompt pay discounts received from

pharmaceutical manufacturers and distributors and total manufacturer rebates.

Impairment of Long Lived Assets

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

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Goodwill

In accordance with Statement of Financial Accounting Standards ("SFAS"), SFAS 142, Goodwill and Other Intangible Assets, the Company evaluates goodwill for impairment on an annual basis and whenever events or circumstances exist that indicate that the carrying value of goodwill may no longer be recoverable. The impairment evaluation is based on a two-step process. The first step compares the fair value of a reporting unit with its carrying amount, including goodwill. If the first step indicates that the fair value of the reporting unit is less than its carrying amount, the second step must be performed which determines the implied fair value of reporting unit goodwill. The measurement of possible impairment is based upon the comparison of the implied fair value of reporting unit to its carrying value.

Lease Accounting

The Company accounts for leasing transactions by recording rent expense on a straight-line basis, starting on the date it gains possession of leased property, over the expected life of the lease. Lease terms are generally five years, with many containing options to extend for periods ranging from one to five years. The Company includes tenant improvement allowances and rent holidays received from landlords as adjustments reducing straight-line rent expense and the effect of any rent escalation clauses as adjustments to straight-line rent expense over the expected life of the lease.

Income Taxes

As part of the process of preparing the Company's consolidated financial statements, management is required to estimate income taxes in each of the jurisdictions in which it operates. The Company accounts for income taxes under SFAS No. 109, Accounting for Income Taxes ("SFAS 109"). SFAS 109 requires the use of the asset and liability method of accounting for income taxes. Under this method, deferred taxes are determined by calculating the future tax consequences attributable to differences between the financial accounting and tax bases of existing assets and liabilities. A valuation allowance is recorded against deferred tax assets when, in the opinion of management, it is more likely than not that the Company will not be able to realize the benefit from its deferred tax assets.

On January 1, 2007, the Company adopted the provisions of Financial Accounting Standards Board ("FASB"), FASB Interpretation No. 48 Accounting for Uncertainty in Income Taxes – an interpretation of FASB Statement No. 109 ("FIN 48"). FIN 48 establishes the accounting for uncertain tax positions. FIN 48 clarifies the accounting for income taxes by prescribing a recognition threshold and measurement attribute that a tax position is required to meet before being recognized in the financial statements and provides guidance on derecognition, measurement, classification, interest and penalties, accounting in interim periods, disclosure and transition. The Company files income tax returns, including returns for its subsidiaries, as prescribed by Federal tax laws and the tax laws of the state and local jurisdictions in which it operates. The Company's uncertain tax positions are related to tax years that remain subject to examination. Interest and penalties related to unrecognized tax benefits are recorded as income tax expense. (See Note 8 - Income Taxes of the Notes to the Consolidated Financial Statements for discussion of the effects of the Company's adoption of FIN 48.)

Disclosure of Fair Value of Financial Instruments

The Company's financial instruments consist mainly of cash and cash equivalents and its line of credit. The carrying amounts of cash, cash equivalents and the line of credit approximate fair value due to their fully liquid or short-term nature.

Accounting for Stock-Based Compensation

The Company accounts for stock-based employee compensation expense under the provisions of SFAS No. 123(R), Share-Based Payment ("SFAS 123(R)"). At December 31, 2008, the Company has one stock-based employee compensation plan (the "Plan") pursuant to which incentive stock options ("ISOs"), non-qualified stock options ("NQSOs"), restricted stock, performance units and performance share awards may be granted to employees and non-employee directors. Option and stock awards are typically settled by issuing authorized but unissued shares of the Company.

The Company estimates the fair value of each stock-based award on the measurement date using a Binomial option-pricing model. The fair value of the award is amortized to expense on a straight line basis over the requisite service period. See Note 10 for additional information regarding stock-based compensation.

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Income (Loss) Per Share

Basic income (loss) per common share is based on the weighted average number of shares outstanding. Diluted income per share is based on the weighted average number of shares outstanding, including common stock equivalents, and diluted (loss) per share is based on the weighted average number of shares outstanding because the impact of common stock equivalents would be anti-dilutive (in thousands except per share data):

	2008	2007	2006
Numerator:			
Net (loss) income	$ (74,032)	$ 3,317	$ (38,289)
Denominator - Basic:			
Weighted average number of common shares outstanding	38,417	37,647	37,304
Basic (loss) income per common share	$ (1.93)	$ 0.09	$ (1.03)
Denominator - Diluted:			
Weighted average number of common shares outstanding	38,417	37,647	37,304
Common share equivalents of outstanding stock options and restricted awards	-	844	-
Total diluted shares outstanding	38,417	38,491	37,304
Diluted (loss) income per common share	$ (1.93)	$ 0.09	$ (1.03)

Employee stock options and restricted stock awards of 3,996,523, 3,259,893 and 4,758,681 for 2008, 2007 and 2006, respectively, were excluded from the diluted net income per share calculation because their effect would be anti-dilutive.

Recent Accounting Pronouncements

In December 2007, FASB issued SFAS No. 160, Noncontrolling Interests in Consolidated Financial Statements – an amendment of ARB No. 51 (“SFAS 160”), which becomes effective for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2008. SFAS 160 establishes accounting and reporting standards for ownership interests in subsidiaries held by parties other than the parent, the amount of consolidated net income attributable to the parent and to the noncontrolling interest, changes in a parent’s ownership interest, and the valuation of retained noncontrolling equity investments when a subsidiary is deconsolidated. SFAS 160 also provides reporting requirements that identify and distinguish between the interest of the parent and the interests of the noncontrolling owners. SFAS 160 will become effective for the Company beginning January 1, 2009. The Company does not believe that it will have a material impact on its results of operations, financial position or cash flows at time of adoption.

In September 2006, FASB issued SFAS No. 157, Fair Value Measurements (“SFAS 157”). SFAS 157 defines fair value, establishes a framework for measuring fair value in GAAP, and expands disclosures about fair value measurements. A single definition of fair value, together with a framework for measuring fair value, should result in increased consistency and comparability in fair value measurements. SFAS 157 will apply whenever another standard requires or permits assets or liabilities to be measured at fair value, and does not expand the use of fair value to any new circumstances. SFAS 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. On February 12, 2008 the FASB approved the Financial Staff Position (“FSP”) No. SFAS 157-2, Effective Date of FASB Statement No. 157, which delays the effective date of SFAS 157 to fiscal years beginning after November 15, 2008, and interim periods within those fiscal years for non-financial assets and non-financial liabilities, except for those items that are recognized or disclosed at fair value in the financial

statements on a recurring basis (at least annually). The Company adopted SFAS 157 effective January 1, 2008 for its financial assets and liabilities, which had no material impact on its results of operations or financial position. The Company does not believe the adoption of SFAS 157 for non-financial assets and liabilities in 2009 will have any material impact on its results of operations, financial position or cash flows.

In December 2007, FASB issued SFAS No. 141R, Business Combinations ("SFAS 141R"), which applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. SFAS 141R establishes principles and requirements for how an acquirer: (i) recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed and any noncontrolling interest in an acquiree; (ii) recognizes and measures the goodwill acquired in the business combination or a gain from a bargain purchase; and (iii) determines what information to disclose to enable users of the financial statements to evaluate the nature and financial effects of the business combination. The Company does not expect the adoption of SFAS 141R to have a material impact on its results of operations, financial position or cash flows.

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NOTE 3 — OPERATING SEGMENTS

In accordance with SFAS No. 131, “Disclosures about Segments of an Enterprise and Related Information” (“SFAS 131”), and based on the nature of the Company’s services, the Company has two reportable segments: Specialty Services and PBM Services. SFAS 131 requires an enterprise to report segment information in the same way that management internally organizes its business for assessing performance and making decisions regarding allocation of resources. The Company evaluates the performance of operating segments and allocates resources based on income from operations.

The Specialty Services segment consists of the Company’s specialty pharmacy distribution and therapy management services. Specialty Services distribution occurs locally through community pharmacies, centrally through mail order facilities, and through our infusion pharmacies for patients requiring infused medications in the home or infused at a variety of sites including out ambulatory infusion sites. All Specialty Services target certain specialty medications that are used to treat patients living with chronic health conditions and are opportunities to provide therapy management and coordination of benefit services.

The PBM Services segment consists of the Company’s integrated pharmacy benefit management and traditional mail services. These Services are designed to offer third party administrators and other Plan Sponsors cost-effective delivery of pharmacy benefit plans including the low cost distribution of mail services for Plan Members who receive traditional maintenance medications.

The accounting policies applied to the business segments are the same as those described in Note 2 - Summary of Significant Accounting Policies. Certain prior period amounts have been reclassified to conform to the current year presentation. Such reclassifications are deemed immaterial to segment data presented below. There is no effect on previously reported (Loss) income from operations.

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Segment Reporting Information
(in thousands)

	Years Ended December 31,		
	2008	2007	2006
Revenue:			
Specialty Services	$ 1,196,587	$ 974,571	$ 868,828
PBM Services	205,324	223,161	283,112
Total	$ 1,401,911	$ 1,197,732	$ 1,151,940
(Loss) income from operations:			
Specialty Services	$ (94,275)	$ (2,453)	$ (19,970)
PBM Services	10,758	11,304	3,729
	(83,517)	8,851	(16,241)
Interest expense, net	(2,711)	(3,270)	(3,018)
Income tax (benefit) expense	(12,196)	2,264	19,030
Net (loss) income:	$ (74,032)	$ 3,317	$ (38,289)
Capital expenditures:			
Specialty Services	$ 6,280	$ 4,843	$ 4,064
PBM Services	1,183	683	1,372
Total	$ 7,463	$ 5,526	$ 5,436
Depreciation Expense:			
Specialty Services	$ 3,919	$ 3,691	$ 3,593
PBM Services	538	501	723
Total	$ 4,457	$ 4,192	$ 4,316
Total Assets			
Specialty Services	$ 180,237	$ 232,823	$ 242,258
PBM Services	66,720	63,999	63,198
Total	$ 246,957	$ 296,822	$ 305,456

The following table outlines by segment contracts with a Plan Sponsor having revenues that exceeded 10% of the Company's total revenues (in thousands):

	For the Year Ended, December 31,		
	2008	2007	2006
PBM Services Revenue from Plan Sponsor	$ 115,007	$ 116,557	$ 120,771
Specialty Services Revenue from Plan Sponsor	71,227	31,061	25,688
Total Services Revenue from Plan Sponsor	$ 186,234	$ 147,618	$ 146,459
Percentage of Total Revenue	13%	12%	13%

NOTE 4 — GOODWILL AND INTANGIBLES

The Company follows SFAS 142, Goodwill and Other Intangible Assets, ("SFAS 142") in accounting and reporting for its goodwill and intangible assets. SFAS 142 states that goodwill is no longer subject to amortization over its

estimated useful life. Goodwill is subject to at least an annual assessment for impairment by applying a fair-value based test. Management assesses impairment in the fourth quarter of each year or whenever there is an impairment indicator. The Company has two reporting units: Specialty Services and PBM Services. As of December 31, 2008 and 2007, all goodwill has been associated with the Specialty Services reporting unit. Portions of goodwill are expected to be deductible for income tax purposes.

The Company has experienced a significant decline in its market capitalization below book value, which has been sustained through the fourth quarter of 2008. The Company has also previously announced changes in the status of long-term Specialty Services contracts which are expected to reduce 2009 revenues. Those contract changes are (a) the decision by United Healthcare Group ("UHC") to internalize services for HIV/AIDS and solid organ transplant

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drugs starting in the first quarter of 2009, and (b) the expiration of the Competitive Acquisition Program ("CAP") with the Centers for Medicare and Medicaid Services effective December 31, 2008. The expiration of these contracts, the reduced market capitalization of the Company and the reduced market capitalization of the Company's peers in the healthcare industry were considered to be potential indicators of impairment in contemplation of the Company's annual impairment analysis.

Based on its annual assessment, management determined that the fair value of the Company's Specialty Services reporting unit was less than the carrying value of its net assets. The Company determined the fair value of the Specialty Services reporting unit using a combination of an income approach using the discounted cash flow method and a market approach using the guideline public company method. The Company completed step two of the impairment analysis and concluded that the carrying value of Specialty Services goodwill was impaired, resulting in a fourth quarter non-cash impairment charge of $90.0 million.

The following table provides a reconciliation of goodwill (in thousands):

	Total
Balance as of December 31, 2006	$ 114,991
Goodwill acquired	-
Goodwill adjustments	(167)
Balance as of December 31, 2007	114,824
Goodwill acquired	-
Goodwill adjustments	(286)
Goodwill impairment	(90,040)
Balance as of December 31, 2008	$ 24,498

As part of the annual assessment and in consideration of the impairment indicators, the Company also evaluated the recoverability of its property and equipment and definite-lived intangible assets in accordance with Statement of Financial Accounting Standard No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets, ("SFAS 144"). As a result, the Company determined that $3.9 million of definitive-lived intangible assets, consisting of $3.5 million of customer lists and $0.4 million of non-compete agreements, were impaired, and an impairment charge for this amount was recorded in the fourth quarter of 2008. These impairment tests were performed and the related impairment charges were recorded prior to completing the goodwill impairment analysis.

The following table details the acquired intangible assets and their accumulated amortization as of December 31, 2008 and 2007 (in thousands):

	As of December 31, 2008		As of December 31, 2007	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Non-compete agreements	$ -	$ -	$ 3,900	$ (2,736)
Customer lists	-	-	11,000	(6,387)
Total	$ -	$ -	$ 14,900	$ (9,123)

The amortization expense for the years ended December 31, 2008, 2007 and 2006 was $1.9 million, $2.9 million and $6.5 million, respectively.

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NOTE 5 — PROPERTY AND EQUIPMENT

Property and equipment, at cost, consists of the following at December 31 (in thousands):

	2008	2007
Computer and office equipment, including equipment acquired under capital leases	$ 13,534	$ 11,679
Work in progress	7,161	2,985
Furniture and fixtures	2,760	2,816
Leasehold improvements	8,418	7,525
	31,873	25,005
Less: Accumulated depreciation	(17,125)	(13,263)
Property and equipment, net	$ 14,748	$ 11,742

Work in progress for 2008 and 2007 includes $5.7 million and $1.9 million, respectively, of unamortized software development costs.

Depreciation expense for the years ended December 31, 2008, 2007 and 2006 was $4.5 million, $4.2 million and $4.3 million, respectively.

NOTE 6 — LINE OF CREDIT

The Company's revolving credit facility ("Facility") with an affiliate of Healthcare Finance Group, Inc., ("HFG") provides for borrowing up to $85.0 million at the London Inter-Bank Offered Rate ("LIBOR") or a pre-determined minimum rate plus the applicable margin. The Facility term is through November 1, 2010. Under the terms of the Facility, the Company may request to increase the amount available for borrowings of up to $100.0 million, and convert a portion of any outstanding borrowings from a Revolving Loan into a Term Loan. The borrowing base utilizes receivables balances and other related collateral as security under the Facility. There was $50.4 million and $33.8 million outstanding under our revolving credit facility as of December 31, 2008 and 2007, respectively. The weighted average interest rate on the Facility during 2008 was 5.0%, compared to 7.2% during 2007. At December 31, 2008 the Company had $34.6 million of credit available under the Facility.

The Facility contains various covenants that, among other things, require the Company to maintain certain financial ratios as defined in the agreements governing the Facility. The Company was in compliance with all the covenants contained in the agreements as of December 31, 2008.

NOTE 7 — COMMITMENTS AND CONTINGENCIES

Legal Proceedings

On February 14, 2005, a complaint was filed in the Alabama Circuit Court for Barbour County, captioned Eufaula Drugs, Inc. v. ScriptSolutions [sic], one of approximately fourteen substantially identical complaints commenced in Alabama courts against various unrelated pharmacy benefit management companies. On April 8, 2005, the plaintiff filed an amended complaint substituting the Company's BioScrip PBM Services f/k/a ScripSolutions ("PBM Services") subsidiary as the defendant, alleging breach of contract and related tort and equitable claims on behalf of a putative nationwide class of pharmacies alleging insufficient reimbursement for prescriptions dispensed, principally on the theory that PBM Services was obligated to update its prescription pricing files on a daily rather than weekly basis. The complaint seeks unspecified money damages and injunctive relief. PBM Services sought unsuccessfully to remove the action to Federal court. On February 5, 2007, the court denied PBM Services' motion to dismiss the action for lack of

jurisdiction and failure to state a claim, and on February 16, 2007, PBM Services answered the complaint denying the material allegations. The parties are now engaged in discovery into the question of class certification only. The Company is confident in its position, and does not believe that an adverse ruling in this matter would have a material adverse effect on its business, operations, financial position or results of operations.

Several members of the DiCello family, who sold to the Company one of its subsidiaries called Northland, are claiming a right to additional purchase price of at least $5.64 million from the Company under the terms of the stock purchase agreement. The sellers, first sued in July 2007 in federal court in the Southern District of Ohio, but the court stayed the case and directed arbitration of the disagreement with the accounting firm KPMG LLP as arbitrator as the stock purchase agreement provides. The action is captioned JPD, Inc. et al. v. Chronimed Holdings, Inc. The Company denies owing the sellers any additional purchase price and intends to defend the matter vigorously. There have been no arbitration proceedings. The Company is confident in its position and does not believe that an adverse ruling would not have a material adverse effect on its business, operations, or financial position.

On September 18, 2008, a complaint was filed in the Federal court in the District of New Mexico, naming BioScrip's subsidiary BioScrip Pharmacy Services, Inc. as a defendant. The action is captioned Hope Huerta as Next Friend and Parent of Blanca M. Valdez-Huerta, a minor v. Spectrum Chemicals and Laboratory Products, et al., 1:08-cv-00853 (D. NM). The complaint alleges that the Company and the other defendants actions proximately caused plaintiff's injuries after receiving a medication that had been allegedly recalled by the manufacturer Spectrum Chemicals and dispensed by the Company, alleging various tort causes of action, including but not limited to, strict products liability and negligence, breaches of warranties, and violations of various New Mexico statutes. The complaint seeks unspecified money damages, including punitive damages. The Company has answered the complaint denying the material allegations. The Company intends to deny the allegations and defend vigorously against the action. Given the preliminary stage in the matter, the Company is unable to assess the probable outcome of this proceeding or its financial impact.

Government Regulation

Various Federal and state laws and regulations affecting the healthcare industry do or may impact the Company's current and planned operations, including, without limitation, Federal and state laws prohibiting kickbacks in government health programs, Federal and state antitrust and drug distribution laws, and a wide variety of consumer protection, insurance and other state laws and regulations. While management believes that the Company is in substantial compliance with all existing laws and regulations material to the operation of its business, such laws and regulations are subject to rapid change and often are uncertain in their application. As controversies continue to arise in the healthcare industry (for example, regarding the efforts of Plan Sponsors and pharmacy benefit managers to limit formularies, alter drug choice and establish limited networks of participating pharmacies), Federal and state regulation and enforcement priorities in this area can be expected to increase, the impact of which on the Company cannot be predicted. There can be no assurance that the Company will not be subject to scrutiny or challenge under one or more of these laws or that any such challenge would not be successful. Any such challenge, whether or not successful, could have a material adverse effect upon the Company's financial position, results of operations and cash flows. Violation of the Federal anti-kickback statute, for example, may result in substantial criminal penalties, as well as suspension or exclusion from the Medicare and Medicaid programs. Further, there can be no assurance that the Company will be able to obtain or maintain any of the regulatory approvals that may be required to operate its business, and the failure to do so could have a material adverse effect on the Company's financial position, results of operations and cash flows.

Operating Leases

The Company leases its facilities and certain equipment under various operating leases with third parties. Facility lease terms are generally five years, the majority containing options to extend for periods ranging from one to five years. Approximately 80% of these leases contain escalation clauses that increase base rent payments based upon

either the Consumer Price Index or an agreed upon schedule. New or renegotiated leases may contain periods of free rent, or rent holidays, ranging from one to six months. Equipment leases are generally for periods of three to five years.

The future minimum lease payments under operating leases at December 31 are as follows (in thousands):

2009	$	4,631
2010		3,970
2011		2,711
2012		2,065
2013		1,548
Thereafter		5,332
	$	20,257

Rent expense for leased facilities and equipment was approximately $4.6 million, $4.4 million and $3.9 million for the years ended December 31, 2008, 2007 and 2006, respectively.

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Security Interest and Letters of Credit

During the fourth quarter, in consideration for more favorable payment terms, the Company granted its primary drug wholesaler a secured, first priority lien in all of its inventory. In addition, in the ordinary course of business, the Company obtained certain letters of credit ("LC") from commercial banks in favor of various parties. At December 31, 2008, there was $0.9 million on deposit as collateral for these LCs.

Purchase Commitments

As of December 31, 2008, the Company had commitments to purchase prescription drugs from drug manufacturers of approximately $37.6 million in 2009. These purchase commitments are made at levels expected to be used in the normal course of business.

NOTE 8 — INCOME TAXES

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

	For the Years Ended December 31,		
	2008	2007	2006
Current			
Federal	$ (18)	$ (501)	$ (2,408)
State	43	(43)	978
Total Current	25	(544)	(1,430)
Deferred			
Federal	(10,660)	2,448	17,832
State	(1,561)	360	2,628
Total Deferred	(12,221)	2,808	20,460
Total (Benefit from) Provision for Income Taxes	$ (12,196)	$ 2,264	$ 19,030

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

	For the Years Ended December 31,	
	2008	2007
Deferred tax assets:		
Reserves not currently deductible	$ 6,533	$ 7,305
Net operating loss carryforwards	8,455	8,287
Intangibles	5,310	3,788
Goodwill (tax deductible)	17,720	268
Accrued expenses	1,091	1,804
Stock based compensation (123R)	2,653	1,718
Property basis differences	1,666	1,336
Other	1,411	2,088
Subtotal deferred tax assets	44,839	26,594
Deferred tax liabilities:		

Goodwill (tax deductible)	(533)	(12,754)
Less: valuation allowance	(44,839)	(26,594)
Net deferred tax liability	$ (533)	$ (12,754)

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Since December 31, 2006, the Company fully reserved its deferred tax assets as it concluded that it was more likely than not that its deferred tax assets would not be utilized. The Company continually assesses the necessity of maintaining a valuation allowance for its deferred tax assets. Based on this assessment, the Company has concluded that the valuation allowance, in the amount of $44.8 million, is still required. If the Company determines in a future period that it is more likely than not that the deferred tax assets will be utilized, the Company will reverse all or part of the valuation allowance for its deferred tax assets.

At December 31, 2008, the Company had Federal net operating loss ("NOL") carryforwards of approximately $29.0 million, of which $5.9 million is subject to an annual limitation, all of which will begin expiring in 2017 and later. The Company has post apportioned state NOL carryforwards remaining of approximately $15.3 million, the majority of which will begin expiring in 2017 and later.

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

	2008	2007	2006
Tax (benefit) provision at statutory rate	$ (29,310)	$ 1,897	$ (6,548)
State tax (benefit) provision, net of Federal taxes	(2,616)	366	208
Non-deductible goodwill	1,687	-	-
Change in tax contingencies	(360)	(1,165)	128
Valuation allowance changes affecting income tax expense	18,245	930	25,664
Other	158	236	(422)
Provision for income taxes	$ (12,196)	$ 2,264	$ 19,030

The Company adopted the provisions of FIN 48 effective January 1, 2007. As a result of the adoption of FIN 48, the Company recorded a $2.4 million increase in the liability for unrecognized tax benefits, which was recorded as an adjustment to the opening balance of accumulated deficit on January 1, 2007. At the adoption date of January 1, 2007, the Company had approximately $4.8 million of unrecognized income tax benefits, including interest of approximately $0.7 million. A reconciliation of the beginning and ending amount of gross unrecognized tax benefits is as follows (in thousands):

	2008	2007
Unrecognized tax benefits balance at January 1,	$ 2,940	$ 4,137
Gross increases for tax positions of prior years	-	284
Gross decreases for tax positions of prior years	(239)	(380)
Gross increases for tax positions taken in current year	-	6
Settlements with taxing authorities	(46)	(114)
Lapse of statute of limitations	(368)	(993)
Unrecognized tax benefits balance at December 31,	$ 2,287	$ 2,940

The Company's policy for recording interest and penalties associated with uncertain tax positions is to record such items as a component of income tax expense in the statement of income. As of December 31, 2008 and December 31, 2007, the Company had approximately $0.5 million of accrued interest related to uncertain tax positions, respectively.

The Company files income tax returns, including returns for its subsidiaries, with Federal, state and local jurisdictions. The Company's uncertain tax positions are related to tax years that remain subject to examination. As

of December 31, 2008, U.S. tax returns for 2005, 2006, 2007 and 2008 remain subject to examination by Federal tax authorities. Tax returns for the years 2004 through 2008 remain subject to examination by state and local tax authorities for a majority of the Company's state and local filings.

During January 2008, the Company settled certain controversies with taxing authorities. The settlement called for payment of $63,000 of tax and interest. The remaining amount of $0.3 million of unrecognized tax benefits and interest for this tax position was reversed during first quarter 2008 through goodwill.

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NOTE 9 — TREASURY STOCK

On February 27, 2003, the Executive Committee of the Board of Directors approved a stock repurchase program authorizing the Company to repurchase up to an aggregate of $10.0 million of its Common Stock in open market or private transactions. No stock was repurchased during 2008, 2007 or 2006; however, during 2008, 2007 and 2006, 187,544; 189,492 and 49,074 shares, respectively, were returned to satisfy tax withholding obligations on the vesting of restricted stock awards. As of December 31, 2008, approximately $4.9 million of the $10.0 million authorized remains available for additional share repurchases. The Company holds a total of 2,624,186 shares of treasury stock acquired under current and prior repurchase programs as well as forfeitures to satisfy tax obligations in the vesting of restricted stock awards.

NOTE 10 — STOCK-BASED COMPENSATION

Under the Company's 2008 Equity Incentive Plan (the "2008 Plan"), the Company may issue, among other things, incentive performance stock options ("ISOs"), non-qualified stock options ("NQSOs"), restricted stock, performance units and performance share awards to employees and directors. Under the 2008 Plan, 3,580,000 shares were authorized for issuance (subject to adjustment for grants made under the Company's 2001 Incentive Stock Plan (the "2001 Plan") after January 1, 2008, as well as forfeitures, expirations or awards thereunder otherwise settled in cash after the adoption thereof). The Plan is administered by the Company's Management Development and Compensation Committee (the "Compensation Committee"). Upon adoption of the 2008 Plan, no further grants may be made under the 2001 Plan. As of December 31, 2008 there were 1,987,532 shares remaining available for grant under the 2008 Plan.

Under the provisions of the 2008 Plan, as well as under the Company's prior equity compensation plans (collectively the "Plans"), plan participants may use shares to cover tax withholding on income earned as a result of the exercise, vesting and/or lapsing of restrictions on equity awards. Upon the exercise of stock options and the vesting of other equity awards granted under the Plans, participants will generally have taxable income subject to statutory withholding requirements. The number of shares that may be issued to participants upon the exercise of stock options and the vesting of equity awards may be reduced by the number of shares having a market value equal to the minimum amount of tax required to be withheld by the Company to satisfy Federal, state and local tax obligations as a result of such exercise or vesting.

Stock Options

Options granted under the Plans: (a) typically vest over a three-year period and, in certain instances, fully vest upon a change in control of the Company, (b) have an exercise price that may not be less than 100% of its fair market value on the date of grant (110% for ISOs granted to a stockholder who holds more than 10% of the outstanding stock of the Company), and (c) are generally exercisable for 10 years, 5 years for ISOs granted to a stockholder holding more than 10% of the outstanding stock of the Company, after the date of grant, subject to earlier termination in certain circumstances. The exercise price of NQSOs may not be below the fair market value of a share of stock on the grant date.

The Company recognized compensation expense related to stock options of $2.1 million, $1.9 million and $2.2 million for the years ended December 31, 2008, 2007 and 2006, respectively.

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

	2008	2007	2006
Expected volatility	51.4%	54.4%	53.7%
Risk-free interest rate	3.86%	4.70%	4.56%
Expected life of options	5.7 years	5.2 years	5.5 years
Dividend rate	-	-	-
Fair value of options	$ 3.46	$ 2.29	$ 1.67

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Stock option activity through December 31, 2008 is as follows:

	Options	Weighted Average Exercise Price	Aggregate Intrinsic Value (thousands)	Weighted Average Remaining Contractual Life
Balance, December 31, 2007	5,206,339	$6.71	$ 11,400.0	5.9 years
Granted	1,099,522	6.67		
Exercised	(42,108)	5.55		
Forfeited	(119,396)	5.18		
Expired	(359,986)	10.01		
Balance, December 31, 2008	5,784,371	$6.53	$ 27.5	5.6 years
Outstanding options less expected forfeitures at December 31, 2008	5,422,157	$6.60	$ 27.2	5.4 years
Exercisable at December 31, 2008	4,169,653	$7.03	$ 26.2	4.5 years

The weighted-average, grant-date fair value of options granted during the years ending December 31, 2008, 2007 and 2006 was $3.46, $2.29 and $1.67 respectively. The total intrinsic value of options exercised during the years December 31, 2008, 2007, and 2006, was $0.1 million, $1.3 million, and $0.4 million, respectively.

Cash received from option exercises under share-based payment arrangements for the years ended December 31, 2008, 2007, and 2006, was $0.2 million, $1.9 million and $1.4 million, respectively.

The maximum term of stock options under these plans is ten years. Options outstanding as of December 31, 2008 expire on various dates ranging from February 2009 through October 2018. The following table outlines our outstanding and exercisable stock options as of December 31, 2008:

	Options Outstanding			Options Exercisable	
Range of Option Exercise Price	Outstanding Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life	Options Exercisable	Weighted Average Exercise Price
$1.93 - $5.20	1,818,314	$ 2.85	5.58 years	1,234,382	$ 2.83
$5.29 - $7.03	2,019,091	6.34	6.78 years	1,106,304	6.26
$7.16 - $9.56	1,290,379	8.05	5.14 years	1,172,380	8.08
$9.77 - $12.20	399,920	12.04	2.55 years	399,920	12.04
$16.50 - $20.25	256,667	17.92	2.93 years	256,667	17.92
	5,784,371	$ 6.53	5.57 years	4,169,653	$ 7.03

As of December 31, 2007 and 2006, the exercisable portion of outstanding options was approximately 3.7 million shares and approximately 3.6 million shares, respectively.

Stock option activity for non-vested shares through December 31, 2008 is as follows:

	Options	Weighted Average Grant Date Fair Value
Balance, December 31, 2007	1,532,673	$ 2.17
Granted	1,099,522	$ 3.40
Vested	(889,914)	$ 2.66
Forfeited and expired	(127,563)	$ 2.67
Balance, December 31, 2008	1,614,718	$ 2.70

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As of December 31, 2008 there was $2.7 million of unrecognized compensation expense related to unvested option grants. That expense is expected to be recognized over a weighted-average period of 1.7 years.

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

Restricted Stock

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

The Company recognized compensation expense related to restricted stock awards of $1.7 million, $1.1 million and $0.4 million for the years ended December 31, 2008, 2007 and 2006, respectively.

Restricted stock award activity through December 31, 2008 is as follows:

	Restricted Stock	Weighted Average Award Date Fair Value	Weighted Average Remaining Recognition Period
Balance, December 31, 2007	673,071	$ 2.06	
Granted	645,625	$ 4.37	
Awards Vested	(586,159)	$ 1.96	
Canceled	(18,900)	$ 2.09	
Balance December 31, 2008	713,637	$ 4.24	1.5 years

As of December 31, 2008, there was $1.8 million of unrecognized compensation expense related to unvested restricted stock awards. That expense is expected to be recognized over a weighted average period of 1.5 years. The total grant date fair market value of awards vested during the years ended December 31, 2008, 2007 and 2006 was $1.1 million, $0.6 million and $0.5 million, respectively. The total intrinsic value of restricted stock awards released during the years December 31, 2008, 2007 and 2006 was $2.3 million, $3.9 million and $0.5 million, respectively.

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

Performance Units

Under the 2008 Plan, the Compensation Committee may grant performance units to key employees. The Compensation Committee establishes the terms and conditions of the performance units, including the performance goals, the performance period and the value for each performance unit. If the performance goals are satisfied, the Company would pay the key employee an amount in cash equal to the value of each performance unit at the time of

payment. In no event may a key employee receive an amount in excess of $1.0 million with respect to performance units for any given year. No performance units have been granted under the 2008 plan or the other plans.

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NOTE 11 — CONCENTRATION OF CREDIT RISK

The following table outlines contracts with Plan Sponsors having revenues and/or accounts receivable that individually exceeded 10% of the Company's total revenues and/or accounts receivable during the applicable time period:

	Plan Sponsor
Year ended December 31, 2006	
% of total revenue	13%
% of total accounts receivable at period end	17%
Year ended December 31, 2007	
% of total revenue	12%
% of total accounts receivable at period end	19%
Year ended December 31, 2008	
% of total revenue	13%
% of total accounts receivable at period end	19%

Plan Sponsor revenue and accounts receivable is primarily in the PBM Services segment with a lesser amount in the Specialty Services segment.

NOTE 12 — DEFINED CONTRIBUTION PLAN

The Company maintains a deferred compensation plan under Section 401(k) of the Internal Revenue Code. Under the Plan, employees may elect to defer up to 50% of their salary, subject to Internal Revenue Service limits. The Company may make a discretionary matching contribution. The Company recorded matching contributions in selling, general and administrative expenses of $0.9 million, $1.0 million and $0.5 million in the years ended December 31, 2008, 2007, and 2006, respectively.

NOTE 13 — SELECTED QUARTERLY FINANCIAL DATA (UNAUDITED)

A summary of quarterly financial information for fiscal 2008 and 2007 is as follows (in thousands except per share data):

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
2008:				
Revenue	$ 327,471	$ 348,440	$ 359,427	$ 366,573
Gross profit	$ 32,372	$ 35,726	$ 36,081	$ 37,991
Net (loss) income (1)	$ (477)	$ 1,619	$ 1,410	$ (76,584)
Basic (loss) income per share	$ (0.01)	$ 0.04	$ 0.04	$ (1.98)
Diluted (loss) income per share	$ (0.01)	$ 0.04	$ 0.04	$ (1.98)
2007:				
Revenue	$ 296,218	$ 294,737	$ 297,580	$ 309,197
Gross profit	$ 32,556	$ 32,909	$ 35,369	$ 36,181
Net (loss) income	$ (1,347)	$ 482	$ 1,666	$ 2,516

Basic (loss) income per share	$ (0.04)	$ 0.01	$ 0.04	$ 0.07
Diluted (loss) income per share	$ (0.04)	$ 0.01	$ 0.04	$ 0.06

(1) The fourth quarter of 2008 includes $93.9 million of goodwill and intangible impairment.

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

None.

Item 9A. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

As of the end of the period covered by this Annual Report, we evaluated the effectiveness of the design and operation of our disclosure controls. This evaluation was performed under the supervision and with the participation of management including our Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO"). Disclosure controls are controls and procedures (as defined in the Exchange Act Rule 13d-15(e) and 15d-15(e)) designed to reasonably assure that information required to be disclosed in our reports filed under the Exchange Act, such as this Annual Report, is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms. Disclosure controls are also designed to reasonably assure that such information is accumulated and communicated to our management, including the CEO and CFO, as appropriate, to allow timely decisions regarding required disclosure.

The evaluation of our disclosure controls included a review of the controls objectives and design, our implementation of the controls and the effect of the controls on the information generated for use in this Annual Report. Based upon the controls evaluation, our CEO and CFO have concluded that our disclosure controls as of December 31, 2008 were effective.

Management Report on Internal Control over Financial Reporting

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

- Pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the Company's financial transactions;

- Provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that our revenues and expenditures are being made only in accordance with authorizations of our management and directors; and

- Provide reasonable assurance regarding the prevention or timely detection of unauthorized acquisition, use or disposition of our assets that could have a material effect on our financial statements.

Management assessed our internal control over financial reporting as of December 31, 2008, the end of our fiscal year. Management based its assessment on criteria established in Internal Control — Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. Management's assessment included an evaluation of such elements as the design and operating effectiveness of key financial reporting controls, process documentation, accounting policies, and our overall control environment.

Based on management's assessment of internal control over financial reporting our management believes that as of December 31, 2008, our internal control over financial reporting was effective. Our independent registered public accounting firm, Ernst & Young LLP, has issued an attestation report on the Company's internal control over financial

reporting which is included herein.

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Inherent Limitations on Control Systems

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

Changes in Internal Control over Financial Reporting

During the year ended December 31, 2008, there was no change in our internal control over financial reporting that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

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Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders
BioScrip, Inc.

We have audited BioScrip, Inc.'s internal control over financial reporting as of December 31, 2008, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). BioScrip, Inc.'s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

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

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

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

In our opinion, BioScrip, Inc. maintained, in all material respects, effective internal control over financial reporting as of December 31, 2008, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of BioScrip, Inc. and subsidiaries as of December 31, 2008 and 2007, and the related consolidated statements of operations, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2008 of BioScrip, Inc. and our report dated March 2, 2009, expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP
Minneapolis, Minnesota

March 2, 2009

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Item 9B. Other Information

None.

PART III

Item 10. Directors, Executive Officers and Corporate Governance

The information required by this item is incorporated by reference from the information contained in our definitive proxy statement to be filed with the SEC on or before March 31, 2009 in connection with our 2009 Annual Meeting of Stockholders.

Item 11. Executive Compensation

The information required by this item is incorporated by reference from the information contained in our definitive proxy statement to be filed with the SEC on or before March 31, 2009 in connection with our 2009 Annual Meeting of Stockholders.

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

The information required by this item is incorporated by reference from the information contained in our definitive proxy statement to be filed with the SEC on or before March 31, 2009 in connection with our 2009 Annual Meeting of Stockholders.

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

The information required by this item is incorporated by reference from the information contained in our definitive proxy statement to be filed with the SEC on or before March 31, 2009 in connection with our 2009 Annual Meeting of Stockholders.

Item 14. Principal Accountant Fees and Services

The information required by this item is incorporated by reference from the information contained in our definitive proxy statement to be filed with the SEC on or before March 31, 2009 in connection with our 2009 Annual Meeting of Stockholders.

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PART IV

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

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

3. Exhibits:

Exhibit Number	Description	Location
2.1	Agreement and Plan of Merger, dated as of August 9, 2004, among MIM Corporation, Chronimed Acquisition Corp. and Chronimed Inc.	(1) (Exhibit 99.2)
2.2	Amendment No. 1 dated January 3, 2005 to Agreement and Plan of Merger dated August 9, 2004 by and among MIM Corporation, Chronimed Acquisition Corp. and Chronimed Inc.	(2) (Exhibit 10.1)
3.1	Second Amended and Restated Certificate of Incorporation	(3) (Exhibit 4.1)
3.2	Amended and Restated By-Laws	(4) (Exhibit 3.1)
4.1	Specimen Common Stock Certificate	(5) (Exhibit 4.1)
4.2	Amended and Restated Rights Agreement, dated as of December 3, 2002 between The Company and American Stock Transfer and Trust Company	(6) (Exhibit 4.2)
4.3	First Amendment, dated December 13, 2006, to the Amended and Restated Rights Agreement, dated as of December 3, 2002 (the "Rights Agreement"), between the Company and American Stock Transfer & Trust Company, as Rights Agent	(7) (Exhibit 4.3)
4.4	Second Amendment, dated March 4, 2009, to the Amended and Restated Rights Agreement, dated as of December 3, 2002 (the "Rights Agreement"), between the Company and American Stock Trnsfer & Trust Company, as Rights Agent	(8) (Exhibit 4.4)
10.1	Amended and Restated 1996 Incentive Stock Plan	(9)
10.2	Amended and Restated 1996 Non-Employee Director's Stock Incentive Plan	(10)
10.3	Amended and Restated 2001 Incentive Stock Plan	(11)
10.4	2008 Equity Incentive Plan	(12)
10.5	Employment Letter, dated October 15, 2001, between the Company and Russell J. Corvese	(12) (Exhibit 10.51)

10.6	Amendment, dated September 19, 2003, to Employment Letter Agreement between the Company and Russel J. Corvese	(13) (Exhibit 10.46)
10.7	Amendment, dated December 1, 2004, to Employment Letter Agreement between the Company and Russel J. Corvese	(14) (Exhibit 10.1)
10.8	Separation Agreement between BioScrip, Inc. and Henry F. Blissenbach	(15) (Exhibit 99.1)
10.9	Severance Letter Agreement, dated August 17, 2006, between the Company and Brian Reagan	(16) (Exhibit 10.1)
10.10	Severance Agreement, dated August 24, 2006, between BioScrip, Inc. and Barry A. Posner	(17) (Exhibit 10.1)

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10.11	Severance Agreement, dated August 2, 2007 between BioScrip, Inc. and Stanley G. Rosenbaum	(18) (Exhibit 10.1)
10.11	Severance Agreement, dated August 2, 2007 between BioScrip, Inc. and Stanley G. Rosenbaum	(18) (Exhibit 10.1)
10.12	Amended and Restated Loan and Security Agreement, dated as of September 26, 2007, among MIM Funding, LLC, BioScrip Pharmacy Services, Inc., BioScrip Infusion Services, Inc., BioScrip Pharmacy (NY), Inc., BioScrip PBM Services, LLC, BioScrip Pharmacy, Inc., Natural Living, Inc., and BioScrip Infusion Services, LLC as Borrowers, and HFG Healthco-4 LLC, as Lender	(19) (Exhibit 10.15)
10.13	Amended and Restated Pledge Agreement, dated as of November 1, 2007 among BioScrip, Inc., Chronimed Inc., MIM Funding, LLC, BioScrip Pharmacy Services, Inc., BioScrip Infusion Services, Inc., BioScrip Pharmacy (NY), Inc., BioScrip PBM Services, LLC, BioScrip Pharmacy, Inc., Natural Living, Inc., and BioScrip Infusion Services, LLC, and HFG Healthco-4 LLC,	(19) (Exhibit 10.16)
10.14	Amended and Restated Guaranty, effective as of October 1, 2007, by BioScrip, Inc. and Chronimed, Inc. in favor of HFG Healthco-4 LLC	(19) (Exhibit 10.17)
10.15	Refinancing Arrangements Agreement among BioScrip Pharmacy Services, Inc., BioScrip Infusion Services, Inc., BioScrip Pharmacy (NY), Inc., BioScrip PBM Services, LLC, BioScrip Pharmacy, Inc., Natural Living, Inc., BioScrip Infusion Services, LLC and MIM Funding, LLC	(19) (Exhibit 10.18)
10.16	First Amendment to the Amended and Restated Loan and Security Agreement, dated as of September 26, 2007, among, MIM Funding, LLC, BioScrip Pharmacy Services, Inc., BioScrip Infusion Services, Inc., BioScrip Pharmacy (NY), Inc., BioScrip PBM Services, LLC, BioScrip Pharmacy, Inc., Natural Living, Inc., and BioScrip Infusion Services, LLC as Borrowers, and HFG Healthco-4 LLC, as Lender	(20) (Exhibit 10.1)
10.17	Second Amendment to the Amended and Restated Loan and Security Agreement, dated as of September 26, 2007, among, MIM Funding, LLC, BioScrip Pharmacy Services, Inc., BioScrip Infusion Services, Inc., BioScrip Pharmacy (NY), Inc., BioScrip PBM Services, LLC, BioScrip Pharmacy, Inc., Natural Living, Inc., and BioScrip Infusion Services, LLC as Borrowers, and HFG Healthco-4 LLC, as Lender.	(21) (Exhibit 10.1)
10.18	Third Amendment to the Amended and Restated Loan and Security Agreement, dated as of September 26, 2007, among, MIM Funding, LLC, BioScrip Pharmacy Services, Inc., BioScrip Infusion Services, Inc., BioScrip Pharmacy (NY), Inc., BioScrip PBM Services, LLC, BioScrip Pharmacy, Inc., Natural Living, Inc., and BioScrip Infusion Services, LLC as Borrowers, and HFG Healthco-4 LLC, as Lender	(22) (Exhibit 10.1)
10.19	Employment Agreement dated May 30, 2008, by and between BioScrip, Inc. and Richard H. Friedman	(23) (Exhibit 10.1)
10.20	Employment Letter Agreement dated November 13, 2008 between BioScrip, Inc. and Richard M. Smith	(24) (Exhibit 10.1)
10.21	Severance Agreement dated November 13, 2008 between BioScrip, Inc. and Richard M. Smith	(24) (Exhibit 10.2)
10.22	Amendment No. 1 to Severance Agreement between BioScrip, Inc. and Stanley G. Rosenbaum	(25)
10.23	Amendment No. 1 to Severance Agreement between BioScrip, Inc. and Barry A. Posner	(25)

21.1	List of Subsidiaries	*
23.1	Consent of Ernst and Young LLP	*
31.1	Certification of Richard H. Friedman pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002	*
31.2	Certification of Stanley G. Rosenbaum pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002	*
32.1	Certification of Richard H. Friedman 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 Stanley G. Rosenbaum pursuant to 18 U.S. C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002	*

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(1) Incorporated by reference to the indicated exhibit to the Company's Current Report on Form 8-K filed on August 9, 2004., SEC Accession No. 0001089355-04-000197
(2) Incorporated by reference to the indicated exhibit to the Company's Current Report on Form 8-K filed on January 5, 2005, SEC Accession No. 0001014739-05-000007.
(3) Incorporated by reference to the indicated exhibit to the Company's Current Report on Form 8-K filed on March 17, 2005, SEC Accession No. 0000950123-05-003294.
(4) Incorporated by reference to the indicated exhibit to the Company's Current Report on Form 8-K filed on May 16, 2007, SEC Accession no. 0000950123-07-007569.
(5) Incorporated by reference to the indicated exhibit to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2005 filed with the SEC on March 31, 2006, SEC Accession no. 0000950123-06-004022
(6) Incorporated by reference to Post-Effective Amendment No. 3 to the Company's Form 8-K/A dated December 4, 2002.
(7) Incorporated by reference to the indicated exhibit to the Company's Current Report on Form 8-K filed on December 14, 2006, SEC Accession No. 0000950123-06-0155184.
(8) Incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed with the SEC on March 4, 2009, Accession No. 0001014739-09-000006.
(9) Incorporated by reference from the Company's definitive proxy statement for its 1999 annual meeting of stockholders filed with the Commission July 7, 1999.
(10) Incorporated by reference from the Company's definitive proxy statement for its 2002 annual meeting of stockholders filed with the Commission April 30, 2002.
(11) Incorporated by reference from the Company's definitive proxy statement for its 2003 annual meeting of stockholders filed with the Commission April 30, 2003.
(12) Incorporated by reference from the Company's definitive proxy statement for its 2008 annual meeting of stockholders filed with the Commission March 21, 2008
(12) Incorporated by reference to the indicated exhibit to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2001, SEC Accession No. 0001089355-02-000248.
(13) Incorporated by reference to the indicated exhibit to the Company's Annual Report on Form 10-K filed on for the fiscal year ended December 31, 2003, filed March 15, 2004, SEC Accession No. 001014739-04-000021.
(14) Incorporated by reference to the indicated exhibit to the Company's Current Report on Form 8-K filed on December 1, 2004, SEC Accession No. 0001014739-04-000082.
(15) Incorporated by reference to the indicated exhibit to the Company's Current Report on Form 8-K filed on March 1, 2006, SEC Accession No. 0000950123-06-002440.
(16) Incorporated by reference to the indicated exhibit to the Company's Current Report on Form 8-K filed on August 21, 2006, SEC Accession No. 0000950123-06-010723.
(17) Incorporated by reference to the indicated exhibit to the Company's Current Report on Form 8-K filed on August 25, 2006, SEC Accession No. 0000950123-06-010904.
(18) Incorporated by reference to the indicated exhibit to the Company's Current Report on Form 8-K filed on August 3, 2007, SEC Accession No. 0000950123-07-010803.
(19) Incorporated by reference to the indicated exhibit to the Company's Annual Report on Form 10-K filed on for the fiscal year ended December 31, 2008, filed March 7, 2008, SEC Accession No. 0000950123-08-002707.
(20) Incorporated by reference to the indicated exhibit to the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2008, SEC Accession No. 0000950123-08-005203.
(21) Incorporated by reference to the indicated exhibit to the Company's Current Report on Form 8-K filed on September 4, 2008, SEC Accession No. 0000950123-08-010551.
(22) Incorporated by reference to the indicated exhibit to the Company's Current Report on Form 8-K filed on August 14, 2008, SEC Accession No. 0000950123-08-009594.

(23) Incorporated by reference to the indicated exhibit to the Company's Current Report on Form 8-K filed on June 3, 2008, SEC Accession No. 0000950123-08-006507.

(24) Incorporated by reference to the indicated exhibit to the Company's Current Report on Form 8-K filed on November 24, 2008 SEC Accession No. 0000950123-08-016150.

(25) Incorporated by reference to the indicated exhibit to the Company's Current Report on Form 8-K filed on November 24, 2008 SEC Accession No. 0000950123-09-000854.

* Filed with this Annual Report on Form 10-K.

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, on March 5, 2009.

BIOSCRIP INC.

/s/ Stanley G. Rosenbaum
Stanley G. Rosenbaum
Chief Financial Officer

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

Signature	Title(s)	Date
/s/ Richard H. Friedman Richard H. Friedman	Chairman of the Board and Chief Executive Officer (principal executive officer)	March 5, 2009
/s/ Stanley G. Rosenbaum Stanley G. Rosenbaum	Chief Financial Officer (principal financial officer)	March 5, 2009
/s/ Charlotte W. Collins Charlotte W. Collins	Director	March 5, 2009
/s/ Louis T. DiFazio Louis T. DiFazio, Ph.D.	Director	March 5, 2009
/s/ Myron Z. Holubiak Myron Z. Holubiak	Director	March 5, 2009
/s/ David R. Hubers David R. Hubers	Director	March 5, 2009
/s/ Richard L. Robbins Richard L. Robbins	Director	March 5, 2009
/s/ Stuart A. Samuels Stuart A. Samuels	Director	March 5, 2009
/s/ Steven K. Schelhammer Steven K. Schelhammer	Director	March 5, 2009

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

	Balance at Beginning of Period	Write-Off of Receivables	Charged to Costs and Expenses	Balance at End of Period
Year ended December 31, 2006				
Accounts receivable	$ 14,406	$ (13,075)	$ 12,443	$ 13,774
Year ended December 31, 2007				
Accounts receivable	$ 13,774	$ (6,810)	$ 5,119	$ 12,083
Year ended December 31, 2008				
Accounts receivable	$ 12,083	$ (5,121)	$ 4,667	$ 11,629

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EXHIBIT INDEX

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

21.1	List of Subsidiaries
23.1	Consent of Ernst and Young LLP
31.1	Certification of Richard H. Friedman pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification of Stanley G. Rosenbaum pursuant to 18 U.S.C. Section 1350,as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1	Certification of Richard H. Friedman 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 Stanley G. Rosenbaum pursuant to 18 U.S. C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002