BioScrip, Inc.
Form 10-K
March 16, 2007

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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, 2006

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. o Yes þ No

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

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 accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act.

o Large accelerated filer þ Accelerated filer o Non-accelerated filer

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, 2006, the last business day of the registrant s most recently completed second fiscal quarter, was approximately $191,812,920 based on the closing price of the Common Stock on the Nasdaq Global Market on such date.

On March 9, 2007 there were outstanding 37,592,757 shares of the registrant s Common Stock.

Documents Incorporated by Reference

Portions of the registrant s definitive proxy statement for its 2007 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, wo expect, plan, anticipate, believe, estimate, project, predict, potential, and similar expressions. Specifica Report contains, among others, forward-looking statements about:

- our expectations regarding financial condition or results of operations for periods after December 31, 2006;
- 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; 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 and filed as exhibits 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 provide comprehensive specialty pharmaceutical and pharmacy benefit management (PBM) services. Our specialty pharmaceutical services (Specialty Services) include the comprehensive support, management, dispensing, distribution and data reporting for medications used to treat patients living with chronic health conditions and are provided in various capacities to patients, physicians, payors and pharmaceutical manufacturers. Our PBM services include pharmacy network management, claims processing, benefit design, drug utilization review, formulary management and traditional mail order pharmacy fulfillment.

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

Our services are reported under two operating segments: (i) Specialty Services; and (ii) PBM and traditional mail services (collectively, PBM Services).

Our Specialty Services are marketed and sold primarily to patients, physicians, pharmaceutical manufacturers and payors and are focused on chronic health conditions including potentially life threatening or debilitating diseases or genetic disorders which are treated with specialty medications. These services include the distribution of biotech and other high cost injectable, oral and infusable prescription medications and the provision of therapy management services.

We strive to maximize therapy outcomes through strict adherence to clinical guidelines or protocols for a particular prescription therapy while at the same time managing the costs of such therapies on behalf of a Plan Sponsor or

patient.

Our PBM Services are offered to Plan Sponsors and are designed to promote a broad range of cost-effective, clinically appropriate pharmacy benefit management services through our network of retail pharmacies and our traditional mail service distribution facility. Over the past several years we have focused on building our Specialty Services for strategic growth, and have lost a significant amount of PBM Services business, including the loss of our contracts with Centene Corporation and excelleRx. Consequently, Specialty Services revenues represent 75% of our total revenue.

As part of our PBM Services, we also administer numerous cash card or discount card programs on behalf of program sponsors or TPAs. These are 100% copay programs that provide savings to customers who present a discount card at one of our participating network pharmacies or who order medications through one of our mail order pharmacies. Under such programs we derive revenue on a per claim basis from the dispensing network pharmacy.

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Specialty Services

Our Specialty Services segment offers a comprehensive integrated model providing: (i) local distribution through our community pharmacies, where we dispense medications to patients at the point of sale or through delivery; (ii) specialty mail distribution through contracts with health plans and manufacturers, to dispense and ship medications directly to a patient or to the physician s office for administration; and (iii) infusion services through our infusion pharmacies for patients requiring infused medications in a home or physician s office. Our patients typically have prescription drug coverage through commercial insurance and Medicare, Medicaid, or other governmental programs, and we are reimbursed by pharmacy benefit managers or the Plan Sponsor. Our Specialty Services and programs help to optimize the quality of life for patients while managing Plan Sponsors drug expenditures through compliance and appropriate utilization. Our software and data management tools permit Plan Sponsors, pharmaceutical manufacturers and physicians to: (i) better manage healthcare outcomes; (ii) control prescription costs; and (iii) measure cost, utilization, prescribing and other pharmacy trends.

We have 37 specialty pharmacies that operate under the BioScrip name, including 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:

Cancer

Crohn s Disease

Hemophilia

Hepatitis C

HIV/AIDS

Immune Deficiency

Multiple Sclerosis

Organ transplant

Rheumatoid Arthritis

We are the sole vendor for the Centers for Medicare and Medicaid Services Competitive Acquisition Program (CAP) for certain Part B drugs and biologicals which commenced July 1, 2006. CAP is a voluntary program that offers physicians the option to obtain many of their Medicare Part B drugs from us as the sole CAP vendor, thus eliminating the need for buying and billing drugs and the financial risks associated with carrying high-cost inventory. CAP is intended to reduce the administrative burdens of physicians.

Distribution

We carry a full range of prescription medications and are able to dispense most prescription medication for common, acute and chronic diseases and conditions. As a specialty pharmacy provider our mail and community pharmacy locations also carry hard-to-find and very expensive medications that traditional pharmacies generally will not or cannot obtain or stock.

Our pharmacies also deliver medications to physicians offices for in-office administration. We provide the drug product along with supplies and equipment needed for administration. We bill these medications directly

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to the physician or bill the patient s insurance plan, removing some of the administrative burden placed upon the physician s office.

Billing and Coordination of Benefits

Our pharmacies offer comprehensive billing, patient reimbursement and coordination of benefits (COB) services. Our locations are contracted with their respective state Medicaid programs and with many Medicare Part D networks. Approximately 50% of our locations are also contracted with state AIDS Drug Assistance Programs (ADAPs) and other Ryan White-funded programs. In addition, our pharmacies participate in most of the pharmacy benefit management networks; as well as managed care organizations directly.

Our comprehensive COB services help patients by handling complex insurance billing and reimbursement challenges which, if not done properly, may lead to non-compliance with the prescribed drug therapy and prescription refills. Many of our patients take advantage of this service, while they await reimbursement from secondary or other payors. Because other retail pharmacies do not typically provide COB services, we believe it to be a major differentiator from our competitors. Co-payments and coinsurance payments that are billed are diligently pursued for collection unless approved financial hardship exemptions are in effect.

Professional Intervention

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

Our pharmacists and clinical staff stay informed about new medications and changing treatment protocols in our target diseases and conditions. We regularly send information on new medications to local prescribers to alert them, and recommend those patients which may be candidates for a change in therapy. Because most health care providers have limited time to keep up with the rapid pace of change in medicine, 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 and we make great efforts to help our patients and caregivers understand how their regimen may affect their health status and lifestyle. We routinely consult each patient when they receive their first prescriptions from us. We consult on, among other things, what each medication is for, how it works, and what adverse side effects are most likely to occur. Our goal is to fully inform each patient because failure to do so could result in missed doses, delayed starts, and loss of other health care 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, either just below the skin or into the muscle. We teach patients how to mix their medications, how to inject them, 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 medication(s) 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 patients and their family members, as well as physicians, with a broad range of written educational materials. We create some of these items and receive others from pharmaceutical manufacturers and not-for-profit organizations. We promote local and national disease-related events, including cancer awareness

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programs and World AIDS Day. Most of our locations offer patient support groups for people living with HIV/AIDS, where they discuss new therapies, lifestyle tips and options to improve medication adherence.

Adherence and Persistence Management

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

Since adherence and persistence are keys to achieving the optimal results for which a medication is prescribed, our pharmacists take a very active role in promoting and managing them. We stress the importance of adherence and persistence during our initial teaching sessions and with each medication refill. We provide refill reminders, either by phone call or e-mail, to alert people when a prescription refill is due. We routinely follow up with people who do not show up for their refills and alert physicians and other health care providers when the patient cannot be located. We back up these activities with nurse-based adherence management and therapy optimization programs for select conditions that carry a higher risk of complications or treatment failures. We believe that these services and programs allow us to achieve adherence rates markedly above the industry s averages.

Coordinated Medication Delivery

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Our pharmacies deliver medications to a patient s home or a physician s office. Special handling techniques and/or refrigeration, including shipping with dry-ice packs, are utilized in compliance with a manufacturer s specific shipping and handling requirements. In addition to injectable medications, we also provide sharps containers, syringes and other ancillary supplies needed for the administration of a product.

Therapy Management

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

We offer numerous products and services for a broad number of disease states in order to provide freedom of choice in the physician s selection of a particular prescription product as well as control over all pharmacy and medical expenditures in the most clinically appropriate manner. We do not associate or promote a particular pharmaceutical manufacturer s products over another manufacturer s product within a therapeutic class unless clinically appropriate based upon our pharmacy staff s professional judgment, and always in consultation with a patient s physician.

PBM Services

We offer Plan Sponsors and third party administrators 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:

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 two principal techniques: (i) generic substitution, which involves the selection of a generic drug as a cost-effective alternative to its bio-equivalent brand name drug; and/or (ii) 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. After a Plan Sponsor has established a formulary, rebates on brand name drugs are typically negotiated with drug manufacturers and are typically shared with Plan Sponsors.

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. As a result of rising pharmacy program costs, however, both public and private health plans have become increasingly receptive to controlling pharmacy costs by creating formularies which steer members to the lowest cost drug available with appropriate efficacy within a given therapeutic class, other than in cases of medical necessity or other pre-established prior authorization guidelines. Once a Plan Sponsor decides to utilize a restricted or closed

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formulary, we actively involve 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 health care 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. Benefit design and formulary parameters are managed through a point-of-sale (POS) electronic claims processing system through which real-time electronic edits control plan restrictions and real-time electronic messages are transmitted to pharmacists to ensure compliance with specified benefit design and formulary parameters before services are rendered and prescriptions are dispensed. Overutilization of medication is monitored and managed through quantity limitations based upon nationally recognized standards. Step protocols, which are procedures requiring that preferred therapies be tried and shown ineffective before more expensive therapies are covered, are also established in collaboration with the relevant P&T Committee to control improper utilization of certain high-risk or high-cost medications.

Clinical Service

Formularies typically identify a limited number of drugs for preferred status within each therapeutic class to be the covered drugs 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. Similarly, restrictions on the use of certain high-risk or high-cost non-preferred formulary or non-formulary drugs may be overridden through prior authorization or medical necessity procedures. Non-formulary overrides and prior authorizations are processed on the basis of documented, clinically supported medical information and typically are settled within 48 hours of request with complete information. Requests for, and appeals of denials of, coverage in those cases are handled by our staff of trained pharmacists, pharmacy techs and board certified pharmacotherapy specialists, subject to the Plan Sponsor s ultimate authority over all such requests, determinations and appeals. Further, in the case of a medical emergency, as determined by the dispensing network pharmacist, we will authorize, without prior approval, short-term supplies of all medication, unless specifically excluded by a Plan Sponsor.

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.

Pharmacy Data Services

Our proprietary software and data management tools permit Plan Sponsors and drug manufacturers to access key industry measures, pre-analyzed, updated daily and delivered through secure internet-based access. Plan Sponsors often monitor these key measures associated with their membership to review the effectiveness and success of our PBM programs. Pre-analyzed information includes formulary management, generic substitution, and cost savings analysis. In addition we also build custom PBM reporting systems to support specific customer projects.

Disease Management

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

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feedback for continuous improvement in achieving therapy goals. As described more fully above under Specialty Services, many of these same tools are used in delivering specialty pharmaceutical services and products.

Pharmacy Dispensing Facility

We believe that pharmacy benefit program costs may also be reduced through the distribution of pharmaceutical products directly to Plan Sponsors members by the use of mail service programs through our own proprietary pharmacy dispensing facilities. We provide mail services from facilities in Columbus, Ohio, Roslyn, NY, and San Francisco, California. Mail service is typically provided to Members who receive maintenance medications. The use of mail service affords Plan Sponsors the ability to reduce cost as compared to the often more costly retail distribution of prescription products.

Discount Prescription Card Programs

The above description of our service offerings principally apply to a managed pharmacy benefit and not to cash card or discount card programs.

We administer numerous cash card or discount card programs on behalf of program sponsors or third party administrators. 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 order pharmacies are entitled to receive a percentage discount off the retail or cash price for a prescription medication. As the administrator of these discount card programs, we manage the program s eligibility through our real-time electronic claims adjudication system. There is typically no formulary associated with these programs as they are unmanaged from a cost perspective.

Sales and Marketing

Our sales and marketing efforts are focused on payors, manufacturers, patients and physicians, and are driven by dedicated units comprised of Managed Markets, Pharmaceutical Relations, and Physician Sales teams. Recent success has been demonstrated through distribution and service agreements with manufacturers for the distribution of newly approved drugs, and we anticipate further growth coming from this area. Additionally, contracting with managed care organizations remains a primary focus and physician sales efforts have proven valuable in generating sales growth.

Information Technology

The Information Technology (IT) function has begun the process to identify and implement a new dispensing system that will be used across our mail order and community pharmacies. We believe that a new system will allow improved efficiencies and 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.

The IT function has integrated seven dispensing and billing systems previously used in our community pharmacies into two systems during 2006. During the first half of 2007 an integration will combine these retail systems into one software solution. Our community pharmacies have been automated in order to accommodate e-prescribing, as well as the electronic receipt of refill requests, refill authorizations, and new prescription requests from referring physicians. We also provide our patients the ability to refill their prescriptions over the phone utilizing an Integrated Voice Response system.

The PBM Services business utilizes a proprietary system that offers precise benefit implementation and execution. Member coverage verification, formulary compliance, claims approvals, member co-pay and pharmacy

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reimbursement are adjudicated in real-time through that proprietary system. The system s flexibility allows for numerous plan design options.

Through 2007 and 2008, we intend to make substantial IT systems investments to improve internal controls, streamline our business processes and improve our data reporting and management capabilities.

Loss of Major Customer

On December 21, 2005, Centene Corporation announced the acquisition of its own pharmacy benefits management business and transitioned its business to its own PBM during calendar 2006. Revenue from Centene Corporation for the years ended December 31, 2006, 2005 and 2004 was $47.1 million, $133.1 million and $102.1 million, respectively.

During 2005 excelleRx was acquired by Omnicare and consequently, excelleRx will be transitioning its PBM business to Omnicare during the first half of 2007. Revenue from excelleRx for the years ended December 31, 2006, 2005 and 2004 was $29.7 million, $21.7 million and $14.3 million, respectively.

Mergers and Acquisitions

On March 1, 2006 we acquired all of the issued and outstanding stock of Intravenous Therapy Services, Inc. (Burbank), a specialty home infusion company located in Burbank, California. The addition of Burbank will enhance our ability to service infusion patients on both the East and West coasts and complements our strategic objective of expanding our infusion operations nationally. Burbank was purchased for approximately $13.1 million in cash, plus a potential earn-out payment contingent on achieving certain future performance benchmarks.

On October 7, 2005 we acquired all of the issued and outstanding stock of JPD, Inc. d/b/a Northland Medical Pharmacy (Northland), a community-based retail specialty pharmacy located in Columbus, Ohio. Northland has a history of servicing individuals that may benefit from a number of specialty pharmacy therapies that we serve and is complementary to our community pharmacies. Northland was purchased for $12.0 million in cash, plus a potential earn-out payment contingent on achieving certain future performance benchmarks.

On March 12, 2005 we acquired all of the issued and outstanding stock of Chronimed Inc. in a stock-for-stock transaction valued at $105.3 million pursuant to which each share of Chronimed common stock was exchanged for 1.12 shares of our common stock.

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 with nationwide operations and capabilities in both the Specialty and PBM arenas, such as Caremark Rx, Inc., Express Scripts, Inc., Medco Health Solutions, Inc., MedImpact Healthcare Systems, Inc., National Medical Health Card Systems, Inc. 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 Caremark, Express Scripts and Medco.

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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 while receiving high quality care.

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 Burbank beginning March 1, 2006. The 2005 information below includes Chronimed beginning March 12, 2005 and Northland beginning October 7, 2005. See Note 4 - Acquisitions of Notes to Consolidated Financial Statements.

Segment Financial Information
(in thousands)

	2006	2005	2004
Revenue:			
Specialty Services	$ 866,622	$ 688,512	$ 251,487
PBM Services	285,837	384,723	379,029
Total	$ 1,152,459	$ 1,073,235	$ 630,516
(Loss) income from operations:			
Specialty Services [1]	$ (19,591)	$ (16,942)	$ 9,769
PBM Services [2]	3,350	(12,261)	2,525
Total	$ (16,241)	$ (29,203)	$ 12,294

(1) The year ended December 31, 2005 includes a $7.1 million charge to reflect an increase in the allowance for doubtful accounts receivable created by lower than expected collections during the

Chronimed merger integration period and $6.5 million of goodwill and intangible impairment and $4.6 million of merger expenses associated with the acquisition of Chronimed (see Note 4 of Notes to the Financial Statements), all in the Specialty Services segment.

(2) The year ended December 31, 2005 includes $18.6 million of goodwill impairment in the PBM Services segment.

Government Regulation

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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 comply in all material respects 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 law to the Office of Inspector General (the OIG) within 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 Medicaid programs 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 would be required to comply with them. In addition, 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, third party administrators, 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 state and Federal 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.

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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.

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. Conversely, as a specialty provider, these any willing provider regulations enable us to participate in other PBM s networks, restricting their ability to lock BioScrip 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 was 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, has 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, group purchasing and personal services arrangements), federal law prohibits the payment or receipt of remuneration to induce, arrange for or recommend the purchase of health care items or services paid for in whole or in part by Medicare or state health care programs (including Medicaid programs and

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Medicaid waiver programs). Certain state laws may extend the prohibition to items or services that are paid for by private insurance and self-pay patients. Management carefully considers the importance of such anti-kickback laws when structuring our operations, and believes that we are in compliance therewith. 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 or state-funded programs in the case of state enforcement.

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

Certain governmental entities have commenced investigations of PBM companies and other companies having dealings with the PBM industry and have identified issues concerning selection of drug formularies, therapeutic substitution programs and discounts or rebates from prescription drug manufacturers and whether best pricing requirements are being complied with. Additionally, at least one state has filed a lawsuit concerning similar issues against a health plan. To date, we have not been the subject of any such suit or action. We have received from time to time subpoenas or been requested to produce documents in response to various inquiries. There can be no assurance that we will not receive subpoenas or be requested to produce documents in pending investigations or litigation from time to time in the future.

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 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.

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The Stark Laws. The Federal law known as Stark II became effective in 1995 and was a significant expansion of an earlier Federal physician self-referral law commonly known as Stark I. Stark II prohibits physicians from referring Medicare or Medicaid patients for designated health services to an entity with which the physician, or an immediate family member of the physician, has a financial relationship. Possible penalties for violation of the Stark laws include denial of payment, refund of amounts collected in violation of the statute, civil monetary penalties and program exclusion. The Stark laws standards contain certain exceptions for physician financial arrangements.

Management carefully considers the importance of Stark II in structuring our sales and marketing arrangements and our operations and believes that we are in compliance therewith. Violation of the Stark II laws could subject us to civil and/or criminal penalties, including suspension or exclusion from Medicare and Medicaid programs or state-funded programs in the case of state enforcement.

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 laws 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. Criminal provisions that are similar to the False Claims Act provide that if a corporation is convicted of presenting a claim or making a statement that it knows to be false, fictitious or fraudulent to any federal agency it may be fined substantially similar to those imposed on individuals.

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. To date, the OIG has reviewed laws in the following states: California, Florida, Illinois, Indiana, Louisiana, Massachusetts, Michigan, Nevada, Tennessee and Texas. We operate in all ten of these states and submit claims for Medicaid reimbursement to the respective state Medicaid agencies.

Reimbursement. Approximately 33% of our revenues are derived directly from Medicare or Medicaid or other government-sponsored healthcare programs subject to the Federal anti-kickback laws and/or the Stark laws. 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 reimbursements from government-sponsored healthcare programs 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

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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 health care industry, entered into a proposed settlement to address certain practices regarding the establishment of the benchmark Average Wholesale Price (AWP) for medications. If the proposed settlement is approved by the court, it would have industry-wide impact on prescription prices. We generally utilize MediSpan for determining AWP and MediSpan has not announced its reaction to the proposed settlement. We are paid by many Health Plans and PBMs as a mail order and specialty pharmacy using AWP as reported by First DataBank. 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 whether changes to AWP pricing methodology or the First DataBank AWP settlement will have a material adverse effect on us or our 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 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 health care 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 health care 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 protected health information. The Privacy Regulations apply to protected health information 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 protected health information. In addition, the Privacy Regulations also give patients significant rights to understand and control how their protected health information is used and disclosed. Often, use and disclosure of protected health information 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 health care financing transactions, such as health care 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 health care 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

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business associates regarding the storage, utilization of, access to and transmission of 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 will 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 with respect to 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.

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 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 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 health care industry, Federal and state regulation and enforcement priorities in this area may increase, the impact of which on us 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 March 9, 2007, we had 838 full-time, 29 part-time and 225 per diem employees, including 196 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.

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Available Information

We file annual, quarterly and special reports, proxy statements and other information with the SEC. You may read and copy any reports, statements and other information filed by us at the SEC s Public Reference Room at 450 Fifth Street, N.W., Washington, D.C. 20549. Please call (800) SEC-0330 for further information on the Public Reference Room. The SEC maintains an Internet web site that contains reports, proxy and information statements and other information regarding issuers that file electronically with the SEC. Our filings are also available to the public at the web site maintained by the SEC, http://www.sec.gov.

We make available, free of charge, through our web site at *www.bioscrip.com*, 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

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. We recently appointed a full time project executive to drive improvements in receivables performance, added resources to prevent delays in cash posting, implemented new processes to improve timeliness and accountability and expanded our use of automated tools to post cash in order to improve both speed and accuracy. In addition, we implemented an improved process to quantify and document our estimates for uncollectible accounts. We have also changed processes at the point-of-sale in order to decrease billing and collection concerns. While management believes these efforts will improve collections, there can be no assurance that any of these controls and processes will improve our level of accounts receivable collectability in future periods.

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 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

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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. 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 and Specialty pharmacy clients, generally use certain published benchmarks to establish pricing for prescription medications. These benchmarks include average wholesale price (AWP), wholesale acquisition cost (WAC) and average manufacturer price (AMP). Most of our contracts utilize the AWP benchmark.

First Databank, a leading provider of electronic drug information to the health care industry, recently entered into a proposed settlement to address certain practices with regards to the establishment of the AWP for brand medications. If the proposed settlement is approved by the court, it would have industry-wide impact on prescription drug prices. We cannot predict the outcome of this case, or, if the settlement is approved, the precise timing of any of the proposed AWP changes.

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, are terminable 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 pharmacy network. However, the top ten retail pharmacy chains represent approximately 48% of the total number of stores in our network, and an even higher concentration in certain areas of the United States, 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.

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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 significant 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 cannot predict with certainty what the result of any such inquiry might be. In addition to potential monetary liability arising from these suits and proceedings, we are incurring costs in the 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. A successful professional liability claim in excess of our insurance coverage could harm our financial condition and results of operations. 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.

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.

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, pay rebates based on sales of drugs from our mail order pharmacy and pharmacies in our network of retail pharmacies and pay service fees should be 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) rebates or other 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.

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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.

Efforts to reduce health care 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 payer government funded health care 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 health care financing and reimbursement practices. If the current health care financing and reimbursement system changes significantly, our business could be materially adversely affected. Congress periodically considers proposals to reform the U.S. health care system. These proposals may increase government involvement in health care and regulation of PBM services, or otherwise change the way our clients do business. Health 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 health care 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

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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.

Failure of the CMS claims processor to timely or properly match claims for payment could adversely affect our financial results.

BioScrip submits claims for reimbursement from CMS through a claims processor which creates a common work file of data used to match with the claims information provided by the physicians through their local carrier. Failure on the part of the claims processor to timely and properly process and match claims for reimbursement will prevent or delay BioScrip from seeking reimbursement from CMS and may adversely affect BioScrip s financial condition, liquidity and results of operations.

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.

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 and San Francisco, 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 2012. Property locations are as follows:

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Corporate Offices

Elmsford, NY
Eden Prairie, MN

Mail Operations

Columbus, OH
San Francisco, CA

Community and Infusion Pharmacies

California
Burbank (Infusion)
Palm Springs
San Diego
San Francisco
Sherman Oaks
West Hollywood

District of Columbia
Washington D. C.

Florida
Ft. Lauderdale
Miami Beach
Orlando
St. Petersburg
Tampa
West Palm Beach

Georgia
Atlanta

Indiana
Indianapolis (2)

Illinois
Chicago

Maryland
Baltimore

Massachusetts
Boston

Minnesota
Minneapolis

Missouri
Kansas City
St. Louis

Nevada
Las Vegas

New Jersey
Livingston (Infusion)

New York
Bronx
Roslyn Heights
New York

Ohio
Columbus

Pennsylvania
Philadelphia
West Chester

Tennessee
Memphis

Texas
Dallas (2)
Houston

Washington
Seattle

Wisconsin
Milwaukee

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 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. We intend to deny the allegations and intend to defend vigorously against the action.

BioScrip and its Chronimed, Inc. subsidiary were named as defendants in a *qui tam* lawsuit captioned *Knight and Burns v. BioScrip, et. al.*, Civil Action No. 05-CV-00875 brought by two individual relators on behalf of the federal government and state of California in the United States District Court for the Southern District of California. The action was originally filed in April 2005 and an amended complaint was filed in December 2005. The defendants were not aware of the lawsuit until January 2007 when the federal government filed a notice declining to

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intervene in and pursue the action and the court unsealed the complaint and amended complaint and authorized the relators to proceed with the action. The amended complaint alleges that BioScrip s pharmacies submitted fraudulent claims for reimbursement by Medicare and MediCal of pharmaceutical products from the late 1990 s until the date of the complaint and seeks damages in an unspecified amount, statutory penalties, and payment to the relators of a share of the damages and attorneys fees under the federal and California state False Claims Acts. The defendants have not been served with process and have not appeared in the action or responded to the pleadings, and there have been no proceedings in the case.

The U.S. Attorney s Office in Boston and the Department of Justice informed us that our subsidiary, Chronimed Holdings, Inc. d/b/a StatScript Pharmacy (StatScript), was named as a defendant in a *qui tam* law suit filed by a whistleblower against Serono, Inc., and several other defendants in the federal district court for the District of Massachusetts alleging claims under the federal False Claims Act. The complaint has not been served on us or StatScript, which has had limited access to parts of the complaint, which is filed under seal. The government settled the claims in the suit against Serono, Inc., and recently declined to intervene in that suit. The relator(s) who are entitled to proceed with the suit against the defendants, has not decided whether to proceed against Chronimed, StatScript or the other defendants.

On August 16, 2004, a shareholder of Chronimed, Inc., now a subsidiary of ours, filed a purported class action lawsuit in the Minnesota state court (class certification was never accomplished), Hennepin County, naming Chronimed, Inc., and certain of its then officers and directors as defendants, who are represented by other law firms in the action. The plaintiff amended the complaint in December 2004 to add an additional plaintiff and us (under the name MIM Corporation) as an additional defendant. The amended complaint asserts claims against the Chronimed officer and director defendants for alleged breach of their fiduciary duties in connection with the merger agreement by which we acquired Chronimed, alleges that we aided those alleged breaches, and seeks rescission of the merger and other relief. The amended complaint was never served on us and we have not responded to the pleading, appeared in the lawsuit, or been involved in any proceedings in the case. The court dismissed the amended complaint as against the other defendants and denied the plaintiffs motion to reinstate the complaint. We have reached a settlement with one of the two plaintiffs. Plaintiff s counsel is unable to locate the original plaintiff.

The Eufaula litigation is in the early stages of its proceeding and as such we are currently unable to assess its probable outcome or its financial impact. As to the two *qui tam* actions, we deny the allegations and intend to defend vigorously against them. Nonetheless, neither plaintiff has served us; given the preliminary stage of these matters, we are unable to assess the probable outcomes of these proceedings or their financial impact. If any of these matters were resolved adversely to us, any or all could have a material adverse effect on us.

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.

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PART II

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

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

		High	Low
2005	First Quarter	$7.01	$5.75
	Second Quarter	$6.57	$5.13
	Third Quarter	$7.03	$5.88
	Fourth Quarter	$9.07	$5.93
2006	First Quarter	$8.12	$6.05
	Second Quarter	$7.19	$4.27
	Third Quarter	$5.65	$2.74
	Fourth Quarter	$4.30	$2.39

As of March 9, 2007, there were 370 stockholders of record in addition to approximately 7,600 stockholders whose shares were held in nominee name. On March 9, 2007 the closing sale price of our Common Stock on Nasdaq was $3.12.

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

During the twelve months ended December 31, 2006, we did not sell any securities without registration under the Securities Act of 1933, as amended (the Securities Act).

The graph set forth below compares, for the five-year period of December 31, 2001 through December 31, 2006, 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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COMPARISON OF 5 YEAR CUMULATIVE TOTAL RETURN*
Among BioScrip, Inc., The NASDAQ Composite Index
And The NASDAQ Health Services Index

* $100 invested on 12/31/01 in stock or index-including reinvestment of dividends. Fiscal year ending December 31.

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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 beginning March, 2005 and Northland beginning October, 2005. The 2006 information below includes Burbank beginning March 1, 2006. See Note 4 of Notes to Consolidated Financial Statements.

	December 31, (in thousands)				
Balance Sheet Data	**2006**	**2005**	**2004**	**2003**	**2002**
Cash and cash equivalents	$	$ 1,521	$ 2,957	$ 9,428	$ 5,751
Working capital	$ 37,023	$ 67,488	$ 13,968	$ 20,283	$ 5,101
Total assets	$305,456	$298,629	$185,788	$170,294	$182,231
Capital lease obligations, net of current portion	$	$	$	$ 35	$ 430
Stockholders equity	$161,833	$195,765	$115,683	$107,202	$ 94,208

	Year Ended December 31, (in thousands, except per share amounts)				
Statement of Operations Data	**2006**	**2005**	**2004**	**2003**	**2002**
Revenue [1]	$1,152,459	$1,073,235	$630,516	$588,770	$576,596
Merger related expenses [2]	$ 58	$ 4,575	$	$	$
TennCare® reserve [3]	$	$	$	$	$ (851)
Goodwill and intangible impairment [4]	$	$ 25,165	$	$	$
Net (loss) income [5,6,7,8,9]	$ (38,289)	$ (23,847)	$ 7,033	$ 9,130	$ 18,685
Net (loss) income per basic share	$ (1.03)	$ (0.70)	$ 0.32	$ 0.41	$ 0.83
Net (loss) income per diluted share [10]	$ (1.03)	$ (0.70)	$ 0.31	$ 0.40	$ 0.79
Weighted average shares outstanding used in computing basic (loss) income per share	37,304	34,129	22,245	22,164	22,616
Weighted average shares outstanding used in computing diluted (loss) income per share	37,304	34,129	22,702	22,640	23,563

(1) Revenue includes: Centene Corporation PBM Services revenue of $47.1 million, $133.1 million, $102.1 million, $92.4 million and

$49.7 million for the years 2006, 2005, 2004, 2003 and 2002, respectively; TennCare® PBM Services revenue of $67.8 million and $140.2 million for the years 2003 and 2002, respectively; and Value Options revenue of $19.7 million and $20.8 million for the years 2004 and 2003, respectively. Revenue from TennCare ended in 2003. Revenue from Value Options ended in 2004. Revenue from Centene Corporation ended in 2006.

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

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(3) In 1999, we recorded $6.0 million of TennCare® reserve adjustments for estimated losses on contract receivables relating to Tennessee Health Partnership (THP), Preferred Health Plans and Xantus Health Plans of Tennessee, Inc. (Xantus). In the first quarter of 2002, we recorded TennCare® reserve adjustment credits of $0.9 million as a result of the collection of the receivables reserved in 1999 from Xantus.

(4) Includes a $4.0 million charge, net of tax, related to write-off of trade names due to our rebranding strategy in the Specialty Services segment, and an $18.2 million charge, net of tax, related to

goodwill impairment in the PBM Services segment.

(5) Net income in 2003 includes a $0.6 million charge, net of tax, related to a settlement with our founder, E. David Corvese, and a restructuring charge of $0.9 million, net of tax.

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

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

(8) Net loss in 2006 includes a $25.7 million income tax

charge in the fourth quarter for the establishment of a valuation allowance recorded against deferred tax assets.

(9) The 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, 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 risk-based or capitated contracts, increased government regulation related to the health care 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

Item 1. Business

Overview

We provide comprehensive specialty pharmaceutical and pharmacy benefit management (PBM) services. Our specialty pharmaceutical services (Specialty Services) include the comprehensive support, management, dispensing, distribution and data reporting for medications used to treat patients living with chronic health conditions and are provided in various capacities to patients, physicians, payors and pharmaceutical manufacturers. Our PBM services include pharmacy network management, claims processing, benefit design, drug utilization review, formulary management and traditional mail order pharmacy fulfillment.

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

Our services are reported under two operating segments: (i) Specialty Services; and (ii) PBM and traditional mail services (collectively, PBM Services).

Our Specialty Services are marketed and sold primarily to patients, physicians, pharmaceutical manufacturers and payors and are focused on chronic health conditions including potentially life threatening or debilitating diseases or genetic disorders which are treated with specialty medications. These services include the distribution of biotech and other high cost injectable, oral and infusable prescription medications and the provision of therapy management services.

We strive to maximize therapy outcomes through strict adherence to clinical guidelines or protocols for a particular prescription therapy while at the same time managing the costs of such therapies on behalf of a Plan Sponsor or patient.

Our PBM Services are offered to Plan Sponsors and are designed to promote a broad range of cost-effective, clinically appropriate pharmacy benefit management services through our network of retail pharmacies and our traditional mail service distribution facility. Over the past several years we have focused on building our Specialty Services for strategic growth, and have lost a significant amount of PBM Services business, including the loss of our contracts with Centene Corporation and excelleRx. Consequently, Specialty Services revenues represent 75% of our total revenue.

As part of our PBM Services, we also administer numerous cash card or discount card programs on behalf of program sponsors or TPAs. These are 100% copay programs that provide savings to customers who present a discount card at one of our participating network pharmacies or who order medications through one of our mail order pharmacies. Under such programs we derive revenue on a per claim basis from the dispensing network pharmacy.

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We plan to grow our infusion business by marketing a broader product offering in our current geographic service area. This includes adding new therapies to our current focus on immunological blood products, including our most recent focus on patients with hemophilia. We will work with physicians who utilize our services to support their in-office infusion activities and we expect to establish ambulatory infusion centers.

Our plan for 2007 and beyond is to increase the depth of our business by broadening our model to take advantage of our strength of services and differentiating assets. We will implement redefined Specialty Services models to allow for therapy optimization and the management of medications incidental to a physician s service.

Critical Accounting Estimates

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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 are not 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 generally accepted accounting principles, 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 on Form 10-K, 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. Prescription drug revenue is offset by the rebates shared with Plan Sponsors.

Fee-For-Service Agreements. 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 is recognized either: (a) 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, in the case of a prescription filled through a pharmacy participating in our retail pharmacy network, or (b) at the time the drug is dispensed, in the case of a prescription filled through a pharmacy owned by us. Fee-for-service agreements accounted for more than 95% of our revenue for each of the years ended December 31, 2006, 2005 and 2004.

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 have other indicia of risk and reward, 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, as these transactions require us to assume credit risk and act as a principal. If we merely act as an agent, and consequently administer plan sponsors network pharmacy contracts, we do not assume credit risk and record only the administrative fees (and not the drug ingredient cost) as revenue.

Co-Payments; Co-Insurance. When prescriptions are filled by our own pharmacies (that is, where we are acting as a participating pharmacy in another PBM s or payor s pharmacy network), we collect and retain co-payments or co-insurance from Plan Sponsors members and record these receipts as revenue when the amounts are collected or deemed collectible and reasonably estimable. Conversely, when prescriptions are filled through pharmacies participating in our retail pharmacy networks, we are not entitled to retain co-payments or co-insurance and accordingly do not recognize revenue with respect to or account for retail pharmacy co-payments or co-insurance in our financial statements. In our capacity as a PBM, pharmacy network co-payments and co-insurance are never

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billed or collected by us and we have no legal right or obligation to receive them as they are collected by our network pharmacies.

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, national mail). 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 probable 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 primarily part of our 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 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. Shared rebates are recorded as a reduction of revenue. Total rebates are recorded as a reduction of cost of goods sold.

Payables to Plan Sponsors

Payables to Plan Sponsors represent the sharing of pharmaceutical rebates with the Plan Sponsors as part of our PBM Services segment. We estimate the portion of those pharmacy rebates that are shared with Plan Sponsors and adjust pharmacy rebates payable to Plan Sponsors when the amounts are paid, typically on a quarterly basis in arrears, or as significant events occur. These estimates are recorded based on actual and estimated claims data and agreed upon contractual rebate sharing rates. We adjust these estimates on a periodic basis based on changing circumstances such as contract modifications, product mix subject to rebates, and changes in the applicable formulary.

Income Taxes

As part of the process of preparing our consolidated financial statements, we 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 No. 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 it is more likely than not that we will not be able to realize the benefit from the deferred tax assets. Deferred tax assets are classified as current or non current according to the character of the asset or liability to which they relate.

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In addition, we have established, and periodically review and reevaluate, an estimated income tax reserve. This income tax reserve is for exposures related to various Federal and state tax matters. An accrual is established at the time an exposure is identified when it is both probable that a liability has been incurred and the amount of the liability can be reasonably estimated. While we believe that we have identified all reasonably identifiable exposures and that the reserve we have established for identifiable exposures is appropriate under the circumstance, it is possible that additional exposures exist and that the exposures will be settled at amounts different than the amounts reserved. It is possible that changes in estimates in the future could cause us to either materially increase or reduce the carrying amount of our income tax reserve.

Purchase Price Allocation

We account for acquisitions under the purchase method of accounting. 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 142, *Goodwill and Other Intangible* Assets, we evaluate goodwill for impairment 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 fair value of a reporting unit exceeds its carrying amount, goodwill of the reporting unit is not impaired and the second step of the impairment test is unnecessary. If the carrying amount of the reporting unit exceeds its fair value, the second step of the goodwill impairment test is necessary to measure the amount of impairment loss, if any. The second step compares the implied fair value of reporting unit goodwill with the carrying amount of that goodwill. If the carrying amount of the reporting unit goodwill exceeds the implied fair value of that goodwill, an impairment loss would be recognized in an amount equal to that excess.

The Company has two reporting units Specialty Services and PBM Services. In the fourth quarter of 2005 the fair value of the PBM Services segment was less than its carrying amount, resulting in the write off of all goodwill associated with PBM Services. Specialty Services was evaluated during fourth quarter 2006, and no impairment existed at December 31, 2006.

Impairment of Long Lived Assets

We evaluate 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, would be determined based on the present value of the cash flows using discount rates that reflect the inherent risk of the underlying business.

In the fourth quarter of 2005 we evaluated goodwill for impairment and recorded a write off as described above. As part of goodwill impairment testing, we further determined that certain intangible assets associated with customer lists were no longer recoverable from future cash flows. This resulted in a $0.8 million intangible impairment charge in fourth quarter 2005. No further impairment existed at December 31, 2006.

Accounting for Stock-Based Compensation

Effective January 1, 2006, 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 2006 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

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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). Results for prior periods have not been restated.

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.

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, 2006, 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

The following unaudited condensed consolidated pro forma financial information for the years ended December 31, 2005 and 2004 has been prepared as if the Chronimed acquisition had been consummated at the beginning of each respective period, utilizing the purchase method of accounting, with pro forma adjustments for amortization of intangibles associated with the acquisition. The number of basic and diluted shares has also been adjusted assuming we exchanged each outstanding share of Chronimed common stock for 1.12 shares of our common stock. We believe this information to be helpful in gaining an understanding of future financial and operating results and trends. In the following Management s Discussion and Analysis we provide discussion of both the reported results as set forth in the Financial Statements and the pro forma results as presented in the following tables:

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Pro Forma Consolidated Results
(in thousands, except per share and percentage data)
(unaudited)

	Year Ended December 31, 2005			
	BioScrip As Reported	Chronimed Pre-Merger	Pro Forma Adjustments	Pro Forma Combined
Revenue				
Specialty Services	$ 688,512	$ 114,079	$	$ 802,591
PBM Services	384,723			384,723
Total revenue	1,073,235	114,079		1,187,314
Cost of revenue	956,968	101,155		1,058,123
Gross profit	116,267	12,924		129,191
% of Revenue	10.8%	11.3%		10.9%
Operating expenses				
Selling, general and administrative expenses	96,521	10,498		107,019
Bad debt expense	12,814	840		13,654
Amortization of intangibles	6,395		958(1)	7,353
Merger related expenses	4,575	2,037		6,612
Goodwill and intangible impairment	25,165			25,165
Total operating expenses	145,470	13,375	958	159,803
% of Revenue	13.6%	11.7%		13.5%
Loss from operations	(29,203)	(451)	(958)	(30,612)
Interest (expense) income, net	(392)	84		(308)
Loss before income taxes	(29,595)	(367)	(958)	(30,920)
Income tax benefit	(5,748)	(143)	(114)	(6,005)
Net loss	$ (23,847)	$ (224)	$ (844)	$ (24,915)
Basic weighted average shares	34,129			34,129
Diluted weighted average shares	34,129			34,129
Basic net loss per share	$ (0.70)			$ (0.73)
Diluted net loss per share	$ (0.70)			$ (0.73)

(1) Reflects estimated amortization expense as if

Chronimed was acquired at the beginning of the year	

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Pro Forma Consolidated Results
(in thousands, except per share and percentage data)
(unaudited)

	Year Ended December 31, 2004			
	MIM Corp. As Reported	Chronimed Pre-Merger	Pro Forma Adjustments	Pro Forma Combined
Revenue				
Specialty Services	$ 251,487	$ 589,034	$	$ 840,521
PBM Services	379,029			379,029
Total revenue	630,516	589,034		1,219,550
Cost of revenue	562,360	525,511		1,087,871
Gross profit	68,156	63,523		131,679
% of Revenue	10.8%	10.8%		10.8%
Operating expenses				
Selling, general and administrative expenses	50,935	50,767		101,702
Bad debt expense	1,908	4,163		6,071
Amortization of intangibles	3,019		4,960(1)	7,979
Total operating expenses	55,862	54,930	4,960	115,752
% of Revenue	8.9%	9.3%		9.5%
Income (loss) from operations	12,294	8,593	(4,960)	15,927
Interest (expense) income, net	(808)	280		(528)
Other income		326		326
Income (loss) before income taxes	11,486	9,199	(4,960)	15,725
Income tax expense (benefit)	4,453	3,530	(1,882)	6,101
Net income (loss)	$ 7,033	$ 5,669	$ (3,078)	$ 9,624
Basic weighted average shares	22,245			36,609
Diluted weighted average shares	22,702			37,204
Basic net income per share	$ 0.32			$ 0.26
Diluted net income per share	$ 0.31			$ 0.26

(1) Reflects estimated amortization expense as if

Chronimed was acquired at the beginning of the year	

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CONSOLIDATED RESULTS

Year ended December 31, 2006 vs. December 31, 2005

Revenue. Total reported revenue for the year ended December 31, 2006 increased $79.2 million, or 7.4%, to $1,152.4 million from $1,073.2 million for the same period in 2005. The 2005 results reflect the acquisition of Chronimed starting March 12, 2005. The year-over-year increase was concentrated in the Specialty Services segment and is primarily attributable to sales of new drugs, strong growth in infused products, new business related to the CAP program and the acquisitions of JPD, Inc d/b/a Northland Medical Pharmacy (Northland) in October 2005 and Intravenous Therapy Services, Inc. (Burbank) in March 2006. The increase is partially offset by the loss of PBM contracts.

Revenue for the year ended December 31, 2006 was $1,152.4 million compared to $1,187.3 million on a pro forma basis for the year ended December 31, 2005, a $34.9 million, or 2.9%, decrease. The discussion below explains the primary reasons for revenue changes in each of our segments, Specialty Services and PBM Services.

Specialty Services revenue for the year ended December 31, 2006 was $866.6 million compared to $802.6 million on a pro forma basis for the same period a year ago, a $64.0 million, or 8.0% increase. This increase was due primarily to sales of new specialty drugs under exclusive or preferred distribution arrangements, strong growth in infusion products, new business related to the CAP program, and the acquisition of Northland in October 2005 and Burbank in March 2006.

PBM Services revenue for the year ended December 31, 2006 was $285.8 million compared to $384.7 million on a pro forma basis for the same period in 2005, a $98.9 million, or 25.7% decrease. The decline in revenue is due primarily to the loss of our customer Centene Corporation, which acquired its own PBM business and transitioned its PBM business with us to its own PBM throughout 2006. The decline in PBM revenue is 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, 2006 was $1,032.9 million compared to $957.0 million for the same period in 2005. The total gross profit rate as a percentage of revenue for the year ended December 31, 2006 was 10.4%, compared to 10.8% for the same period in 2005. The Specialty Services segment gross profit rate decreased primarily as a result of program changes associated with the implementation of Medicare Part D on January 1, 2006, and industry-wide reimbursement pressures. The PBM Services segment gross profit rate, which is lower than Specialty Services, increased in 2006 from 2005 due to improved generic utilization and favorable rate impact created from the loss of lower margin business in 2006, partially offset by a rate change by a large traditional mail services client.

Combined cost of revenue decreased $25.2 million, or 2.4%, to $1,032.9 million for the year ended December 31, 2006 from $1,058.1 million on a pro forma basis for the year ended December 31, 2005. Gross profit rate as a percentage of revenue decreased to 10.4% for the year ended December 31, 2006 compared to 10.9% on a pro forma basis for the same period in 2005. The Specialty Services gross profit decrease in 2006 was primarily the result of program changes associated with the implementation of Medicare Part D on January 1, 2006, and industry-wide reimbursement pressures. This was partially offset by an increase in PBM services gross profit rate in 2006 due to improved generic utilization and favorable rate impact created from the loss of lower margin business in 2006 partially offset by a rate change by a large traditional mail services client.

We continue to experience downward reimbursement pressure in both our Specialty Services and PBM Services segments as healthcare costs receive increasing scrutiny at local and national levels. In addition, the healthcare services industry continues to consolidate, creating larger and more aggressive competitors. In particular, we are beginning to see some of our competitors attempt to lock us out of certain specialty pharmacy contracts where we have been a provider in the past, which could cause a reduction in our revenue.

Selling, General and Administrative Expenses. For the year ended December 31, 2006, selling, general and administrative expenses (SG&A) increased to $116.8 million, or 10.1% of total revenue, from $96.5 million, or

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9.0% of total revenue, for the same period a year ago. The 2005 results reflect the acquisition of Chronimed starting March 12, 2005. The year-over-year increase in SG&A is primarily the result of additional ongoing operating expenses associated with acquisitions made since September 30, 2005, stock option expense due to the adoption of SFAS 123(R) at January 1, 2006, operating expense increases related to the CAP program, and severance expense related to staffing reductions. These expense increases were partially offset by a reduction in spending.

SG&A for the year ended December 31, 2006 was $116.8 million, or 10.1% of total revenue, compared to $107.0 million, or 9.0% of total revenue, on a pro forma basis for the year ended December 31, 2005. The increase in SG&A primarily is the result of ongoing operating expenses associated with acquisitions made since September 30, 2005, stock option expense due to the adoption of SFAS 123(R) at January 1, 2006, operating expense increases related to the CAP program, severance expense related to the departure of former senior management and general staff reduction, and general operating expense increases.

Bad Debt Expense. For the year ended December 31, 2006 we recorded bad debt expense of $12.4 million, a decrease of $0.4 million compared to $12.8 million in 2005. The decrease is the result of increased resources added to enhance our collection process and improve receivable collection performance. While we believe our efforts contributed to the improved collections performance, there can be no assurance that it will continue to improve in 2007 and our results could be adversely impacted. See Item 1A. Risk Factors for additional information regarding billing and collecting risks.

Bad debt expense for the year ended December 31, 2006 was $12.4 million compared to $13.7 million on a pro forma basis for 2005, a decrease of $1.3 million. The decreased bad debt expense reflects a lower bad debt accrual rate due to an improvement in collections. The pro forma 2005 results reflect a fourth quarter charge of $7.1 million to reflect an increase in the allowance for doubtful accounts receivable created by lower than expected collections during the Chronimed merger integration period.

Amortization of Intangibles. For the year ended December 31, 2006 we recorded amortization expense of intangibles of $6.5 million compared to amortization expense from intangibles of $6.4 million in 2005. The increase is due to the amortization associated with the acquisition completed during 2006.

Amortization expense for the year ended December 31, 2006 was $6.5 million compared to $7.4 million on a pro forma basis for 2005, a decrease of $0.9 million. This decrease is due primarily to the write-off in 2005 of trade name assets associated with Natural Living, Inc. and Vitality Home Infusion Services, Inc. due to the rebranding strategy. In first quarter 2007 the amortization of the intangible assets associated with the Chronimed acquisition will expire resulting in a decrease in amortization expense.

Merger Related Expenses. There were merger related expenses of $0.1 million in 2006. For the year ended December 31, 2005 merger related expenses were $4.6 million. The integration and other merger-related expenses include expenses incurred to consolidate the acquisition of Chronimed, including severance and rebranding costs.

Pro forma merger related expenses for the year ended December 31, 2005 were $6.6 million and reflected $2.0 million of merger-related expenses incurred by Chronimed from January 1, 2005 to March 12, 2005, the date of the Chronimed acquisition, in addition to those discussed above.

Goodwill and Intangible Impairment. There was no goodwill or intangible impairment write offs for the year ended December 31, 2006. The year ended December 31, 2005 included the write off of $5.8 million for the trade name intangible assets associated with Natural Living, Inc. and Vitality Home Infusion Services, Inc. The re-branding of all of our business lines to a single brand, BioScrip, prompted the write off of the existing trade name intangible assets. Also included in 2005 were goodwill and intangible impairment charges of $19.4 million, principally associated with the PBM Services segment. The PBM Services impairment is the result of the loss of the Centene contract and other related PBM Services contracts, and its negative impact on the long term financial outlook for the PBM Services business.

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Net Interest Expense. Net interest expense was $3.0 million for the year ended December 31, 2006 compared to $0.4 million for the year ended December 31, 2005. Interest expense associated with our line of credit was higher in 2006 as our average borrowing levels were higher. The increase is principally the result of additional borrowings used to fund the acquisition of Burbank, operating losses, declining PBM revenue and increased working capital needs associated with the CAP program. Interest expense for the line of credit was partially offset by interest income received on short term investments and money market accounts.

Net interest expense was $3.0 million for the year ended December 31, 2006 compared to $0.3 million on a pro forma basis for the year ended December 31, 2005.

Provision for and Benefit from Income Taxes. The reported provision for income taxes was $19.0 million for 2006 compared to a reported benefit from income taxes of $5.7 million for 2005. The 2006 tax provision includes the establishment of a valuation allowance recorded against deferred tax assets. At December 31, 2006, we had Federal net operating loss carryforwards of $21.6 million which begin expiring in 2017 and later.

Net Income and Earnings Per Share. We reported a net loss of $38.3 million, or $1.03 per share, for the year ended December 31, 2006, compared to a net loss of $23.8 million, or $0.70 per share, for the same period a year ago. The increase in net loss is due primarily to a $25.7 million income tax charge to establish a valuation allowance against deferred tax assets. The number of weighted average basic and diluted shares at December 31, 2006 was 37,303,531 compared to 34,128,650 at December 31, 2005, due to the acquisition and the related issuance of stock.

Net loss for the year ended December 31, 2006 was $38.3 million, or $1.03 per diluted share, compared to pro forma net loss of $24.9 million, or $0.73 per diluted share, for the year ended December 31, 2005.

Year ended December 31, 2005 vs. December 31, 2004

Revenue. Total reported revenue for the year ended December 31, 2005 increased $442.7 million, or 70.2%, to $1,073.2 million from $630.5 million for the same period in 2004. This increase was concentrated in the Specialty Services segment and is primarily attributable to the acquisition of Chronimed (discussed in Note 4 of the Notes to Consolidated Financial Statements), the results of which are included in our Consolidated Statements of Operations starting March 12, 2005.

On a pro forma combined basis, revenue for the year ended December 31, 2005 was $1,187.3 million compared to $1,219.6 million for the same period in 2004, a $32.3 million, or 2.6%, decrease. The discussion below explains the primary reasons for these revenue changes in each of our segments, Specialty Services and PBM Services.

On a pro forma basis, Specialty Services revenue for the year ended December 31, 2005 was $802.6 million compared to $840.5 million for the same period a year ago, a $37.9 million, or 4.5% decrease. This decrease was due primarily to the loss of Chronimed s specialty pharmacy distribution contract with Aetna that ended February 28, 2005, partially offset by growth in our community pharmacies. Revenue from Aetna was approximately $34.1 million for the year ended December 31, 2005 compared to $127.7 million for the previous year. Excluding the lost business from Aetna, Specialty Services grew 7.8%.

On a pro forma basis, PBM Services revenue for the year ended December 31, 2005 was $384.7 million compared to $379.0 million for the same period in 2004, a $5.7 million, or 1.5% increase. New members from existing contracts, as well as additional contracts, offset the termination of certain PBM clients, the most significant being Value Options, which terminated its contract with us effective November 30, 2004. Revenue from Value Options and certain other terminated PBM clients was $58.9 million in 2004. On December 21, 2005, we were notified by a material PBM Services customer, Centene Corporation, that it had acquired its own PBM business and would be transitioning its PBM business with us to its own PBM throughout 2006.

Cost of Revenue and Gross Profit. Reported cost of revenue for the year ended December 31, 2005 was $957.0 million compared to $562.4 million for the same period in 2004. The total gross profit rate as a percentage of

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revenue was 10.8% for both 2005 and 2004. The Specialty Services segment gross profit rate decreased with the addition of the acquired Chronimed specialty business, which was at a lower gross profit rate. The PBM Services segment gross profit rate, which is lower than Specialty Services, increased in 2005 from 2004 due to improved generic utilization and favorable rate impact created from the loss of lower margin business in 2005.

Pro forma combined cost of revenue decreased $29.8 million, or 2.7%, to $1,058.1 million for the year ended December 31, 2005 from $1,087.9 million for the year ended December 31, 2004. The pro forma gross profit rate as a percentage of revenue increased to 10.9% for the year ended December 31, 2005 compared to 10.8% for the same period in 2004. The PBM services gross profit rate increase in 2005 discussed above was partially offset by a lower Specialty Services gross profit rate primarily due to higher infusion product costs and overall lower Specialty Services payor reimbursement rates.

We continue to experience downward reimbursement pressure in both our Specialty Services and PBM Services segments as healthcare costs receive increasing scrutiny at local and national levels. In addition, the healthcare services industry continues to consolidate, creating larger and more aggressive competitors. In particular, we are beginning to see some of our competitors attempt to lock us out of certain specialty pharmacy contracts where we have been a provider in the past, which could cause a reduction in our revenue.

Selling, General and Administrative Expenses. For the year ended December 31, 2005, Selling, General and Administrative expenses (SG&A) increased to $96.5 million, or 9.0% of total revenue, from $50.9 million, or 8.1% of total revenue, for the same period a year ago. This increase in SG&A is primarily the result of the addition of Chronimed s expenses starting March 12, 2005. The pro forma SG&A discussion below provides a more meaningful detail on year-over-year expense increases.

Pro forma SG&A for the year ended December 31, 2005 was $107.0 million, or 9.0% of total revenue, compared to $101.7 million, or 8.3% of total revenue, for the year ended December 31, 2004. The increase in SG&A primarily is due to increased sales and marketing costs to support BioScrip s expanded sales force and community focused business strategy, and increased costs for compliance with the provisions of Section 404 of the Sarbanes-Oxley Act of 2002. The higher level of SG&A spending does not fully reflect merger related cost savings to be realized in 2006 by the elimination of duplicate functions, locations and other costs associated with the integration in the second half of 2005.

Bad Debt Expense. For the year ended December 31, 2005 we recorded bad debt expense of $12.8 million, an increase of $10.9 million compared to $1.9 million in 2004. The increase is the result of increased accounts receivable due to the Chronimed merger and a $7.1 million fourth quarter charge to reflect an increase in the allowance for doubtful accounts receivable created by lower than expected collections during the Chronimed merger integration period. We have added resources and are enhancing collection processes to improve 2006 financial performance. While we believe our efforts will improve collections performance, there can be no assurance that it will improve in 2006 and our results could be adversely impacted. See Item 1A. Risk Factors for additional information regarding billing and collecting risks.

Pro forma bad debt expense for the year ended December 31, 2005 was $13.7 million compared to $6.1 million in 2004, an increase of $7.6 million. The increase is due to the fourth quarter charge of $7.1 million to reflect an increase in the allowance for doubtful accounts receivable created by lower than expected collections during the Chronimed merger integration period.

Amortization of Intangibles. For the year ended December 31, 2005 we recorded amortization expense from intangibles of $6.4 million compared to amortization expense from intangibles of $3.0 million in 2004. The increase in 2005 was the result of increased amortization expense associated with the Chronimed acquisition and its related amortizable intangible assets, which was partially offset by the second quarter write-off of the trade name assets associated with Natural Living, Inc. and Vitality Home Infusion Services, Inc. due to the rebranding strategy previously disclosed.

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Pro forma amortization expense for the year ended December 31, 2005 was $7.4 million compared to $8.0 million in 2004, a decrease of $0.6 million. This decrease is due primarily to the write-off of trade name assets discussed above.

Merger Related Expenses. The year ended December 31, 2005 includes merger related expenses of $4.6 million. There were no merger related expenses in 2004. The merger related expenses include expenses incurred to consolidate the acquisition of Chronimed during 2005, including expenses incurred to consolidate to one brand, BioScrip, in the marketplace.

Pro forma merger related expenses were $6.6 million and $0 for the years ended December 31, 2005 and 2004, respectively, and reflect $2.0 million of merger related expenses incurred by Chronimed from January 1, 2005 to March 12, 2005, the date of the Chronimed acquisition, in addition to those discussed above.

Goodwill and Intangible Impairment. The year ended December 31, 2005 includes the write off of $5.8 million for the trade name intangible assets associated with Natural Living, Inc. and Vitality Home Infusion Services, Inc. The rebranding of all of our business lines to a single brand, BioScrip, prompted the write off of the existing trade name intangible assets. Also included in 2005 are goodwill and intangible impairment charges of $19.4 million, principally associated with the PBM Services segment. The PBM Services impairment is the result of the loss of the Centene contract and other related PBM Services contracts, and its negative impact on the long term financial outlook for the PBM Services business.

Net Interest Expense. Net interest expense was $0.4 million for the year ended December 31, 2005 compared to $0.8 million for the year ended December 31, 2004. Interest expense associated with our line of credit was lower in 2005 as our average borrowing levels were lower. Interest expense was further offset by interest income received on overnight investments of excess cash and the receipt of interest on a past due receivable.

Pro forma net interest expense was $0.3 million for the year ended December 31, 2005 compared to $0.5 million for the year ended December 31, 2004.

Benefit from and Provision for Income Taxes. The reported benefit from income taxes was $5.7 million for 2005 compared to a reported provision for income taxes of $4.5 million for 2004. The effective tax rate was 19.4% in 2005 compared to 38.8% in 2004. The 2005 tax rate was impacted by permanent differences created by specific write-offs of intangibles of $17.4 million, which had no tax basis, and other non-deductible items. At December 31, 2005, we had Federal net operating loss carryforwards (NOLs) of $14.0 million which begin expiring in 2017.

Net (Loss) Income and (Loss) Earnings Per Share. We reported a net loss of $23.8 million, or $0.70 per diluted share, for the year ended December 31, 2005, compared to net income of $7.0 million, or $0.31 per diluted share, for the same period a year ago. The decline primarily is due to goodwill and intangible impairment charges and increased bad debt expense, as well as increased SG&A expenses, amortization expense and merger expenses related to the Chronimed acquisition. The number of average diluted shares at December 31, 2005 was 34,128,650 compared to 22,701,862 at December 31, 2004, due to the acquisition and the related issuance of stock.

Pro forma net loss for the year ended December 31, 2005 was $24.9 million, or $0.73 per diluted share, compared to pro forma net income of $9.6 million, or $0.26 per diluted share, for the year ended December 31, 2004. The decline primarily is due to goodwill and intangible impairment charges, as well as increased SG&A expenses, bad debt expense and merger expenses related to the Chronimed acquisition.

Liquidity and Capital Resources

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

For 2006, net cash used in operating activities totaled $29.9 million compared to $6.4 million used in operating activities for 2005. The increase in operating cash used from 2005 to 2006 was the result of increases in accounts

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receivable balances of $15.8 million, inventory of $7.1 million and a decrease in claims payable of $21.9 million, partially offset by the increase in accrued expenses of $4.4 million.

Recent legislation regarding CAP is expected to improve cash flow by authorizing payment of claims on a bi-weekly basis beginning April 1, 2007. In addition, that legislation authorized CMS to pay all open claims on April 1, 2007.

Net cash used in investing activities in 2006 was $18.4 million compared to net cash provided by investing activities of $3.1 million in 2005. The change was driven primarily by the March 1, 2006, acquisition of Burbank for $13.1 million in cash and purchases of property and equipment for $5.4 million.

Net cash provided by financing activities in 2006 was $46.8 million compared to net cash provided by financing activities in 2005 of $1.9 million due to increased borrowings in 2006.

At December 31, 2006, we had working capital of $37.0 million compared to $67.5 million at December 31, 2005. The decrease in working capital primarily is attributable to the acquisition of Burbank in March 2006 and the creation of the valuation allowance against deferred tax assets.

At December 31, 2006 there were $52.9 million of outstanding bank borrowings under our revolving credit facility (the Facility) with an affiliate of Healthcare Finance Group, Inc. (HFG), a $45.5 million increase from the same period in 2005. The Facility was increased in July 2006 to provide for borrowings of up to $75 million at the London Inter-Bank Offered Rate (LIBOR) plus the applicable margin. Effective September 30, 2006, the Facility was extended for four years through November 1, 2010. The Facility permits us to request an increase in the amount available for borrowing up to $100 million, as well as converting 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.

The weighted average interest rate on the line of credit was 7.61% during 2006 compared to 5.77% for 2005. At March 9, 2007 we had $17.8 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 such covenants as of December 31, 2006.

On March 1, 2006, we acquired Burbank for $13.1 million in cash. Direct expenses associated with the acquisition were less than $0.1 million. That acquisition was paid for with proceeds from the Facility. As we continue to grow, we anticipate that our working capital needs will also continue to increase. We intend to make substantial information technology (IT) systems investments beginning in 2007 to improve internal control and streamline our business processes. 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. Growth in the CAP program may require an increase in our line of credit to fund additional working capital requirements.

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

At December 31, 2006, we had Federal NOL carryforwards of approximately $21.6 million, which will begin expiring in 2017 and later. Certain of the NOL carryforwards are subject to limitation and may be utilized in a future year. If the NOL carryforwards are not utilized in the year they are available they may be utilized in a future year.

On February 28, 2003 we announced a stock repurchase program pursuant to which we are authorized to purchase up to $10 million of our common stock from time to time by various means. Our stock repurchase

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program does not have a set expiration date, and repurchases under the program may be made at times and in amounts as our management deems appropriate, subject to restrictions under the Merger Agreement. No stock was repurchased during 2006 or 2005. As of December 31, 2006, approximately $4.9 million of the $10.0 million authorized remains available for additional share repurchases. We hold a total of 2,198,076 shares of treasury stock acquired under current and prior repurchase programs.

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]	$52,895	$ 52,895	$	$	$
Operating leases	14,482	4,143	7,051	2,864	424
Purchase commitment[2]	29,760	29,760			
Total Contractual Cash Obligations	$97,137	$ 86,798	$7,051	$2,864	$ 424

(1) Interest on the line of credit is payable monthly. For additional information regarding the line of credit see Note 9 Line of Credit.

(2) Commitment with a supplier to purchase established product quantities.

Other Matters

Controls and Procedures

As of the end of the period covered by this Annual Report, 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 Office (CEO) and Chief Financial Officer (CFO). Based upon these evaluations, management believes our controls were not effective as of December 31, 2006 and 2005. 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.

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, 2006 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 $0.4 million, pre-tax, based upon the average daily balance during 2006. 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, 2006, 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 of BioScrip, Inc.

We have audited the accompanying consolidated balance sheets of BioScrip, Inc. as of December 31, 2006 and 2005, and the related consolidated statements of operations, stockholders equity, and cash flows for each of the three years in the period ended December 31, 2006. Our audits also included the financial statement schedule listed in the Index at Item 15(A). 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, 2006 and 2005, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 2006, 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, 2006, the Company adopted SFAS No. 123 (revised 2004), *Share-Based Payment.*

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of BioScrip, Inc. s internal control over financial reporting as of December 31, 2006, 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 15, 2007, expressed an unqualified opinion on management s assessment and an adverse opinion on the effectiveness of internal control over financial reporting.

/s/ Ernst & Young LLP

Minneapolis, Minnesota

March 15, 2007

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BIOSCRIP, INC.
CONSOLIDATED BALANCE SHEETS
DECEMBER 31,
(in thousands, except for share amounts)

	2006	2005
ASSETS		
Current assets		
Cash and cash equivalents	$	$ 1,521
Receivables, less allowance for doubtful accounts of $13,774 and $14,406 at December 31, 2006 and 2005, respectively	135,139	127,880
Inventory	33,471	25,873
Prepaid expenses and other current assets	2,090	2,978
Deferred taxes		11,225
Total current assets	170,700	169,477
Property and equipment, net	10,409	9,232
Other assets and investments	681	939
Goodwill	114,991	104,268
Intangible assets, net	8,675	14,713
Total assets	$ 305,456	$ 298,629
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities		
Line of credit	$ 52,895	$ 7,427
Accounts payable	51,724	39,969
Claims payable	9,548	31,402
Payables to plan sponsors	589	1,695
Payor allowance	9,691	9,118
Accrued expenses and other current liabilities	9,230	12,378
Total current liabilities	133,677	101,989
Deferred taxes	9,946	875
Total liabilities	143,623	102,864
Stockholders equity		
Preferred stock, $.0001 par value; 5,000,000 share authorized, no shares issued or outstanding		
Common stock, $.0001 par value; 75,000,000 shares authorized; shares issued: 40,680,233 and 39,425,828, respectively; shares outstanding: 37,488,257 and 37,094,252, respectively	4	4
Treasury stock, 2,247,150 shares at cost	(8,002)	(8,002)
Additional paid-in capital	239,315	234,958

Accumulated deficit	(69,484)	(31,195)
Total stockholders equity	161,833	195,765
Total liabilities and stockholders equity	$ 305,456	$ 298,629

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

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

	2006	2005	2004
Revenue	$ 1,152,459	$ 1,073,235	$ 630,516
Cost of revenue	1,032,864	956,968	562,360
Gross profit	119,595	116,267	68,156
Selling, general and administrative expenses	116,797	96,521	50,935
Bad debt expense	12,443	12,814	1,908
Amortization of intangibles	6,538	6,395	3,019
Merger related expenses	58	4,575	
Goodwill and intangible impairment		25,165	
(Loss) income from operations	(16,241)	(29,203)	12,294
Interest expense, net	(3,018)	(392)	(808)
(Loss) income before provision for income taxes	(19,259)	(29,595)	11,486
Tax provision (benefit)	19,030	(5,748)	4,453
Net (loss) income	$ (38,289)	$ (23,847)	$ 7,033
Basic (loss) income per share	$ (1.03)	$ (0.70)	$ 0.32
Diluted (loss) income per share	$ (1.03)	$ (0.70)	$ 0.31
Weighted average shares used in computing basic (loss) income per share	37,304	34,129	22,245
Weighted average shares used in computing diluted (loss) income per share	37,304	34,129	22,702

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

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BIOSCRIP, INC.
CONSOLIDATED STATEMENT OF STOCKHOLDERS EQUITY
(in thousands)

	Common Stock	Treasury Stock	Additional Paid-In Capital	Accumulated Deficit	Total Stockholders Equity
Balance December 31, 2003	$ 2	$ (8,002)	$ 129,583	$ (14,381)	$ 107,202
Exercise of stock options and other related activities			969		969
Tax benefit recorded from option exercises			479		479
Net income				7,033	7,033
Balance December 31, 2004	2	(8,002)	131,031	(7,348)	115,683
Exercise of stock options and other related activities			1,892		1,892
Tax benefit recorded from option exercises			475		475
Shares issued in connection with Chronimed acquisition	2		101,560		101,562
Net income				(23,847)	(23,847)
Balance December 31, 2005	4	(8,002)	234,958	(31,195)	195,765
Exercise of stock options			1,356		1,356
Compensation under employee compensation plans			2,545		2,545
Tax benefit recorded from option exercises			456		456
Net loss				(38,289)	(38,289)
Balance December 31, 2006	$ 4	$ (8,002)	$ 239,315	$ (69,484)	$ 161,833

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

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

	2006	2005	2004
Cash flows from operating activities:			
Net (loss) income	$ (38,289)	$ (23,847)	$ 7,033
Adjustments to reconcile net (loss) income to net cash (used in) provided by operating activities:			
Depreciation	4,316	3,520	2,005
Amortization	6,538	6,395	3,020
Goodwill and intangible impairment		25,165	
Change in deferred income tax	20,297	(6,032)	2,584
Tax benefit from exercise of stock options	456	475	479
Excess tax benefits relating to employee stock compensation	(19)		
Compensation under employee compensation plans	2,545	116	93
Provision for losses on receivables	12,443	12,814	1,908
Loss on disposal of fixed assets	237	464	
Changes in assets and liabilities, net of acquired assets:			
Receivables, net	(15,764)	(21,471)	(3,818)
Inventory	(7,109)	(3,556)	(2,559)
Prepaid expenses and other current assets	1,108	1,154	136
Accounts payable	9,056	11,073	(3,949)
Claims payable	(21,854)	2,743	1,300
Payor allowance	573		
Accrued expenses and other current and non-current liabilities	(4,396)	(15,436)	(4,938)
Net cash (used in) provided by operating activities	(29,862)	(6,422)	3,294
Cash flows from investing activities:			
Purchases of property and equipment	(5,436)	(5,129)	(1,058)
Acquisitions, net of cash acquired	(13,097)	6,918	(14,256)
Decrease (increase) in other assets	125	1,332	(1,764)
Net cash (used in) provided by investing activities	(18,408)	3,121	(17,078)
Cash flows from financing activities:			
Borrowings on line of credit	1,031,383	744,419	696,040
Repayments on line of credit	(985,916)	(744,295)	(688,737)
Net proceeds from employee stock compensation plans	1,356	1,776	876
Excess tax benefits relating to employee stock compensation	19		
Principal payments on short term debt			(467)
Principal payments on capital lease obligations	(93)	(35)	(399)
Net cash provided by financing activities	46,749	1,865	7,313

Net decrease in cash and cash equivalents	(1,521)	(1,436)	(6,471)
Cash and cash equivalents-beginning of period	1,521	2,957	9,428
Cash and cash equivalents-end of period	**$ -0-**	**$ 1,521**	**$ 2,957**
DISCLOSURE OF CASH FLOW INFORMATION:			
Cash paid during the period for interest	$ 2,849	$ 613	$ 727
Cash paid during the period for income taxes	$ 2,484	$ 1,620	$ 3,349

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

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BIOSCRIP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 NATURE OF BUSINESS

Corporate Organization

BioScrip, Inc. (the Company or BioScrip) provides comprehensive specialty pharmacy and pharmacy benefit management (PBM) services. The Company s specialty pharmacy services (Specialty Services) include the distribution of specialty and traditional prescription medications (both injectable and infusible), the coordination of customer benefits and the provision of specialized clinical therapy management services. The Company s PBM services include pharmacy network management, claims processing, benefit design consultation, drug utilization review and formulary management.

BioScrip works with patients, physicians and pharmaceutical manufacturers. The Company also works directly with a variety of third party payors, including HMO s, indemnity plans and PPO s, health insurers and other insurance companies, as well as labor unions, self-funded employer groups and government agencies (including Medicaid and Medicare) (collectively Plan Sponsors), and through third-party administrators. The Company works with all of these constituents in a concerted effort to improve clinical and economic outcomes while enhancing the quality of life for the individuals living with chronic conditions.

On March 12, 2005 the Company acquired all of the issued and outstanding stock of Chronimed Inc. (Chronimed) in a stock-for-stock transaction. The acquisition resulted in an organization that is able to offer broader disease coverage, focused therapy management, expansive national retail and mail distribution capabilities and a pharmacy benefit management (PBM) platform.

Business

The Company derives revenues by providing Specialty Services to patients who are chronically ill, genetically impaired, or afflicted with potentially life threatening diseases that require injection and infusion therapies, as well as infusion therapies and home healthcare services to patients recently discharged from hospitals. The Company also derives revenues from agreements to provide PBM Services, which include prescription Mail Service, to the Members of Plan Sponsors in the United States.

The Company distributes high-cost pharmaceuticals and provides clinically focused case and disease management programs to Members afflicted with chronic illnesses or genetic impairments. The disease states or conditions for which the Company has such programs include HIV/AIDS, Immune Deficiency, Cancer, Hemophilia, Multiple Sclerosis, Growth Hormone Deficiency, Gaucher s Disease, Rheumatoid Arthritis, Infertility, Hepatitis C, Psoriasis, Crohn s Disease and Transplants. The specialty drugs distributed through the BioScrip® programs are dispensed and serviced from the Company s more than 30 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.

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NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Consolidation

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries. On March 12, 2005 the Company acquired all the issued and outstanding capital stock of Chronimed Inc. On October 7, 2005 the Company acquired all of the issued and outstanding stock of JPD, Inc. d/b/a Northland Medical Pharmacy. On March 1, 2006 the Company acquired all of the issued and outstanding stock of Intravenous Therapy Services, Inc. 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.

Cash and Cash Equivalents

Cash and cash equivalents are carried at cost, which approximates fair market value, and include demand deposits, overnight investments and money market accounts, with original maturities of ninety days or less when purchased.

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.

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, physician), the patient s ability to pay the amounts not reimbursed by the payor and 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 some 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 probable 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.

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Inventory

Inventory is stated 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 and 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.

Claims Payable

Claims payable represent the dollar value of prescriptions processed or adjudicated in the Company s PBM Services business that are to be reimbursed to participating network pharmacies as of the balance sheet date. The Company is responsible for all covered prescriptions provided to PBM plan 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 PBM plan member.

Payables to Plan Sponsors

Payables to plan sponsors represent the sharing of manufacturer s rebates with the plan sponsors and, on a limited basis, profit sharing plans with certain contracts, primarily in the PBM Services segment.

The Company estimates the portion of those rebates that are shared with plan sponsors and adjusts rebates payable to plan sponsors when the amounts are paid, typically on a quarterly basis in arrears, or as significant events occur. These estimates are accrued based on actual and estimated claims data and agreed upon contractual rebate sharing rates. The Company adjusts these estimates on a periodic basis according to changing circumstances such as changes to contracts, product mix subject to rebates, and changes in the applicable formulary.

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. Shared rebates are recorded as a reduction of revenue. Total rebates are recorded as a reduction of 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 the Company s retail pharmacy network or a pharmacy owned by the Company.

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Revenue is generally derived under fee-for-service agreements; however an immaterial number of capitated agreements exist. Prescription drug revenue is offset by the rebates shared with plan sponsors.

Fee-for-service or transactional agreements include: (i) specialty and mail service agreements, where the Company dispenses prescription medications through its own pharmacy facilities and (ii) PBM agreements, where prescription medications are dispensed through pharmacies participating in the Company s retail pharmacy network as well as the Company s mail service facility. Under fee-for-service agreements, revenue is recognized either: (a) when the pharmacy services are reported to the Company through the point of sale (POS) claims processing system and the drug is dispensed to the Member, in the case of a prescription filled through a pharmacy participating in the Company s retail pharmacy network, or (b) at the time the drug is dispensed to the patient, in the case of a prescription filled through a pharmacy owned by the Company. Fee-for-service agreements accounted for more than 95% of revenue for each of the years ended December 31, 2006, 2005 and 2004.

Revenue generated under PBM agreements is classified as either gross or net by the Company based on whether it is acting 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 has other indicia of risk and reward, the Company includes payments (which includes the drug ingredient cost) from these plan sponsors as revenue and payments to the network pharmacy providers as cost of revenue, as these transactions require the Company to assume credit risk 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 assume credit risk and records only the administrative fees (and not the drug ingredient cost) as revenue.

When prescriptions are filled in a Company owned pharmacy, the Company collects and retains co-payments or coinsurance from plan sponsors members and records these receipts as revenue when the amounts are collected or deemed collectible and reasonably estimable. In certain cases, the Company s coordination of benefit support services result in the Company being unable to ascertain or estimate the amount of the co-payment or coinsurance until after the Company receives reimbursement and explanations of benefits from the payors. In those cases the Company collects those amounts after the fact. When prescriptions are filled through pharmacies participating in the Company s retail pharmacy networks, the Company is not entitled to retain co-payments and accordingly does not account for retail pharmacy co-payments or coinsurance in its financial statements. Pharmacy network co-payments are never billed or collected by the Company and the Company has no legal right or obligation to receive them as they are collected by its network pharmacies.

Cost of Revenue

Cost of revenue includes the costs of prescription medications, pharmacy claims, fees paid to pharmacies, shipping and other direct and indirect costs associated with pharmacy management and administration, claims processing operations and mail order 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, would be determined based on the present value of the cash flows using discount rates that reflect the inherent risk of the underlying business. During 2005, the Company implemented a rebranding of all our business lines to a single brand name BioScrip. As a result of that strategy the value of the trade names associated with our Natural Living, Inc. and Vitality Home Infusion Services, Inc. subsidiaries has been eliminated, and those assets have been removed from the balance sheet, resulting in a $5.8 million charge in the second quarter of 2005.

In the fourth quarter of 2005, as part of the Company s annual goodwill impairment testing, it determined that intangible assets associated with certain customer lists were no longer recoverable from future cash flows resulting in an $0.8 million intangible impairment charge in fourth quarter 2005. During 2006, no impairments of intangibles existed.

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Goodwill

In accordance with SFAS 142, *Goodwill and Other Intangible Assets*, the Company evaluates goodwill for impairment based on a two-step process. The first step compares the fair value of a reporting unit with its carrying amount, including goodwill. The second step compares the implied fair value of reporting unit goodwill with the carrying amount of that goodwill. The measurement of possible impairment is based upon the comparison of the fair value of each reporting unit with the book value of its assets.

The Company has two reporting units Specialty Services and PBM Services. The fair value of Specialty Services exceeded its carrying amount resulting in no impairment charges in fiscal years 2006 and 2005. In 2005, the fair value of PBM Services was less than its carrying amount, resulting in the write off of all goodwill associated with PBM Services, primarily as a result of contract terminations, including the termination of the Company s contract with Centene Corporation, the Company s largest PBM Services customer.

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 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.

In addition, the Company has established, and periodically reviews and reevaluates an estimated income tax reserve. This income tax reserve is for exposures related to various Federal and state tax matters. An accrual is established at the time an exposure is identified when it is both probable that a liability has been incurred and the amount of the liability can be reasonably estimated. While the Company believes that it has identified all reasonably identifiable exposures and that the reserve it has established for identifiable exposures is appropriate under the circumstance, it is possible that additional exposures exist and that the exposures will be settled at amounts different than the amounts reserved. It is possible that changes in estimates in the future could cause the Company to either increase or reduce the carrying amount of its income tax reserve.

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.

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Accounting for Stock-Based Compensation

At December 31, 2006, the Company has a number of stock-based employee compensation plans (the Plans) 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. As of December 31, 2006, approximately 0.8 million shares remain available for grant under the Plans.

Prior to January 1, 2006, those plans were accounted for under the recognition and measurement provisions of Accounting Principles Board (APB) Opinion No. 25, *Accounting for Stock Issued to Employees* (APB 25), and related interpretations, as permitted by Statement of Financial Accounting Standards (SFAS) No. 123, *Accounting for Stock-Based Compensation* (SFAS 123), issued by the Financial Accounting Standards Board (FASB). Under APB 25, only the intrinsic value of stock options was recognized in the Statement of Operations for periods prior to January 1, 2006. Effective January 1, 2006, the Company 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 2006 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). Results for prior periods have not been restated.

See Note 13 for additional information regarding stock-based compensation.

(Loss) Income per Share

Basic (loss) income 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).

	2006	2005	2004
Numerator:			
Net (loss) income	$ (38,289)	$ (23,847)	$ 7,033
Denominator Basic:			
Weighted average number of common shares outstanding	37,304	34,129	22,245
Basic (loss) income per common share	$ (1.03)	$ (0.70)	$ 0.32
Denominator Diluted:			
Weighted average number of common shares outstanding	37,304	34,129	22,245
Common share equivalents of outstanding stock options			457
Total diluted shares outstanding	37,304	34,129	22,702
Diluted (loss) income per common share	$ (1.03)	$ (0.70)	$ 0.31

Employee stock options and restricted stock awards of 485,751 and 546,292 for 2006 and 2005, respectively, were excluded from the diluted net income per share calculation because their effect would be anti-dilutive. Since 2006 and

2005 are in a net loss position, all outstanding employee stock options and restricted stock awards are excluded from the diluted net loss per share calculation.

Recent Accounting Pronouncements

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In July 2006, the Financial Accounting Standards Board (FASB) issued FASB Interpretation No. 48 (FIN 48), *Accounting for Uncertainty in Income Taxes an interpretation of FASB Statement No. 109*. FIN 48 requires that realization of an uncertain income tax position must be more likely than not (greater than 50 percent likely) before it can be recognized in the financial statements. This interpretation also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition. FIN 48 is effective for the Company s fiscal year beginning January 1, 2007. The Company is currently reviewing the effect FIN 48 will have on its financial statements.

In September 2006, the FASB issued FASB Statement No. 157 (FAS 157) *Fair Value Measurements*. FAS 157 defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles (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. FAS 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. The Company is evaluating the effect of FAS 157 on its financial statements.

NOTE 3 OPERATING SEGMENTS

The Company operates in two reportable segments: (1) Specialty Services, which is comprised of specialty pharmacy distribution and clinical management services; and (2) PBM Services, which is comprised of fully integrated pharmacy benefit management and traditional mail services.

The accounting policies applied to the business segments are the same as those described in the Summary of Significant Accounting Policies. The 2005 information below includes Chronimed beginning March, 2005 and Northland beginning October, 2005. The 2006 information below includes Intravenous Therapy Services, Inc. beginning March 1, 2006.

Segment Reporting Information
(in thousands)

	Years Ended December 31,		
	2006	**2005**	**2004**
Revenue:			
Specialty Services	$ 866,622	$ 688,512	$ 251,487
PBM Services	285,837	384,723	379,029
Total	$ 1,152,459	$ 1,073,235	$ 630,516
(Loss) income from operations:			
Specialty Services	$ (19,533)	$ (5,831)	$ 9,769
PBM Services	3,350	6,368	2,525
	(16,183)	537	12,294
Merger and integration	58	4,575	
Goodwill and intangible impairment		25,165	
(Loss) income from operations	(16,241)	(29,203)	12,294
Interest expense, net	(3,018)	(392)	(808)
Income tax expense (benefit)	19,030	(5,748)	4,453

Net (loss) income:	$ (38,289)	$ (23,847)	$ 7,033
Depreciation Expense:			
Specialty Services	$ 3,591	$ 2,411	$ 832
PBM Services	725	1,110	1,173

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	Years Ended December 31,		
	2006	2005	2004
Total	$ 4,316	$ 3,520	$ 2,005
Total assets:			
Specialty Services	$ 241,973	$ 217,012	$ 124,510
PBM Services	63,483	81,617	61,278
Total	$ 305,456	$ 298,629	$ 185,788
Capital expenditures:			
Specialty Services	$ 4,063	$ 4,866	$ 609
PBM Services	1,373	263	449
Total	$ 5,436	$ 5,129	$ 1,058

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

	For the year ended December 31,	
	2006	2005
Significant customer A		
PBM Services:		
Revenue	$ 47,135	$ 133,143
% of Total Revenue	4%	12%
Significant customer B		
PBM Services:		
Revenue	$ 120,771	$ 113,914
% of Total Revenue	11%	11%
Specialty Services:		
Revenue	$ 25,663	$ 21,524
% of Total Revenue	2%	2%

NOTE 4 ACQUISITIONS

Chronimed Inc. Acquisition

On March 12, 2005 the Company acquired all of the issued and outstanding stock of Chronimed in a stock-for-stock transaction pursuant to which each share of Chronimed common stock was exchanged for 1.12 shares of the Company s common stock. The results of operations of Chronimed are included in the Consolidated Statement of Operations beginning March 12, 2005. The acquisition of Chronimed added 28 specialty pharmacies throughout the U.S. to the Company s existing pharmacies and Chronimed s operations have been included in the Specialty Services segment. The acquisition has been accounted for in accordance with SFAS No. 141, *Business Combinations,* from the date of acquisition.

The aggregate purchase price paid for Chronimed was $105.3 million including direct expenses of $3.7 million associated with the acquisition. The 14,380,551 shares of common stock exchanged and 2,612,146 stock options assumed in the acquisition were valued using the average market price of the Company s common stock during the

period beginning two days before and ending two days after the revised merger agreement was announced. The purchase price was allocated to the acquired assets and liabilities based on management s estimates of their fair value and an independent valuation.

The purchase price paid for Chronimed resulted in the fair value of assets acquired being in excess of the net asset value of the business. Goodwill, described in SFAS 141, Paragraph 43 as the excess of the cost of an

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acquired entity over the net of the amounts assigned to assets acquired and liabilities assumed, was recognized and was consistent with the rationale for the acquisition as follows:

- the opportunity to combine the companies individual strengths in payor contracting, physician sales, manufacturer services, clinical management and fulfillment;
- the opportunity to sell the Company s products through Chronimed s existing retail pharmacies;
- the opportunity to broaden the Company s suite of disease states and customer base;
- the expansion of the Company s retail pharmacy coverage;
- the opportunity to create significant mail-operations synergies; and
- the opportunity to create corporate function and other cost synergies, which will enable the combined entity to grow and improve margins.

The following table sets forth the allocation of the purchase price as of December 31, 2005:

Purchase Price Allocation
(in thousands)

Purchase price:	
Value of stock exchanged	$ 90,192
Value of stock options assumed	11,370
Transaction costs	3,696
Total purchase price	105,258
Less: net tangible assets as of March 12, 2005	58,316
Excess of purchase price over net tangible assets acquired	$ 46,942
Allocation of excess purchase price:	
Customer lists and tradenames	$ 9,560
Goodwill	37,382
Total	$ 46,942

Customer lists acquired from Chronimed are amortized over twenty-four months. In conjunction with the rebranding of all business lines to a single brand, the tradenames acquired from Chronimed were fully amortized as of December 31, 2005.

The following table sets forth the estimated fair value of the assets and liabilities acquired with the purchase of Chronimed:

Net Tangible Assets Acquired
(in thousands)

Cash and short term investments	$ 20,788
Accounts receivable	42,591
Inventory	9,661
Prepaids and other current assets	1,077

Fixed assets	3,771	
Deferred tax assets	2,682	
Long term assets	143	
Total assets acquired		80,713
Accounts payable	(5,075)	
Accrued expenses	(13,052)	
Accrued severance	(1,013)	
Deferred tax liability	(3,257)	
Total liabilities assumed		(22,397)
Net tangible assets acquired		$ 58,316

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The excess of the purchase price over the fair value of the identifiable net assets and the fair value of the identifiable intangible assets acquired was allocated to goodwill and was assigned to the Specialty Services segment.

As part of the merger, the Company consolidated Chronimed s Minnetonka, Minnesota mail service operations into the Company s higher capacity mail distribution operation in Columbus, Ohio and closed the Minnetonka mail facility. Severance costs of $1.0 million were included in the purchase price and were paid out by December 31, 2005.

The following unaudited consolidated pro forma financial information for the year ended December 31, 2005 has been prepared assuming Chronimed was acquired as of the beginning of 2005, utilizing the purchase method of accounting, with certain pro forma adjustments for amortization of intangibles. The pro forma financial information is presented for informational purposes only and is not necessarily indicative of the actual results had the acquisition occurred at the beginning of the period. This pro forma financial information is not intended to be a projection of future operating results.

Pro Forma Statements of Operations
(in thousands, except per share amounts)

	Twelve months ended December 31,	
	2005	2004
	(Unaudited)	(Unaudited)
Revenue	$1,187,314	$1,219,550
Net (loss) income	$ (24,915)	$ 9,624
Basic income (loss) per common share	$ (0.73)	$ 0.26
Diluted income (loss) per common share	$ (0.73)	$ 0.26

Natural Living Acquisition

On February 2, 2004, the Company acquired all of the issued and outstanding stock of Natural Living, Inc., d/b/a Fair Pharmacy, a retail specialty pharmacy located in Bronx, New York for $15.0 million in cash, plus a performance-based earn-out of $4.0 million paid after the first anniversary of the closing. The acquisition enhanced the Company s HIV, Cancer and Hepatitis C disease therapies and has been incorporated into the Company s Specialty Services segment.

Northland Medical Pharmacy Acquisition

On October 7, 2005 the Company acquired all of the issued and outstanding stock of JPD, Inc. d/b/a Northland Medical Pharmacy (Northland), a community-based specialty pharmacy located in Columbus, Ohio for $12.0 million in cash. Northland complements the Company s expanding community pharmacy model.

Intravenous Therapy Service Acquisition

On March 1, 2006 the Company acquired all of the issued and outstanding stock of Intravenous Therapy Services, Inc. (Burbank), a specialty home infusion company located in Burbank, California for approximately $13.1 million in cash, plus a potential earn-out payment contingent on achieving certain future performance benchmarks. The addition of Burbank enhances the Company s ability to service infusion patients on both the East and West coasts and complements its strategic objective of expanding its infusion operations nationally.

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The operating results of each of these acquisitions are included in the Company s consolidated statement of operations from the date of each acquisition. Pro forma results of operations for the Natural Living, Inc., Northland and Burbank acquisitions have not been presented since the effects of these business acquisitions were not material to the Company s financial performance either individually or in the aggregate.

NOTE 5 RESTRUCTURING

The acquisition of Chronimed resulted in the consolidation of certain finance and information technology (IT) functions. The Company s two Rhode Island offices, which included finance and IT functions, were closed as a result of these consolidations. These functions were fully transitioned to the Company s Minnesota offices as of December 31, 2005.

In connection with the consolidation of the finance and IT departments as described above, throughout the second half of 2005, the Company terminated 67 employees. All of these terminations were the result of the purchase of Chronimed and were expensed in the Specialty Services segment. Severance costs in connection with this restructuring were recorded in accordance with SFAS No. 146, *Accounting for Costs Associated with Exit or Disposal Activities* (SFAS 146), with the expense being allocated over the estimated retention period of employees. Severance costs of $2.0 million were recorded in SG&A expenses for employee separation costs in 2005, in connection with the termination of these employees. In September and December of 2005 the two Rhode Island offices were closed, resulting in $0.4 million of expense recorded in SG&A. All of these costs were recorded in the Specialty Services segment. All restructuring costs have been paid out as of December 31, 2006.

Restructuring Costs
(in thousands)

Provisions for restructuring	$ 2,370
Payments for restructuring	(1,073)
Liability at December 31, 2005	1,297
Provisions for restructuring	58
Payments for restructuring	(1,355)
Liability at December 31, 2006	$

NOTE 6 GOODWILL AND INTANGIBLES

The Company follows SFAS 141 and Statement of Financial Accounting Standard No. 142, *Goodwill and Other Intangible Assets*, (SFAS 142) in accounting and reporting for its business combinations, goodwill and intangible assets. SFAS 141 requires all business combinations initiated after June 30, 2001 to be accounted for using the purchase method of accounting. 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. Under SFAS 141, an acquired intangible asset should be separately recognized and amortized over its useful life (unless an indefinite life) if the benefit of the intangible asset is obtained through contractual or other legal rights, or if the intangible asset can be sold, transferred, licensed, rented or exchanged regardless of the acquirer s intent to do so.

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

	Specialty Services	PBM Services	Total
Balance as of December 31, 2004	$ 56,245	$ 18,629	$ 74,874
Goodwill acquired (Chronimed, Northland)	47,924		47,924
Purchase price adjustment (Natural Living, Inc)	99		99
Goodwill impairment		(18,629)	(18,629)
Balance as of December 31, 2005	104,268		104,268
Goodwill acquired (Burbank)	10,654		10,654
Goodwill adjustments(Chronimed,Northland)	69		69
Balance as of December 31, 2006	$ 114,991	$	$ 114,991

The Company recorded a goodwill impairment of $18.6 million in the fourth quarter of 2005 primarily due to the loss of Centene Corporation and other PBM Services contracts. The loss of those contracts had a material negative impact on the long term financial outlook for the PBM Services segment.

Portions of goodwill assigned to the Specialty Services segment are expected to be deductible for income tax purposes.

The following table details the acquired intangible assets and their accumulated amortization as of December 31, 2006 (in thousands):

		As of December 31, 2006		As of December 31, 2005	
	Weighted Average Life (in months)	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Non-compete agreements [1]	9.5	$ 3,900	$ (1,931)	$ 4,130	$(1,873)
Customer relationships[2]	63.9	20,200	(13,494)	20,200	(7,744)
Tradename[3]				360	(360)
Total		$24,100	$(15,425)	$24,690	$(9,977)

(1) A non-compete agreement valued at $0.5 million was added for the Burbank acquisition in 2006. The Roslyn non-compete agreement of $0.7 million was fully amortized in 2006.

(2) Certain intangible assets associated with customer lists valued at $0.8 million were written off in the fourth quarter of 2005.

(3) In 2005, the Company completed the process of rebranding to a single brand name, BioScrip . As a result the value of all legacy tradenames, totaling $5.8 million, was written off in the second quarter of 2005. A tradename acquired with the Chronimed purchase was valued at $0.4 million and fully amortized in 2005.

The amortization expense for the years ended December 31, 2006, 2005 and 2004 was $6.5 million, $6.4 million and $3.0 million, respectively. The estimated amortization expense for the next five years is as follows (in thousands):

For the year ending December 31,	
2007	$2,913
2008	$1,955
2009	$1,392
2010	$1,250
2011	$1,165

The Company s net intangible assets as of December 31, 2006 are composed of customer relationships and non compete agreements associated with the acquired businesses. The adjusted expected amortizable life of these assets ranges from two to ten years.

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NOTE 7 RELATED PARTY TRANSACTIONS

The Company leased one of its facilities from Alchemie Properties, LLC (Alchemie) pursuant to a ten-year agreement. Alchemie is controlled by Mr. E. David Corvese, a stockholder and former officer and director of the Company (the Founder). Rent expense was approximately $0.1 million for each of the years ended December 31, 2005 and 2004. With the relocation of the Company s business headquarters to Eden Prairie, Minnesota, the Company bought out of the Alchemie lease on December 29, 2005 for approximately $0.2 million.

One of the Company s former board members, who resigned in February 2006, was a partner of the Company s primary outside legal services firm. Fees were paid to that legal firm of $1.7 million, $2.1 million, and $1.1 million for the years ended December 31, 2006, 2005 and 2004, respectively.

NOTE 8 PROPERTY AND EQUIPMENT

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

	2006	2005
Computer and office equipment, including equipment acquired under capital leases	$10,640	$ 21,804
Furniture and fixtures	2,763	2,486
Leasehold improvements	6,571	4,442
	19,974	28,732
Less: Accumulated depreciation	(9,565)	(19,500)
Property and equipment, net	$10,409	$ 9,232

Depreciation expense for the years ended December 31, 2006, 2005 and 2004 was $4.3 million, $3.5 million and $2.0 million, respectively.

NOTE 9 LINE OF CREDIT

On November 1, 2000 the Company entered into a $45 million revolving credit facility (the Facility) with an affiliate of Healthcare Finance Group, Inc. (HFG). The Facility had a three-year term, was secured by the Company s receivables with interest paid monthly, and provided for borrowing up to $45 million at the London Inter-Bank Offered Rate (LIBOR) plus 2.1%.

The Facility was increased in July 2006 to provide for borrowings up to $75 million at LIBOR plus the applicable margin. Effective September 30, 2006, the Company extended the Facility with HFG through November 1, 2010. The Facility permits the Company to request an increase in the amount available for borrowing to up to $100 million, as well as to 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.

The weighted average interest rate on the Facility at December 31, 2006 was 7.61%. 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 received a waiver from HFG on a certain financial ratio debt to earnings before interest, taxes, depreciation and amortization that it was not in compliance with as of December 31, 2005, due to the goodwill and intangible asset impairment and accounts receivable reserve charges incurred in fourth quarter 2005. The Company was in compliance with all covenants as of December 31, 2006.

At March 15, 2007 the Company had $33.4 million of credit available under the Facility.

NOTE 10 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

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market or private transactions. No stock was repurchased during 2006, 2005 or 2004. As of December 31, 2006, approximately $4.9 million of the $10.0 million authorized remains available for additional share repurchases. The Company holds a total of 2,247,150 shares of treasury stock acquired under current and prior repurchase programs.

NOTE 11 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. BioScrip intends to deny the allegations and intends to defend vigorously against the action.

BioScrip and its Chronimed, Inc. subsidiary were named as defendants in a *qui tam* lawsuit captioned *Knight and Burns v. BioScrip, et. al.*, Civil Action No. 05-CV-00875 brought by two individual relators on behalf of the federal government and state of California in the United States District Court for the Southern District of California. The action was originally filed in April 2005 and an amended complaint was filed in December 2005. The defendants were not aware of the lawsuit until January 2007 when the federal government filed a notice declining to intervene in the action and the court unsealed the complaint and amended complaint and authorized the relators to proceed with the action. The amended complaint alleges that BioScrip s pharmacies submitted fraudulent claims for reimbursement by Medicare and MediCal of pharmaceutical products from the late 1990 s until the date of the complaint and seeks damages in an unspecified amount, statutory penalties, and payment to the relators of a share of the damages and attorneys fees under the federal and California state False Claims Acts. The defendants have not been served with process and have not appeared in the action or responded to the pleadings, and there have been no proceedings in the case.

The U.S. Attorney s Office in Boston and the Department of Justice informed the Company that its Chronimed Holdings, Inc. d/b/a StatScript Pharmacy (StatScript) subsidiary, was named as a defendant in a *qui tam* law suit filed by a whistleblower against Serono, Inc., and several other defendants in the federal district court for the District of Massachusetts alleging claims under the federal False Claims Act. The complaint has not been served on the Company or StatScript, which has had limited access to parts of the complaint, which is filed under seal. The government settled the claims in the suit against Serono, Inc., and recently declined to intervene in that suit. The relator(s) who are entitled to proceed with the suit against the defendants, has not decided whether to proceed against Chronimed, StatScript or the other defendants.

On August 16, 2004, a shareholder of Chronimed, Inc., now a subsidiary of the Company, filed a purported class action lawsuit in the Minnesota state court (class certification was never accomplished), Hennepin County, naming Chronimed, Inc., and certain of its then officers and directors as defendants, who are represented by other law firms in the action. The plaintiff amended the complaint in December 2004 to add an additional plaintiff and BioScrip, Inc. (under the name MIM Corporation) as an additional defendant. The amended complaint asserts claims against the Chronimed officer and director defendants for alleged breach of their fiduciary duties in connection with the merger agreement by which the Company acquired Chronimed, alleges that the Company aided those alleged breaches, and seeks rescission of the merger and other relief. The amended complaint was never served on the Company, which has not responded to the pleading, appeared in the lawsuit, or been involved in any proceedings in the case. The court dismissed the amended complaint as against the other defendants and denied the

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plaintiffs motion to reinstate the complaint. The Company has reached a settlement with one of the two plaintiffs. Plaintiff s counsel is unable to locate the original plaintiff.

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 45% 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):

2007	$ 4,143
2008	3,862
2008	3,189
2010	2,117
2011	747
Thereafter	424
Total	$ 14,482

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Rent expense for non-related party leased facilities and equipment was approximately $3.9 million, $4.3 million and $1.5 million for the years ended December 31, 2006, 2005 and 2004, respectively. Rent expense for related party leased facilities was approximately $0.1 million for each of the years ended December 31, 2005 and 2004. All related party leases have been terminated.

Capital Leases

The Company acquired capital leases totaling $0.1 million in connection with the purchase of Burbank. Payments of $0.1 million were made against these leases and at December 31, 2006 the Company had no material facilities or equipment under capital leases.

NOTE 12 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,		
	2006	2005	2004
Current			
Federal	$ (2,408)	$ 341	$1,686
State	978	(57)	183
Total Current	(1,430)	284	1,869
Deferred			
Federal	17,832	(4,862)	2,512
State	2,628	(1,170)	72
Total Deferred	20,460	(6,032)	2,584
Total Provision for (Benefit from) Income Taxes	$19,030	$(5,748)	$4,453

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,	
	2006	2005
Deferred tax assets:		
Reserves not currently deductible	$ 8,560	$ 7,701
Net operating loss carryforwards	8,452	5,457
Intangibles	3,298	1,347
Accrued expenses	1,968	1,448
Stock based compensation (123R)	1,025	
Payor audit accrual	950	884
Capital loss carryover		915
Property basis differences	707	148
Other	404	139
Subtotal deferred tax assets	25,364	18,039
Deferred tax liabilities:		

Goodwill	(9,646)	(6,791)
Less: valuation allowance	(25,664)	(898)
Net deferred tax (liability) asset	$ (9,946)	$ 10,350

During the fourth quarter of 2006 the Company concluded that a valuation allowance against all of its deferred tax assets was appropriate. A deferred tax asset generally represents future tax benefits to be received when certain expenses and losses previously recognized in its U.S. GAAP-based financial statements become deductible under applicable income tax laws. Consequently, realization of a deferred tax asset is dependent on future taxable income against which these deductions can be applied. In accordance with Statement of Financial Accounting Standards No. 109,

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as the result of cumulative operating losses incurred over the past two years the Company has recorded a valuation allowance against all of its deferred tax assets after utilization of the Company s NOL carrybacks. The income tax provision for the year ended December 31, 2006 reflects the establishment of a valuation allowance of $25.7 million against deferred tax assets. Commencing in 2007, the Company will assess the continuing necessity for the valuation allowance. At such time as the Company determines that it is more likely than not that part or all of the deferred tax assets will be realized, the Company will reverse part or all of the valuation allowance.

During 2006 the capital loss carryover expired, therefore the deferred tax asset and related valuation allowance for the capital loss carryover was removed.

At December 31, 2006, the Company had Federal NOL carryforwards of approximately $21.6 million, of which $14.0 million is subject to an annual limitation, all of which will begin expiring in 2017 and later. If the NOL carryforwards are not utilized in the year they are available they may be utilized in a future year to the extent they have not expired. The Company has state NOL carryforwards remaining of approximately $21.2 million, the majority of which will begin expiring in 2017 and later.

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

	2006	2005	2004
Tax (benefit) provision at statutory rate	$ (6,548)	$(10,062)	$3,905
State tax (benefit) provision, net of Federal taxes	208	(576)	259
Non-deductible goodwill		5,926	
Merger related expenses		223	
Change in tax contingencies	128	(744)	
Rate change on deferred items		(463)	
Valuation allowance	25,664	48	
Other	(422)	(100)	289
Provision for income taxes	$19,030	$ (5,748)	$4,453

NOTE 13 STOCK-BASED COMPENSATION

Stock Options

The 1996 Incentive Stock Plan (the 1996 Plan) provided for the granting of incentive stock options (ISOs) and non-qualified stock options (NQSOs) to employees, directors and consultants of the Company. Under the 1996 Plan there were 5,200,450 shares authorized for issuance. In 2001, the stockholders approved the Company s 2001 Incentive Stock Plan (the 2001 Plan, collectively with the 1996 Plan, the Plans). Under the 2001 Plan an additional 5,750,000 shares are authorized for issuance. As of December 31, 2006, there remain 629,611 shares available for grant under the Plans.

The provisions of the 1996 and 2001 Plans allow plan participants to use shares to cover tax withholding on stock options. Upon exercise of the stock options, participants have taxable income subject to statutory withholding requirements. The number of shares issued to participants may be reduced by the number of shares having a market value equal to the minimum statutory withholding requirements for federal, state and local tax purposes.

On March 12, 2005 the Company assumed all the option plans from Chronimed as part of the acquisition. Previously granted Chronimed options assumed by the Company in 2005 totaled 2,612,146. Vesting on the Chronimed options was accelerated to be fully vested at the date of acquisition.

Options granted under the Plans typically vest over a three-year period and, in certain limited instances, fully vest upon a change in control of the Company. In addition, such options are generally exercisable for 10 years after the date of grant, subject to earlier termination in certain circumstances. The exercise price of ISOs granted under the Plans will not be less than 100% of the fair market value on the date of grant (110% for ISOs granted to more than a 10% stockholder).

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The 1996 Directors Stock Incentive Plan, (the Directors Plan) was adopted to attract and retain qualified individuals to serve as non-employee directors of the Company (Outside Directors), to provide incentives and rewards to such directors and to align more closely the interests of such directors with those of the Company s stockholders. As amended, the Directors Plan has 500,000 shares authorized, and allows for 5,000 shares per year to be automatically granted to each Outside Director, and 20,000 NQSOs to be automatically granted to Outside Directors upon his or her initial appointment or election to the Board. The exercise price of such options is equal to the fair market value of the Common Stock on the date of grant. Options granted under the Directors Plan vest over three years. As of December 31, 2006, options to purchase 325,000 shares are outstanding at an average exercise price of $6.17. The number of shares exercisable was 221,671 with 175,000 shares available for grant.

For the year 2006, the fair value of each option award on the date the grant was calculated by using a Binomial option-pricing model and is amortized to expense on a straight line basis over the vesting period. For 2005, and 2004, a Black-Scholes option-pricing model was used to calculate the fair value of each option award on the date of the grant. The pricing models use the assumptions noted in the following table. Expected volatility is based on the historical volatility of the Company s stock. 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. 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. The Company uses historical data to estimate option exercise and employee termination assumptions under the valuation models. The Company has never paid dividends on its common stock and does not anticipate doing so in the foreseeable future.

	2006	2005	2004
Expected volatility	53.7%	69.5%	89.5%
Risk-free interest rate	4.56%	4.98%	3.25%
Expected life of options	5.5 years	4.5 years	5 years
Dividend rate			
Fair value of options	$1.67	$3.74	$5.30

As a result of adopting SFAS 123(R), the Company's loss from operations and net loss are $2.5 million greater than if the Company had continued to account for share-based compensation under APB 25. The following table illustrates the effect on net income and earnings per share had the Company applied the fair value recognition provisions of SFAS 123 to options granted under the Company s stock option plans in all periods presented prior to adopting SFAS 123(R). For purposes of this pro forma disclosure, the value of the options is estimated using a Black-Scholes option-pricing formula and is amortized to expense on a straight-line basis over the options vesting periods (in thousands, except per share amounts).

	2005	2004
Net (loss) income, as reported	$ (23,847)	$ 7,033
Add: Stock award-based employee compensation included in reported net income, net of related tax effect	27	19
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effect	(2,023)	(3,626)
Pro forma net (loss) income	$ (25,843)	$ 3,426
Earnings per share:		

Basic	as reported	$ (0.70)	$ 0.32
Basic	pro forma	$ (0.76)	$ 0.15
Diluted	as reported	$ (0.70)	$ 0.31
Diluted	pro forma	$ (0.76)	$ 0.15

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As a result of the adoption of SFAS 123(R) the Company now classifies cash flows from tax benefits in excess of the tax deductions of the compensation cost as financing cash inflows. Prior to the adoption of SFAS 123(R), the Company presented the tax benefit resulting from the exercise of stock options as a cash inflow from operating activities in the Statement of Cash Flows. Under the modified prospective method, prior periods are not restated to reflect adoption of SFAS 123(R).

Stock option activity under the Plans through December 31, 2006 is as follows:

	Options	Weighted Average Exercise Price	Aggregate Intrinsic Value (millions)	Weighted Average Remaining Contractual Life
Balance, December 31, 2005	5,756,806	$ 7.81		
Granted	1,569,401	$ 3.25		
Exercised	(307,079)	$ 4.95		
Forfeited	(263,652)	$ 3.30		
Expired	(1,317,158)	$ 8.17		
Balance, December 31, 2006	5,438,318	$ 6.77	$ 1.5	6.7 years
Outstanding options less expected forfeitures at December 31, 2006	5,239,441	$ 6.90	$ 1.4	6.6 years
Exercisable at December 31, 2006	3,639,554	$ 8.05	$ 0.5	5.4 years

The weighted-average grant-date fair value of options granted during the years ending December 31, 2006, 2005, and 2004, was $1.67, $3.74, and $5.30, respectively. The total intrinsic value of options exercised during the years December 31, 2006, 2005, and 2004, was $0.4 million, $1.0 million, and $0.7, million respectively.

Cash received from option exercises under share-based payment arrangements for the years ended December 31, 2006, 2005, and 2004, was $1.5 million, $1.8, million and $1.0 million, respectively.

The maximum term of stock options under these plans is ten years. Options outstanding as of December 31, 2006 expire on various dates ranging from April 2008 through December 2016. The following table outlines our outstanding and exercisable stock options as of December 31, 2006:

	Options Outstanding			Options Exercisable	
Range of Option Exercise Price	Options Outstanding	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life	Options Exercisable	Weighted Average Exercise Price
$0.00-$5.20	2,030,513	$ 3.07	7.3 Years	928,362	$ 3.73
$5.57-$7.03	1,347,081	$ 6.29	6.5 Years	918,799	$ 6.28
$7.26-$9.56	1,266,977	$ 8.23	7.0 Years	998,646	$ 8.38
$9.60-$13.06	416,080	$12.01	4.9 Years	416,080	$12.01
$15.13-$20.25	377,667	$17.75	5.1 Years	377,667	$17.75

5,438,318	$ 6.77	6.7 Years	3,639,554	$ 8.05

As of December 31, 2005 and 2004, the exercisable portion of outstanding options was approximately 4.7 million shares and approximately 2.4 million shares, respectively.

Stock option activity for non-vested shares under the Plans through December 31, 2006 is as follows:

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	Options	Weighted Average Grant-Date Fair Value
Balance, December 31, 2005	1,223,599	$ 4.36
Granted	1,569,401	1.67
Vested	(594,584)	4.80
Forfeited	(399,652)	2.21
Balance, December 31, 2006	1,798,764	$ 2.35

As of December 31, 2006, there was $2.9 million of unrecognized compensation cost related to non-vested share-based compensation arrangements granted under the Plans. That cost is expected to be recognized over a weighted-average period of 2.3 years.

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

Restricted Stock

Under the Plans, the Company s Board of Directors may grant performance or other restricted stock awards to key employees. The Company s Board of Directors may make the issuance of common stock subject to the satisfaction of one or more employment, performance goals or period, purchase or other conditions. During the year ending December 31, 2006, the Company issued restricted stock awards totaling 1,055,326 shares with a fair market value of $1.10 per share. The fair value of each stock award on the date of the grant was calculated by using a Monte Carlo valuation model and is amortized to expense on a straight line basis.

As a result of adopting SFAS 123(R) on January 1, 2006, the Company incurred stock-based compensation expense of $0.4 million. The Company did not realize a tax benefit because it had a net operating loss for the current year. Upon a return to profitability, the Company will record a tax benefit for stock-based compensation expenses when the Company records profits. For the years 2005 and 2004, the Company recorded compensation expense of $0.1 million and $0.1 million, respectively.

Restricted stock award activity under the Plans through December 31, 2006 is as follows:

	Restricted Stock	Weighted Average Award Date Fair Value	Weighted Average Remaining Recognition Period
Balance, December 31, 2005	136,000	$ 3.24	
Granted	1,055,326	$ 1.10	
Awards vested	(136,000)	$ 3.24	
Canceled	(110,500)	$ 0.75	
Balance, December 31, 2006	944,826	$ 1.15	4.8 years

As of December 31, 2006, there was $0.9 million of unrecognized compensation cost related to non-vested share-based compensation arrangements granted under the Plans. That cost is expected to be recognized over a

weighted-average period of 2.5 years. The total grant date fair market value of awards vested during the years ended December 31, 2006, 2005 and 2004 was $0.5 million, $0.0 million and $0.1 million, respectively.

As compensation expense for restricted stock awards granted is recorded over the vesting period of the awards, future stock-based compensation expense may be greater if additional performance shares are granted.

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Performance Units

Under the Plans, the Company s Board of Directors may grant performance units to key employees. The Company s Board of Directors 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 shall pay the key employee an amount in cash equal to the value of each performance unit at the time of payment. In no event shall a key employee receive an amount in excess of $1.0 million in respect of performance units for any given year. As of December 31, 2006 there have been no performance units granted.

NOTE 14 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	
	A	**B**
Year ended December 31, 2004		
% of total revenue	16%	19%
% of total accounts receivable at period end	*	18%
Year ended December 31, 2005		
% of total revenue	12%	13%
% of total accounts receivable at period end	*	16%
Year ended December 31, 2006		
% of total revenue	*	13%
% of total accounts receivable at period end	*	17%

* Less than 10%.

Plan Sponsor (A) is in the PBM Services segment

Plan Sponsor (B) revenue and accounts receivable is primarily in the PBM

Services segment with a lesser amount in the Specialty Services segment

NOTE 15 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 $0.5 million, $0.2 million and $0.2 million in each of the years ended December 31, 2006, 2005, and 2004, respectively.

NOTE 16 SELECTED QUARTERLY FINANCIAL DATA (UNAUDITED)

A summary of quarterly financial information for fiscal 2006 and 2005 is as follows (in thousands except per share data):

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
2006:				
Revenue [1]	$299,718	$ 279,585	$280,916	$ 292,240
Gross profit	$ 30,330	$ 28,794	$ 29,703	$ 30,768
Net loss [2]	$ (1,156)	$ (5,710)	$ (3,388)	$ (28,035)
Basic loss per share	$ (0.03)	$ (0.15)	$ (0.09)	$ (0.75)
Diluted loss per share	$ (0.03)	$ (0.15)	$ (0.09)	$ (0.75)

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	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
2005:				
Revenue [1]	$188,398	$ 286,617	$293,976	$ 304,244
Gross profit	$ 20,447	$ 30,513	$ 31,719	$ 33,588
Net income (loss) [3,4,5]	$ 1,667	$ (3,540)	$ 641	$ (22,615)
Basic earnings (loss) per share	$ 0.07	$ (0.10)	$ 0.02	$ (0.61)
Diluted earnings (loss) per share	$ 0.06	$ (0.10)	$ 0.02	$ (0.61)

(1) The Company acquired Chronimed in March, 2005, Northland in October, 2005, and Burbank in March, 2006.

(2) In the fourth quarter of 2006, the Company recorded a $25.7 million income tax charge to establish a valuation allowance for deferred tax assets.

(3) The Company recorded $0.2 million, $0.5 million, $0.6 million, and $1.5 million of charges, net of tax, related to the Chronimed acquisition and merger, in each of the first, second, third and fourth quarters of 2005, respectively.

(4) In the second quarter of 2005, the Company recorded a $3.5 million charge, net of tax, for the write-off of trade name intangibles relating to its re-branding strategy. In the fourth quarter of 2005, the Company recorded $18.2 million, net of tax, in goodwill and intangible impairment charges.

(5) The Company recorded a $4.3 million charge, net of tax, in the fourth quarter of 2005 to reflect an increase in the allowance for doubtful accounts receivable created by lower than expected collections during the Chronimed integration of the Company s accounting and IT functions.

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Valuation and Qualifying Accounts

	Balance at Beginning of Period	Write-Off of Receivables	Charged to Costs and Expenses	Other Accounts	Balance at End of Period
Year ended December 31, 2004					
Accounts receivable	$ 3,513	$ (2,538)	$ 1,908	$	$ 2,883
Accounts receivable, TennCareÒ[1]	$ 357	$	$	$	$ 357
Year ended December 31, 2005					
Accounts receivable[2]	$ 2,883	$ (6,922)	$ 12,814	$5,631	$ 14,406
Accounts receivable, TennCareÒ[1]	$ 357	$ (357)	$	$	$
Year ended December 31, 2006					
Accounts receivable	$ 14,406	$ (13,075)	$ 12,443	$	$ 13,774

(1) Amounts credited to the TennCareÒ reserve account and reductions in related liability accounts

(2) Allowance and reserve on balance sheet of Chronimed, acquired March, 12 2005, and Northland, acquired October 7, 2005.

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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, 2006 were not effective as a result of a material weaknesses in information technology internal controls over financial reporting discussed in the following section below.

Based on its evaluation of the effectiveness of the design and operation of our internal control over financial reporting as December 31, 2006, management has evaluated and verified through testing that material weaknesses reported in 2005 Form 10-K related to accounts receivable and revenue recognition have been effectively remediated.

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, 2006, 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, or COSO . 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.

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An internal control material weakness (as such term is defined under Public Company Accounting Oversight Board Standard No. 2) is a deficiency or combination of deficiencies that results in more than a remote likelihood that a material misstatement of the annual or interim financial statements will not be prevented or detected.

Based on management s assessment of internal control over financial reporting as of December 31, 2006, we have identified and reported to our Audit Committee a material weakness in internal control over financial reporting related to information technology general controls. The material weakness is the result of the aggregation of control deficiencies in the following categories:

Inadequate controls over the segregation of duties and restriction of employee access to applications, databases, and operating systems;

Ineffective controls over the documentation, testing, approval and migration of system changes to production environments; and,

Lack of monitoring controls over personnel in the information technology function with update access to the production databases supporting significant applications.

This material weakness affects the processing of information related to all significant accounts in the financial statements and could potentially result in a material misstatement of the financial statements.

As a result of the material weakness described in the preceding paragraphs, our management believes that as of December 31, 2006, our internal control over financial reporting was not effective based on the COSO criteria. Our independent registered public accounting firm, Ernst & Young LLP, has issued an attestation report on management s assessment of the Company s internal control over financial reporting which is included herein.

Management Remediation Plan

Given the material weakness, management performed additional analysis and procedures to ensure that our consolidated financial statements are presented fairly in conformity with generally accepted accounting principles. Accordingly, management believes that the consolidated financial statements and schedule included herein in this Form 10-K fairly present in all material respects our financial position, results of operations and cash flows for the periods presented. We have created and commenced implementing a remediation plan to address the aforementioned material weakness.

Management believes that the aforementioned material weakness continued in 2006 as a result of the direction of IT resources towards other business priorities. Those priorities were:

Support of strategic initiatives such as implementation of the new CAP program, and

The tactical decision to first remediate the accounts receivable and revenue recognition material weaknesses also reported in 2005 which were successfully remediated in 2006.

Both of these priorities required significant IT resources. While some remediation of the IT general control deficiencies reported on in 2005 also occurred in 2006, we did not sufficiently remediate these deficiencies to reduce the aggregated deficiencies to a level below the material weakness threshold.

On February 1, 2007, Mr. Douglas Lee joined us as Vice President and Chief Information Officer. Mr. Lee is responsible for leading our information technology function, defining and implementing our strategic use of information technology, and ensuring that the technology investment is positioned to support our growth. A cornerstone of our IT strategy is to implement a process-focused philosophy. Policies and procedures will be revised to address any current design limitations in parallel with training and reinforcement the control practices.

While we are re-assessing the long-term design of information technology for our business, we continue to consolidate our pharmacy operating systems, and have already consolidated two of these systems in January and February of 2007. The two pharmacy operating systems lacked sufficient IT controls and incurring the cost of remediation in 2006 would have been unwise given our intention to decommission the systems. In addition to consolidation, we are addressing the following information technology controls:

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Logical access controls will be improved through a layered series of preventive controls to limit access and detective controls to monitor use of powerful privileges. A detailed plan for the completion of the logical access improvements will take into consideration the cost of remediation and whether or not the applications, databases and operating systems under remediation are considered a long-term component of our information technology strategic plan.

Changes to system software Our information technology function will be adopting a new change management process in 2007 to increase the discipline with which we document, test, approve and migrate changes to our production environment. In addition, improved tools and methodologies across the IT environment will be implemented to ensure we have visibility to all changes to the production environment.

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

As noted above under Evaluation of Disclosure Controls and Procedures, we remediated the material weaknesses reported in 2005 Form 10-K related to accounts receivable and revenue recognition during 2006. Actions taken in the fourth quarter that are reasonably likely to have materially affected internal controls over financial reporting include:

Retraining personnel;

Monthly reporting of and monitoring of cancelled claims for appropriate financial reporting;

Daily and weekly monitoring controls to evaluate and adjust revenues as coordination of benefits occurs during the life cycle of a claim.

Other than the remediation of the above items to improve internal control over financial reporting there have been no changes in our internal control over financial reporting identified in connection with the evaluation required by paragraph (d) of Exchange Act Rules 13a-15 or 15d-15 that occurred during our fourth fiscal quarter that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting. The discussion above under Management Remediation Plan describes a number of changes we have initiated since December 31, 2006, as well as other changes that we plan to implement in 2007, that we believe will significantly improve our internal control over financial reporting.

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Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders of BioScrip, Inc.

We have audited management s assessment, included in the accompanying Management Report on Internal Control Over Financial Reporting, that BioScrip, Inc. did not maintain effective internal control over financial reporting as of December 31, 2006, because of the effect of ineffective information technology controls, 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. Our responsibility is to express an opinion on management s assessment and an opinion on the effectiveness of 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, evaluating management s assessment, testing and evaluating the design and operating effectiveness of internal control, 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.

A material weakness is a control deficiency, or combination of control deficiencies, that results in more than a remote likelihood that a material misstatement of the annual or interim financial statements will not be prevented or detected. The following material weakness relating to information technology general controls has been identified and described in management s assessment:

The Company identified a material weakness in internal control over financial reporting related to information technology general controls as a result of the aggregation of the following control deficiencies:

- Inadequate controls over the segregation of duties and restriction of employee access to applications, databases, and operating systems;
- Ineffective controls over the documentation, testing, approval and migration of system changes to production environments; and
- Lack of monitoring controls over personnel in the information technology function with update access to the production databases supporting significant applications.

This material weakness affects the processing of information related to all significant accounts in the financial statements and could potentially result in a material misstatement to the financial statements.

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This material weakness was considered in determining the nature, timing, and extent of audit tests applied in our audit of the 2006 financial statements, and this report does not affect our report dated March 15, 2007 on those financial statements.

In our opinion, management s assessment that BioScrip, Inc. did not maintain effective internal control over financial reporting as of December 31, 2006, is fairly stated, in all material respects, based on the COSO criteria. Also, in our opinion, because of the effect of the material weakness described above on the achievement of the objectives of the control criteria, BioScrip, Inc. has not maintained effective internal control over financial reporting as of December 31, 2006, based on the COSO criteria.

/s/ Ernst & Young LLP

Minneapolis, Minnesota
March 15, 2007

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Item 9B. Other Information

None.

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PART III

Item 10. Directors and Executive Officers of the Registrant

The information required by this item is incorporated by reference from the information contained in our definitive proxy statement to be filed with the SEC on or before April 30, 2007 in connection with our 2007 Annual Meeting of Stockholders.

Item 11. Executive Compensation

The information required by this item is incorporated by reference from the information contained in our definitive proxy statement to be filed with the SEC on or before April 30, 2007 in connection with our 2007 Annual Meeting of Stockholders.

Item 12. Security Ownership of Certain Beneficial Owners and Management

The information required by this item is incorporated by reference from the information contained in our definitive proxy statement to be filed with the SEC on or before April 30, 2007 in connection with our 2007 Annual Meeting of Stockholders.

Item 13. Certain Relationships and Related Transactions and Director Independence

The information required by this item is incorporated by reference from the information contained in our definitive proxy statement to be filed with the SEC on or before April 30, 2007 in connection with our 2007 Annual Meeting of Stockholders.

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PART IV

Item 15. Exhibits and Financial Statement Schedules

All other schedules not listed above have been omitted since they are not applicable or are not required, or because the required information is included in the Consolidated Financial Statements or Notes thereto.

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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 99.1)
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)
4.1	Specimen Common Stock Certificate	(5) (Exhibit 4.1)
10.1	Loan and Security Agreement, dated November 1, 2000, between MIM Funding LLC and HFG Healthco-4 LLC	(6) (Exhibit 10.1)
10.2	Receivables Purchase and Transfer Agreement, dated as of November 1, 2000, among MIM Health Plans, Inc., Continental Pharmacy, Inc., American Disease Management Associates LLC and MIM Funding LLC	(6) (Exhibit 10.2)
10.3	Employment Letter, dated October 15, 2001, between the Company and Russell J. Corvese	(7) (Exhibit 10.51)
10.4	Second Amendment and Consent, dated as of January 31, 2002, to the Receivable Purchase and Transfer Agreement, dated as of November 1, 2000	(8) (Exhibit 10.54)
10.5	Amendment No. 3, dated as of November 25, 2002, to the Receivables Purchase and Transfer Agreement, dated as of November 1, 2000, each of the parties named on Schedule I thereto, MIM Funding LLC and HFG Healthco-4 LLC	(8) (Exhibit 10.55)
10.6	Amended and Restated 1996 Non-Employee Director s Stock Incentive Plan	(9)
10.7	Amended and Restated 2001 Incentive Stock Plan	(10)
10.8	Amended and Restated Rights Agreement, dated as of December 3, 2002 between MIM Corporation and American Stock Transfer and Trust Company	(11)
10.9	Extension Agreement, dated as of June 30, 2003, to the Receivables Purchase and Transfer Agreement dated as of November 1, 2000, among Scrip Solutions, Inc., each of the parties named on Schedule I to the Original RPTA and MIM Funding LLC and consented to by HFG Healthco-4 LLC	(12) (Exhibit 10.1)
10.10		

	Extension Agreement, dated as of June 30, 2003, to the Loan and Security Agreement dated as of November 1, 2000, between MIM Funding LLC and HFG Healthco-4 LLC	(12) (Exhibit 10.2)
10.11	Amendment, dated September 19, 2003, to Employment Letter Agreement entered into as of October 15, 2001, by and between Scrip Solutions, Inc. and Russel J. Corvese	(13) (Exhibit 10.46)
10.12	Letter Agreement, dated January 28, 2004, between the Company and Alfred Carfora	(14) (Exhibit 10.1)
10.13	Amendment, dated December 1, 2004, to Employment Letter Agreement for Russel J. Corvese	(15) (Exhibit 10.1)

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Exhibit Number	Description	Location
10.14	Letter Agreement, dated May 31, 2005, between BioScrip, Inc. and Alfred Carfora	(16) (Exhibit 10.1)
10.15	Second Amendment, dated as of March 1, 2006, to Loan and Security Agreement, dated as of November 1, 2000, between MIM Funding LLC and HFG Healthco-4 LLC	(17) (Exhibit 99.1)
10.16	Separation Agreement between the Company and Henry F. Blissenbach	(18) (Exhibit 99.1)
10.17	Employment offer letter, dated July 18, 2005, from the Company to Brian Reagan	(5)
10.18	Amendment to Change of Control Severance Agreement between the Company and Brian Reagan	(5)
10.19	Separation Agreement, dated May 25, 2006, between BioScrip, Inc. and Gregory H. Keane	(19) (Exhibit 10.1)
10.20	Severance Letter Agreement, dated June 21, 2006, between BioScrip, Inc. and Stanley G. Rosenbaum	(20) (Exhibit 10.1)
10.21	Sixth Amendment to the Receivables Purchase and Transfer Agreement	(21) (Exhibit 10.1)
10.22	First Amendment to Guarantee by the Company in favor of MIM Funding, LLC	(21) (Exhibit 10.2)
10.23	Form of Subscription Agreement among the Company, BioScrip Infusion Services, Inc., BioScrip Pharmacy, Inc., JPD, Inc. d/b/a Northland Pharmacy, Natural Living, Inc. d/b/a BioScrip Pharmacy, BioScrip PBM Services, Inc., BioScrip Infusion Services, LLC, and BioScrip Pharmacy Services, Inc.	(21) (Exhibit 10.3)
10.24	Third Amendment to the Loan and Security Agreement	(22) (Exhibit 10.1)
10.25	Severance Letter, dated July 24, 2006, between the Company and Anthony Zappa	(23) (Exhibit 10.1)
10.26	Severance Letter Agreement, dated August 17, 2006, between BioScrip, Inc. and Brian Reagan	(24) (Exhibit 10.1)
10.27	Severance Agreement, dated August 24, 2006, between BioScrip, Inc. and Barry A. Posner	(25) (Exhibit 10.1)

10.28	Extension and Seventh Amendment to the Receivables Purchase and Transfer Agreement	(26) (Exhibit 10.1)
10.29	Extension and Fourth Amendment to Loan and Security Agreement	(26) (Exhibit 10.2)
10.30	Letter Agreement, dated November 15, 2006 and executed November 17, 2006, between BioScrip, Inc. and Anthony Zappa	(27) (Exhibit 10.1)
10.31	Restated Employment Agreement, dated November 29, 2006, between BioScrip, Inc. and Richard H. Friedman	(28) (Exhibit 10.1)
10.32	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	(29) (Exhibit 10.1)

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Exhibit Number	Description	Location
10.33	Eighth Amendment to the Receivables Purchase and Transfer Agreement	(30) (Exhibit 10.1)
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	*

(1) Incorporated by reference to the indicated exhibit to the Company s Current Report on Form 8-K filed on August 9, 2004.

(2) Incorporated by reference to the indicated exhibit to the Company s Current Report on Form 8-K filed on January 5, 2005.

(3) Incorporated by reference to the indicated exhibit to the Company s Current Report on Form 8-K filed on March 17, 2005.

(4) Incorporated by reference to the indicated exhibit to the Company s Quarterly Report on Form 10-Q for the quarter ended March 31, 2003.

(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.

(6) Incorporated by reference to the indicated exhibit to the Company s Quarterly Report on Form 10-Q for the fiscal quarter ended September 30, 2000, SEC Accession No. 0001089355-00-000530.

(7) 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.

(8) Incorporated by reference to the indicated exhibit to the Company s Annual Report Form 10-K for the year ended December 31, 2002.

(9) Incorporated by reference from the Company s definitive proxy statement for its 2002 annual meeting of stockholders filed with the Commission April 30, 2002.

(10) Incorporated by reference from the Company s definitive proxy statement for its 2003 annual meeting of stockholders filed with the Commission April 30, 2003.

(11) Incorporated by reference to Exhibit 4.1 to Post-Effective Amendment No. 3 to the Company s Form 8-A/A dated December 4, 2002.

(12) Incorporated by reference to Exhibit 10.1 to the Company s Quarterly Report on Form

10-Q filed with the Commission on August 13, 2003.

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(13) Incorporated by reference to the indicated exhibit to the Company s Annual Report Form 10-K for the year ended December 31, 2003.

(14) Incorporated by reference to the indicated exhibit to the Company s Quarterly Report on Form 10-Q for the quarter ended March 31, 2004.

(15) Incorporated by reference to the indicated exhibit to the Company s Current Report on Form 8-K filed on December 1, 2004.

(16) Incorporated by reference to the indicated exhibit to the Company s Current Report on Form 8-K filed on June 6, 2005.

(17) Incorporated by reference to the indicated exhibit to the Company s Current Report

on Form 8-K filed on March 2, 2006.

(18) Incorporated by reference to the indicated exhibit to the Company s Current Report on Form 8-K filed on March 1, 2006.

(19) Incorporated by reference to the indicated exhibit to the Company s Current Report on Form 8-K filed on June 1, 2006.

(20) Incorporated by reference to the indicated exhibit to the Company s Current Report on Form 8-K filed on June 22, 2006.

(21) Incorporated by reference to the indicated exhibit to the Company s Current Report on Form 8-K filed on July 11, 2006.

(22) Incorporated by reference to the indicated exhibit to the Company s Current Report on Form 8-K

filed on July 19, 2006.

(23) Incorporated by reference to the indicated exhibit to the Company s Current Report on Form 8-K filed on August 10, 2006.

(24) Incorporated by reference to the indicated exhibit to the Company s Current Report on Form 8-K filed on August 21, 2006.

(25) Incorporated by reference to the indicated exhibit to the Company s Current Report on Form 8-K filed on August 25, 2006.

(26) Incorporated by reference to the indicated exhibit to the Company s Current Report on Form 8-K filed on October 27, 2006.

(27) Incorporated by reference to the indicated exhibit to the

Company s Current Report on Form 8-K filed on November 21, 2006.

(28) Incorporated by reference to the indicated exhibit to the Company s Current Report on Form 8-K filed on December 4, 2006.

(29) Incorporated by reference to the indicated exhibit to the Company s Current Report on Form 8-K filed on December 14, 2006.

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(30) Incorporated by reference to the indicated exhibit to the Company s Current Report on Form 8-K filed on March 12, 2007.

* 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 16, 2007.

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 16, 2007
/s/ Stanley G. Rosenbaum		
Stanley G. Rosenbaum	Chief Financial Officer (principal financial officer)	March 16, 2007
/s/ Charlotte W. Collins		
Charlotte W. Collins	Director	March 16, 2007
/s/ Louis T. DiFazio		
Louis T. DiFazio, Ph.D.	Director	March 16, 2007
/s/ Myron Z. Holubiak		
Myron Z. Holubiak	Director	March 16, 2007
/s/ David R. Hubers		
David R. Hubers	Director	March 16, 2007
/s/ Michael Kooper		
Michael Kooper	Director	March 16, 2007
/s/ Richard L. Robbins		
Richard L. Robbins	Director	March 16, 2007

/s/ Stuart A. Samuels

Stuart A. Samuels	Director	March 16, 2007

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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