

BioScrip, Inc.  
Form 10-Q  
November 06, 2018

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

Form 10-Q

(Mark  
One)

- QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934  
For the quarterly period ended September 30, 2018  
OR  
 TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934  
For the transition period from to

Commission file number: 001-11993

BioScrip, Inc.

(Exact name of registrant as specified in its charter)

Delaware

05-0489664

(State of incorporation)

(I.R.S. Employer Identification No.)

1600 Broadway, Suite 700, Denver, Colorado 80202

(Address of principal executive offices)

(Zip Code)

Registrant's telephone number, including area code:

720-697-5200

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  No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer  Accelerated filer  Non-accelerated filer  Smaller reporting company  Emerging growth company

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If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

On November 6, 2018, there were 128,041,101 shares of the registrant's Common Stock outstanding.

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PART I  
FINANCIAL INFORMATION  
Item 1. Financial Statements

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BIOSCRIP, INC. AND SUBSIDIARIES  
 CONDENSED CONSOLIDATED BALANCE SHEETS  
 (in thousands, except share amounts)

	(unaudited)	
	September 30, 2018	December 31, 2017
<b>ASSETS</b>		
Current assets		
Cash and cash equivalents	\$ 18,944	\$ 39,457
Restricted cash	4,320	4,950
Accounts receivable, net of allowance for doubtful accounts of \$0 and \$37,912 as of September 30, 2018 and December 31, 2017, respectively	113,628	85,522
Inventory	23,105	38,044
Prepaid expenses and other current assets	11,944	18,620
Total current assets	171,941	186,593
Property and equipment, net of accumulated depreciation of \$97,788 and \$88,298 as of September 30, 2018 and December 31, 2017, respectively	25,177	26,973
Goodwill	367,198	367,198
Intangible assets, net of accumulated amortization of \$47,120 and \$40,436 as of September 30, 2018 and December 31, 2017, respectively	12,030	19,114
Deferred taxes	990	1,098
Other non-current assets	1,836	2,116
Total assets	\$ 579,172	\$ 603,092
<b>LIABILITIES AND STOCKHOLDERS' DEFICIT</b>		
Current liabilities		
Current portion of long-term debt	\$ 2,076	\$ 1,722
Accounts payable	63,901	65,963
Amounts due to plan sponsors	1,546	4,621
Accrued interest	2,268	6,706
Accrued expenses and other current liabilities	26,204	26,118
Total current liabilities	95,995	105,130
Long-term debt, net of current portion	496,770	478,866
Other non-current liabilities	22,744	21,769
Total liabilities	615,509	605,765
Series A convertible preferred stock, \$.0001 par value; 825,000 shares authorized; 21,630 and 21,645 shares issued and outstanding as of September 30, 2018 and December 31, 2017, respectively; and \$3,172 and \$2,916 liquidation preference as of September 30, 2018 and December 31, 2017, respectively	3,126	2,827
Series C convertible preferred stock, \$.0001 par value; 625,000 shares authorized; 614,177 shares issued and outstanding as of September 30, 2018 and December 31, 2017; and \$92,038 and \$84,555 liquidation preference as of September 30, 2018 and December 31, 2017, respectively	87,225	79,252
Stockholders' deficit		
Preferred stock, \$.0001 par value; 5,000,000 shares authorized; no shares issued and outstanding as of September 30, 2018 and December 31, 2017, respectively	—	—
Common stock, \$.0001 par value; 250,000,000 shares authorized; 128,064,145 and 127,634,012 shares issued and outstanding as of September 30, 2018 and December 31, 2017, respectively	13	13
	(849	) (16
		)

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Treasury stock, 287,248 and 5,106 shares outstanding, at cost, as of September 30, 2018 and December 31, 2017, respectively

Additional paid-in capital	619,989	624,762
Accumulated deficit	(745,841 )	(709,511 )
Total stockholders' deficit	(126,688 )	(84,752 )
Total liabilities and stockholders' deficit	\$ 579,172	\$ 603,092

See accompanying Notes to Unaudited Condensed Consolidated Financial Statements.

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## BIOSCRIP, INC. AND SUBSIDIARIES

## UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(in thousands, except per share amounts)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Net revenue	\$180,962	\$198,692	\$525,335	\$634,608
Cost of revenue (excluding depreciation expense)	115,051	132,129	344,419	435,560
Gross profit	65,911	66,563	180,916	199,048
Other operating expenses	38,216	38,143	116,378	124,755
Bad debt expense	—	6,488	—	19,648
General and administrative expenses	12,478	9,405	34,084	28,325
Restructuring, acquisition, integration, and other expenses	885	4,037	4,789	11,407
Change in fair value of equity linked liabilities	1,605	1,103	1,228	1,103
Depreciation and amortization expense	5,767	7,058	18,617	21,288
Interest expense	14,971	13,360	42,171	38,649
Loss on extinguishment of debt	—	—	—	13,453
Loss (gain) on dispositions	(10 )	(33 )	(330 )	652 )
Loss from continuing operations, before income taxes	(8,001 )	(12,998 )	(36,021 )	(60,232 )
Income tax expense	102	60	191	1,397
Loss from continuing operations, net of income taxes	(8,103 )	(13,058 )	(36,212 )	(61,629 )
Income (loss) from discontinued operations, net of income taxes	(71 )	66	(118 )	(606 )
Net loss	\$(8,174 )	\$(12,992 )	\$(36,330 )	\$(62,235 )
Accrued dividends on preferred stock	(2,861 )	(2,569 )	(8,272 )	(7,435 )
Loss attributable to common stockholders	\$(11,035 )	\$(15,561 )	\$(44,602 )	\$(69,670 )
Loss per common share:				
Loss from continuing operations, basic and diluted	\$(0.09 )	\$(0.12 )	\$(0.35 )	\$(0.56 )
Loss from discontinued operations, basic and diluted	—	—	—	(0.01 )
Loss per common share, basic and diluted	\$(0.09 )	\$(0.12 )	\$(0.35 )	\$(0.57 )
Weighted average common shares outstanding, basic and diluted	127,528	127,488	127,893	122,519

See accompanying Notes to Unaudited Condensed Consolidated Financial Statements.

BIOSCRIP, INC. AND SUBSIDIARIES  
 UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS  
 (in thousands)

	Nine Months Ended September 30,	
	2018	2017
Cash flows from operating activities:		
Net loss	\$(36,330)	\$(62,235)
Less: Loss from discontinued operations, net of income taxes	(118 )	(606 )
Loss from continuing operations, net of income taxes	(36,212 )	(61,629 )
Adjustments to reconcile loss from continuing operations, net of income taxes to net cash used in operating activities:		
Depreciation and amortization	18,617	21,288
Amortization of deferred financing costs and debt discount	6,084	4,676
Change in fair value of equity linked liabilities	1,228	1,103
Change in deferred income taxes	108	1,868
Stock-based compensation	3,032	1,525
Paid-in-kind interest capitalized as principal on Second Lien Note Facility	3,800	—
Loss (gain) on dispositions	(330 )	652
Loss on extinguishment of debt	—	13,453
Changes in assets and liabilities:		
Accounts receivable	(28,106 )	22,257
Inventory	14,939	8,391
Prepaid expenses and other assets	6,956	3,033
Accounts payable	(2,062 )	(14,716 )
Amounts due to plan sponsors	(3,075 )	1,091
Accrued interest	(4,438 )	(3,508 )
Accrued expenses and other liabilities	(667 )	(2,800 )
Net cash used in operating activities from continuing operations	(20,126 )	(3,316 )
Net cash used in operating activities from discontinued operations	(117 )	(6,106 )
Net cash used in operating activities	(20,243 )	(9,422 )
Cash flows from investing activities:		
Purchases of property and equipment	(9,408 )	(6,570 )
Net cash used in investing activities	(9,408 )	(6,570 )
Cash flows from financing activities:		
Proceeds from priming credit agreement, net of issuance costs	—	23,060
Fees attributable to extinguishment of debt	—	(980 )
Net proceeds from issuance of equity, net of issuance costs	—	20,822
Borrowings on long-term debt, net of expenses	10,000	294,446
Borrowings on revolving credit facility	—	563
Repayments on revolving credit facility	—	(55,863 )
Principal payments of long-term debt	—	(236,770)
Repayments of capital leases	(1,623 )	(792 )
Net activity from exercises of employee stock awards	131	(100 )
Net cash provided by financing activities	8,508	44,386
Net change in cash, cash equivalents, and restricted cash	(21,143 )	28,394
Cash, cash equivalents and restricted cash - beginning of period	44,407	9,569
Cash, cash equivalents and restricted cash - end of period	\$23,264	\$37,963
DISCLOSURE OF CASH FLOW INFORMATION:		
Cash paid during the period for interest	\$36,735	\$38,454



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Cash paid during the period for income taxes	\$51	\$327
DISCLOSURE OF NON-CASH INVESTING AND FINANCING ACTIVITIES:		
Entry into capital lease	\$—	\$1,825
Paid-in-kind interest capitalized as principal on Second Lien Note Facility	\$3,800	\$—

See accompanying Notes to Unaudited Condensed Consolidated Financial Statements.

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BIOSCRIP, INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 — BASIS OF PRESENTATION

We are a national provider of infusion solutions with nearly 70 service locations around the U.S. We partner with physicians, hospital systems, skilled nursing facilities, and healthcare payors to provide patients with access to post-acute care services. We are committed to bringing customer-focused healthcare infusion therapy services into the home or alternate site setting. By collaborating with the full spectrum of healthcare professionals and the patient, we aim to provide cost-effective care that is driven by clinical excellence, customer service and values that promote positive outcomes and an enhanced quality of life for those whom we serve.

We operate in one segment, Infusion Services, and accordingly, we do not present disaggregated segment information. These Unaudited Consolidated Financial Statements should be read in conjunction with the Audited Consolidated Financial Statements, including the notes thereto, and other information included in the Annual Report on Form 10-K of BioScrip, Inc. and its wholly-owned subsidiaries (the “Company”) for the year ended December 31, 2017 (the “Annual Report”) filed with the U.S. Securities and Exchange Commission (“SEC”). These Unaudited Consolidated Financial Statements have been prepared in accordance with U.S. generally accepted accounting principles (“GAAP”) for interim financial information, and the instructions to Form 10-Q and Article 10 of Regulation S-X promulgated under the Securities Exchange Act of 1934, as amended (the “Exchange Act”). Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements.

The information furnished in these Unaudited Consolidated Financial Statements reflects all adjustments, including normal recurring adjustments, which are, in the opinion of management, necessary for a fair presentation of the results for the interim periods presented. Operating results for the interim periods presented require management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes and are not necessarily indicative of the results that may be expected for the full year.

The Unaudited Consolidated Financial Statements include the accounts of the Company and its wholly-owned subsidiaries. All significant intercompany accounts and transactions have been eliminated in consolidation.

Reclassifications

Prior period financial statement amounts have been reclassified to conform to current period presentation.

Immaterial Error Correction

During the fourth quarter of 2017, the Company determined that certain prior period balances contained errors, predominantly due to a failure to appropriately account for and resolve transactions specific to suspense and clearing accounts. Management evaluated the materiality of the errors quantitatively and qualitatively, and concluded that they were not material to the financial statements of any period presented, but has elected to correct them in the accompanying prior period consolidated financial statements.

The following tables set forth the effect these corrections had on the Company’s unaudited consolidated statements of operations for the three and nine months ended ended September 30, 2017:

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	Three Months Ended September 30, 2017			Nine Months Ended September 30, 2017		
	Previously Reported	Corrections	Revised	Previously Reported	Corrections	Revised
Net revenue	\$198,692	\$ —	\$198,692	\$634,608	\$ —	\$634,608
Gross profit	67,176	(613 )	66,563	201,070	(2,022 )	199,048
Total Operating Expenses	66,345	(144 )	66,201	221,128	(497 )	220,631
Interest expense	13,175	185	13,360	38,635	14	38,649
Loss from continuing operations, net of income taxes	(12,404 )	(654 )	(13,058 )	(60,090 )	(1,538 )	(61,628 )
Income (loss) from discontinued operations, net of income taxes	(113 )	179	66	(1,053 )	447	(606 )
Net loss	\$(12,517 )	\$(475 )	\$(12,992 )	\$(61,143 )	\$(1,091 )	\$(62,234 )

Certain amounts disclosed in the accompanying notes to the financial statements have been revised to reflect the corrections.

**NOTE 2 — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES****Cash and Cash Equivalents and Restricted Cash**

Highly liquid investments with a maturity of three months or less when purchased are classified as cash equivalents. Restricted cash consists of cash balances held by financial institutions as collateral for letters of credit. These balances are reclassified to cash and cash equivalents when the underlying obligation is satisfied, or in accordance with the governing agreement. Restricted cash balances expected to become unrestricted during the next twelve months are recorded as current assets. As of September 30, 2018, the Company had a restricted cash balance, in a money market account, of \$4.3 million to cash collateralize outstanding letters of credit.

**Collectability of Accounts Receivable**

The following table sets forth the aging of our net accounts receivable (net of allowance for contractual adjustments, and prior to allowance for doubtful accounts), aged based on date of service and categorized based on the three primary overall types of accounts receivable characteristics (in thousands):

	September 30, 2018			December 31, 2017		
	0 - 180 days	Over 180 days	Total	0 - 180 days	Over 180 days	Total
Government	\$12,555	\$3,028	\$15,583	\$20,602	\$10,082	\$30,684
Commercial	80,508	10,825	91,333	63,767	18,779	82,546
Patient	1,922	4,790	6,712	2,577	7,627	10,204
Gross accounts receivable	\$94,985	\$18,643	113,628	\$86,946	\$36,488	123,434
Allowance for doubtful accounts			—			(37,912 )
Net accounts receivable			\$113,628			\$85,522

**Recent Accounting Pronouncements**

In August 2018, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2018-15 — Internal Use Software. ASU 2018-15 aligns the requirements for capitalization of implementation costs related to hosted software with the existing internal-use software guidance. The effective date for ASU 2018-15 is for annual and interim periods beginning after December 15, 2019. Early adoption is permitted. The adoption of this standard is not expected to have a material impact on the Company’s consolidated financial statements.

In August 2018, the FASB issued ASU 2018-13— Fair Value Measurement (Topic 820): Disclosure Framework— Changes to the Disclosure Requirements for Fair Value Measurements. ASU 2018-13 modifies fair value measurement disclosure

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requirements. The effective date for ASU 2018-13 is for annual and interim periods beginning after December 15, 2019. Early adoption is permitted. The adoption of this standard is not expected to have a material impact on the Company's disclosures to the consolidated financial statements.

In May 2014, the FASB issued ASU 2014-09—Revenue from Contracts with Customers (Topic 606). The guidance requires an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The FASB delayed the effective date to annual reporting periods beginning after December 15, 2017, including interim reporting periods within that reporting period. The Company did not elect early adoption and applied the modified retrospective approach upon adoption which results in application of the new guidance only to contracts that are not completed at the adoption date and does not require adjustment of prior reporting periods. Assessment of the new guidance did not result in an opening retained earnings adjustment, but did result in the adjustment of accounts receivable as the allowance for doubtful accounts was eliminated upon implementation. Pursuant to the requirements of Topic 606, the transaction price to be recognized as revenue is estimated based upon the amount of cash ultimately expected to be collected. Therefore, amounts expected to be written off are reflected in the amount of revenue recognized upon fulfillment of the performance obligation. The new standard resulted in the recognition of amounts previously reported as bad debt expense as a reduction to revenue upon implementation; see Note 3 - Revenue.

In July 2017, the FASB issued ASU 2017-11—Earnings Per Share (Topic 260), Distinguishing Liabilities From Equity (Topic 480), and Derivatives and Hedging (Topic 815): I. Accounting for Certain Financial Instruments with Down Round Features and II. Replacement of the Indefinite Deferral for Mandatorily Redeemable Financial Instruments of Certain Nonpublic Entities and Certain Mandatorily Redeemable Noncontrolling Interests with a Scope Exception. ASU 2017-11 eliminates the requirement that a down round feature precludes equity classification when assessing whether an instrument is indexed to an entity's own stock. A freestanding equity-linked financial instrument no longer would be accounted for as a derivative liability at fair value as a result of the existence of a down round feature. The effective date for ASU 2017-11 is for annual or any interim periods beginning after December 15, 2018. Early adoption is permitted. The adoption of this standard is not expected to have a material impact on the Company's consolidated financial statements.

In May 2017, the FASB issued ASU 2017-09—Compensation—Stock Compensation (Topic 718): Scope of Modification Accounting. ASU 2017-09 modifies when a change to the terms or conditions of a share-based payment award must be accounted for as a modification. The new guidance requires modification accounting if the fair value, vesting condition or the classification of the award is not the same immediately before and after a change to the terms and conditions of the award. The effective date for ASU 2017-09 is for annual or any interim periods beginning after December 15, 2017. The Company adopted this ASU effective January 1, 2018. The adoption of this standard did not materially impact the Company's consolidated financial statements.

In November 2016, the FASB issued ASU 2016-18—Statement of Cash Flows (Topic 230): Restricted Cash. ASU 2016-18 requires that a statement of cash flows explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. Therefore, amounts generally described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. The effective date for ASU 2016-18 is for annual or any interim periods beginning after December 15, 2017. The Company adopted this ASU effective January 1, 2018. The adoption of this standard did not materially impact the Company's consolidated financial statements.

In August 2016, the FASB issued ASU 2016-15—Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments. ASU 2016-15 provides guidance for eight specific cash flow issues with respect to how cash receipts and cash payments are classified in the statements of cash flows, with the objective of reducing diversity in practice. The effective date for ASU 2016-15 is for annual periods beginning after December 15, 2017, and interim periods within those fiscal years. Early adoption is permitted. The Company adopted this ASU effective January 1, 2018. The adoption of this standard did not materially impact the Company's consolidated financial statements.

In February 2016, the FASB issued ASU 2016-02—Leases (Topic 842), requiring lessees to recognize a right-of-use asset and a lease liability on the balance sheet for all leases with the exception of short-term leases. For lessees, leases

will continue to be classified as either operating or finance leases in the income statement. The effective date of the new standard for public companies is for fiscal years beginning after December 15, 2018 and interim periods within those fiscal years. In January 2018, the FASB issued an additional amendment that provides a practical expedient giving companies the option to not evaluate existing or expired land easements that were not previously accounted for as leases under the current leases guidance. The amendment in the update is effective for fiscal years beginning after December 15, 2018 and interim periods within those fiscal years. In July 2018, the FASB issued an additional amendment, ASU 2018-11, which provides a new, optional transition method and provides lessors a practical expedient for separating lease and non-lease components. In July 2018, the FASB additionally issued ASU 2018-1—Codification Improvements to Topic 842, Leases, which clarifies and correct errors in ASC 842. The effective date for the amendments issued is the same as the effective date of ASC 842. Although early adoption is permitted, the Company plans to

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adopt the guidance on January 1, 2019. Topic 842 requires the recognition and measurement of leases at the beginning of the earliest comparative period presented in the financial statements, using a modified retrospective approach, with an option to apply the transition provisions of the new guidance at the adoption date without adjusting the comparative periods presented. The Company is evaluating the effect of adoption of the updated standard on its consolidated financial statements.

## NOTE 3 — REVENUE

## Adoption of ASC Topic 606, "Revenue from Contracts with Customers"

On January 1, 2018, the Company adopted Topic 606 using the modified retrospective method applied to those contracts which were not completed as of January 1, 2018. Results for reporting periods beginning after January 1, 2018 are presented under Topic 606, while prior period amounts are not restated and continue to be reported in accordance with accounting standards in effect for those periods.

## Infusion Revenues

The Company generates revenue principally through the provision of infusion services to provide clinical management services and the delivery of cost effective prescription medications. Prescription drugs are dispensed either through a pharmacy participating in the Company's pharmacy network or a pharmacy owned by the Company. Fee-for-service agreements include pharmacy agreements, under which we dispense prescription medications through the Company's pharmacy facilities.

The Company provides a variety of therapies to patients. For infusion-related therapies, the Company frequently provides multiple deliverables of drugs and related nursing services. After applying the criteria from Topic 606, the Company concluded that multiple performance obligations exist in its contracts with its customers. Revenue is allocated to each performance obligation based on relative standalone price, determined based on reimbursement rates established in the third party payor contracts. Drug revenue is recognized at the time the drug is shipped, and nursing revenue is recognized on the date of service.

## Revenue Recognition

Topic 606 requires an entity to recognize revenue to depict the transfer of goods or services to customers in an amount that reflects the consideration that it expects to be entitled to in exchange for those goods or services. Topic 606 requires application of a five-step model to determine when to recognize revenue and at what amount. The revenue standard applies to all contracts with customers and revenues are to be recognized when control of the promised goods or services is transferred to the Company's patients in an amount that reflects consideration expected to be received in exchange for those goods or services.

The following table presents our revenues at amounts initially recognized for each associated payor class for the three and nine months ended September 30, 2018 (in millions). Sales and usage-based taxes are excluded from revenues.

	Three Months Ended September 30, 2018	Nine Months Ended September 30, 2018
Commercial	\$ 139,077	\$ 431,869
Government	39,498	88,437
Patient	2,387	5,029
Total Revenue	\$ 180,962	\$ 525,335

Absent implementation of Topic 606, the Company would have reported revenue of \$186.7 million and \$541.9 million, gross profit of \$71.6 million and \$197.5 million, and bad debt expense of \$5.7 million and \$16.5 million for the three and nine months ended September 30, 2018, respectively; and allowance for doubtful accounts of \$42.9 million at September 30, 2018.

#### Contract Assets and Liabilities

In accordance with Topic 606, contract assets are to be recognized when an entity has the right to receive consideration in exchange for goods or services that have been transferred to a customer when that right is conditional on something other than the passage of time. The Company does not recognize contract assets as the right to receive consideration is unconditional in accordance with the passage of time criteria. Also in accordance with Topic 606, contract liabilities are to be recognized when an



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entity is obligated to transfer goods or services for which consideration has already been received. The Company does not receive consideration prior to the transfer of goods or services and, therefore, does not recognize contract liabilities.

## Significant Judgments

The Company determines implicit price concessions based on historical collection experience using a portfolio approach. The Company determines the transaction price based on gross charges for services provided, reduced by contractual adjustments based on contractual agreements and historical experience. Pursuant to the requirements of Topic 606, the transaction price to be recognized as revenue is estimated based upon the amount of cash ultimately expected to be collected. Therefore, amounts expected to be written off are reflected in the amount of revenue recognized upon fulfillment of the performance obligation as an implicit price concession.

The Company elected a practical expedient to expense sales commissions when incurred as the amortization period associated therewith is generally one year or less and the total paid is representative of less than 1.0% of total revenue. These costs are recorded in other operating expenses.

## NOTE 4 — LOSS PER SHARE

The Company presents basic and diluted loss per share for its common stock, par value \$0.0001 per share (“Common Stock”). Basic loss per share is calculated by dividing the net loss attributable to common stockholders of the Company by the weighted average number of shares of Common Stock outstanding during the period. Diluted loss per share is determined by adjusting the profit or loss attributable to stockholders and the weighted average number of shares of Common Stock outstanding adjusted for the effects of all dilutive potential common shares comprised of options granted, unvested restricted stock, stock appreciation rights, warrants and Series A and Series C Preferred Stock (as defined below). Potential Common Stock equivalents that have been issued by the Company related to outstanding stock options, unvested restricted stock and warrants are determined using the treasury stock method, while potential common shares related to Series A and Series C Preferred Stock are determined using the “if converted” method. The Company's Series A Convertible Preferred Stock, par value \$0.0001 per share (the “Series A Preferred Stock”), and Series C Convertible Preferred Stock, par value \$0.0001 per share (the “Series C Preferred Stock” and, together with the Series A Preferred Stock, the “Preferred Stock”), is considered a participating security, which means the security may participate in undistributed earnings with Common Stock. The holders of the Preferred Stock would be entitled to share in dividends, on an as-converted basis, if the holders of Common Stock were to receive dividends. The Company is required to use the two-class method when computing loss per share when it has a security that qualifies as a participating security. The two-class method is an earnings allocation formula that determines loss per share for each class of common stock and participating security according to dividends declared (or accumulated) and participation rights in undistributed earnings. In determining the amount of net earnings to allocate to common stockholders, earnings are allocated to both common and participating securities based on their respective weighted-average shares outstanding during the period. Diluted loss per share for the Company's Common Stock is computed using the more dilutive of the two-class method or the if-converted method.

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The following table sets forth the computation of basic and diluted loss per common share (in thousands, except for per share amounts):

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2018	2017	2018	2017
Numerator:				
Loss from continuing operations, net of income taxes	\$(8,103 )	\$(13,058)	\$(36,212)	\$(61,629)
Income (Loss) from discontinued operations, net of income taxes	(71 )	66	(118 )	(606 )
Net loss	\$(8,174 )	\$(12,992)	\$(36,330)	\$(62,235)
Dividends on preferred stock	(2,861 )	(2,569 )	(8,272 )	(7,435 )
Loss attributable to common stockholders	\$(11,035)	\$(15,561)	\$(44,602)	\$(69,670)
Denominator - Basic and Diluted:				
Weighted average common shares outstanding	127,528	127,488	127,893	122,519
Loss per Common Share:				
Loss from continuing operations, basic and diluted	\$(0.09 )	\$(0.12 )	\$(0.35 )	\$(0.56 )
Loss from discontinued operations, basic and diluted	—	—	—	(0.01 )
Loss per common share, basic and diluted	\$(0.09 )	\$(0.12 )	\$(0.35 )	\$(0.57 )

The loss attributable to common stockholders is used as the basis of determining whether the inclusion of common stock equivalents would be anti-dilutive. Accordingly, the computation of diluted shares for the three and nine months ended September 30, 2018 and 2017 excludes the effect of shares that would be issued in connection with the PIPE Transaction, the Rights Offering, 2017 Warrants (see Note 5 - Stockholders' Deficit), stock options, and restricted stock awards, as their inclusion would be anti-dilutive to loss attributable to common stockholders.

**NOTE 5 — STOCKHOLDERS' DEFICIT****Carrying Value of Series A Preferred Stock**

As of September 30, 2018, the carrying value of Series A Preferred Stock included accrued dividends at 11.5% and discount accretion from the date of issuance. Dividends and discount accretion totaled \$0.2 million and \$0.1 million, respectively, for the nine months ended September 30, 2018 and were recorded as a reduction to additional paid-in capital. The following table sets forth the activity recorded during the nine months ended September 30, 2018 related to the Series A Preferred Stock (in thousands):

Series A Preferred Stock carrying value at December 31, 2017	\$2,827
Dividends and discount accretion through September 30, 2018 <sup>1</sup>	299
Series A Preferred Stock carrying value September 30, 2018	\$3,126

<sup>1</sup> Dividends recorded reflect the increase in the Liquidation Preference associated with unpaid dividends.

**Carrying Value of Series C Preferred Stock**

As of September 30, 2018, the carrying value of Series C Preferred Stock included accrued dividends at 11.5% and discount accretion from the date of issuance. Dividends and discount accretion totaled \$7.5 million and \$0.5 million, respectively, for the nine months ended September 30, 2018 and were recorded as a reduction to additional paid-in capital. The following table sets forth the activity recorded during the nine months ended September 30, 2018 related to the Series C Preferred Stock (in thousands):

Series C Preferred Stock carrying value at December 31, 2017	\$79,252
Dividends and discount accretion through September 30, 2018 <sup>1</sup>	7,973
Series C Preferred Stock carrying value September 30, 2018	\$87,225

<sup>1</sup> Dividends recorded reflect the increase in the Liquidation Preference associated with unpaid dividends.

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As of September 30, 2018, the Liquidation Preference of the Series A Preferred Stock and Series C Preferred Stock was \$3.2 million and \$92.0 million, respectively.

**2017 Warrants**

In connection with the Second Lien Note Facility (as defined below), the Company also issued warrants (the “2017 Warrants”) to the purchasers of the Second Lien Notes (as defined below) pursuant to a Warrant Purchase Agreement dated as of June 29, 2017 (the “Warrant Purchase Agreement”). The 2017 Warrants entitle the purchasers of the Warrants to purchase shares of Common Stock, representing at the time of any exercise of the 2017 Warrants an equivalent number of shares equal to 4.99% of the Common Stock of the Company on a fully diluted basis, subject to the terms of the Warrant Agreement governing the Warrants, dated as of June 29, 2017 (the “Warrant Agreement”); provided, however, the Warrants may not be converted to the extent that, after giving effect to such conversion, the holders of the 2017 Warrants would beneficially own, in the aggregate, in excess of (i) 19.99% of the shares of Common Stock outstanding as of June 29, 2017 (the “Closing Date”) minus (ii) the shares of Common Stock that were sold pursuant to the Second Quarter 2017 Private Placement (as defined below) (the “Conversion Cap”). The Conversion Cap will not apply to the 2017 Warrants if the Company obtains the approval of its stockholders for the removal of the Conversion Cap, which the Company is required to take certain steps to attempt to obtain, subject to the terms of the Warrant Agreement.

The 2017 Warrants have a 10-year term and an initial exercise price of \$2.00 per share, and may be exercised by payment of the exercise price in cash or surrender of shares of Common Stock into which the Warrants are being converted in an aggregate amount sufficient to pay the exercise price. The exercise price and the number of shares that may be acquired upon exercise of the 2017 Warrants is subject to adjustment in certain situations, including price based anti-dilution protection whereby, subject to certain exceptions, if the Company later issues Common Stock or certain Common Stock Equivalents (as defined in the Warrant Agreement) at a price less than either the then-current market price per share or exercise price of the 2017 Warrants, then the exercise price will be decreased and the percentage of shares of Common Stock issuable upon exercise of the Warrants will remain the same, giving effect to such issuance. Additionally, the 2017 Warrants have standard anti-dilution protections if the Company effects a stock split, subdivision, reclassification or combination of its Common Stock or fixes a record date for the making of a dividend or distribution to stockholders of cash or certain assets. Upon the occurrence of certain business combinations the 2017 Warrants will be converted into the right to acquire shares of stock or other securities or property (including cash) of the successor entity. The 2017 Warrants are reflected as a liability in other non-current liabilities on the balance sheet and are adjusted to fair value at the end of each reporting period through an adjustment to earnings. The fair value of the 2017 Warrants was \$21.7 million as of September 30, 2018 and was included in other non-current liabilities on the accompanying Unaudited Consolidated Balance Sheets. Fair value increases of \$1.6 million and \$1.2 million for the three months and nine months ended September 30, 2018, respectively, are presented as changes in fair value of equity linked liabilities on the accompanying Unaudited Consolidated Statements of Operations.

**NOTE 6 — RESTRUCTURING, ACQUISITION, INTEGRATION, AND OTHER EXPENSES**

Restructuring, acquisition, integration and other expenses include non-operating costs associated with restructuring, acquisition, and integration initiatives such as employee severance costs, certain legal and professional fees, training costs, redundant wage costs, impacts recorded from the change in contingent consideration obligations, and other costs related to contract terminations and closed branches/offices.

Restructuring, acquisition, integration, and other expenses in the Unaudited Consolidated Statements of Operations for the three and nine months ended ended September 30, 2018 and 2017 consisted of the following (in thousands):

	Three Months		Nine Months	
	Ended		Ended	
	September 30,	September 30,	September 30,	September 30,
	2018	2017	2018	2017
Restructuring expense	\$ 833	\$ 3,791	\$ 4,666	\$ 10,881
Acquisition and integration expense	52	246	123	526
Total restructuring, acquisition, integration, and other expenses	\$ 885	\$ 4,037	\$ 4,789	\$ 11,407



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## NOTE 7 — DEBT

As of September 30, 2018 and December 31, 2017, the Company's debt consisted of the following (in thousands):

	September 30, December 31,	
	2018	2017
First Lien Note Facility, net of unamortized discount	198,801	198,324
Second Lien Note Facility, net of unamortized discount	103,571	85,694
2021 Notes, net of unamortized discount	197,927	197,363
Capital leases	1,239	2,863
Less: Deferred financing costs	(2,692)	(3,656)
Total Debt	498,846	480,588
Less: Current portion of long-term debt	(2,076)	(1,722)
Long-term debt, net of current portion	\$ 496,770	\$ 478,866

## Debt Facilities

On June 29, 2017 (the "Closing Date"), the Company entered into (i) a first lien note purchase agreement (the "First Lien Note Facility"), among the Company, which is the issuer under the agreement, the financial institutions and note purchasers from time to time party to the agreement (the "First Lien Note Purchasers"), and Wells Fargo Bank, National Association, in its capacity as collateral agent for itself and the First Lien Note Purchasers (the "First Lien Collateral Agent"), pursuant to which the Company issued first lien senior secured notes in an aggregate principal amount of \$200.0 million (the "First Lien Notes"); and (ii) a second lien note purchase agreement (the "Second Lien Note Facility" and, together with the First Lien Note Facility, the "Notes Facilities") among the Company, which is the issuer under the agreement, the financial institutions and note purchasers from time to time party to the agreement (the "Second Lien Note Purchasers"), and Wells Fargo Bank, National Association, in its capacity as collateral agent for itself and the Second Lien Note Purchasers (the "Second Lien Collateral Agent" and, together with the First Lien Collateral Agent, the "Collateral Agent"), pursuant to which the Company (a) issued second lien senior secured notes in an aggregate initial principal amount of \$100.0 million (the "Initial Second Lien Notes") and (b) had the ability to draw upon the Second Lien Note Facility and issue second lien delayed draw senior secured notes, which was exercised on June 21, 2018, in an aggregate initial principal amount of \$10.0 million, representing the maximum borrowings allowed on this facility (the "Second Lien Delayed Draw Notes" and, together with the Initial Second Lien Notes, the "Second Lien Notes"; the Second Lien Notes, together with the First Lien Notes, the "Notes"). Funds managed by Ares are acting as lead purchasers for the Notes Facilities.

The Company used the proceeds of the sale of the First Lien Notes and the Initial Second Lien Notes to repay in full all amounts outstanding under the Prior Credit Agreements and extinguished the liability. Each of the Prior Credit Agreements was terminated following such repayment. The Company used the remaining proceeds of \$15.9 million, net of \$0.2 million in issuance costs, from the Notes Facilities and the Second Quarter 2017 Private Placement for working capital and general corporate purposes.

The First Lien Notes accrue interest, payable monthly in arrears, at a floating rate or rates equal to, at the option of the Company, (i) the base rate (defined as the highest of the Federal Funds Rate plus 0.5% per annum, the Prime Rate as published by The Wall Street Journal and the one-month London Interbank Offered Rate ("LIBOR") (subject to a 1.0% floor) plus 1.0%), or (ii) the one-month LIBOR rate (subject to a 1.0% floor), plus a margin of 6.0% if the base rate is selected or 7.0% if the LIBOR Option is selected. The First Lien Notes mature on August 15, 2020, provided that if the Company's existing 8.875% Senior Notes due 2021 (the "2021 Notes") are refinanced prior to August 15, 2020, then the scheduled maturity date of the First Lien Notes shall be June 30, 2022.

The First Lien Notes will amortize in equal quarterly installments equal to 0.625% of the aggregate principal amount of the First Lien Note Facility, commencing on September 30, 2019, and on the last day of each third month thereafter, with the balance payable at maturity. The First Lien Notes are pre-payable at the Company's option at specified premiums to the principal amount that will decline over the term of the First Lien Note Facility. If the First Lien Notes are prepaid prior to the second anniversary of the Closing Date, the Company will be required to pay a make-whole premium based on the present value (using a discount rate based on the specified treasury rate plus 50 basis points) of all remaining interest payments on the First Lien Notes being prepaid prior to the second anniversary

of the Closing Date, plus 4.0% of the principal amount of First Lien Notes being prepaid. On or after the second anniversary of the Closing Date, the prepayment premium is 4.0%, which declines to 2.0% on or after the third anniversary of the Closing Date, and declines to 0.0% on or after the fourth anniversary of the Closing Date. At any time, the Company may pre-pay up to \$50.0 million in aggregate principal amount of the First Lien Notes from internally generated cash without incurring any make-whole or prepayment premium. The occurrence of certain events of default may increase the applicable rate of interest by 2.0% and could result in the acceleration of the Company's obligations under the First Lien Note

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Facility prior to stated maturity and an obligation of the Company to pay the full amount of its obligations under the First Lien Note Facility.

The First Lien Note Facility contains customary events of default that include, among others, non-payment of principal, interest or fees, violation of covenants, inaccuracy of representations and warranties, bankruptcy and insolvency events, material judgments, cross-defaults to material indebtedness and events constituting a change of control. In addition, the obligations under the First Lien Note Facility will be guaranteed by joint and several guarantees from the Company's subsidiaries.

In connection with the First Lien Note Facility, the Company, its subsidiaries and the First Lien Collateral Agent entered into a First Lien Guaranty and Security Agreement, dated as of June 29, 2017 (the "First Lien Guaranty and Security Agreement"). Pursuant to the First Lien Guaranty and Security Agreement, the obligations under the First Lien Notes will be secured by first priority liens on, and security interests in, substantially all of the assets of the Company and its subsidiaries.

The Second Lien Notes accrue interest, payable monthly in arrears, at a floating rate or rates equal to, at the option of the Company, (i) one-month LIBOR (subject to a 1.25% floor) plus 9.25% per annum in cash, (ii) one-month LIBOR (subject to a 1.25% floor) plus 11.25% per annum, which amount will be capitalized on each interest payment date, or (iii) one-month LIBOR (subject to a 1.25% floor) plus 10.25% per annum, of which one-half LIBOR plus 4.625% per annum will be payable in cash and one-half LIBOR plus 5.625% per annum will be capitalized on each interest payment date, provided that, in each case, if any permitted refinancing indebtedness with which the 2021 Notes are refinanced requires or permits the payment of cash interest, all of the interest on the Second Lien Notes shall be paid in cash. During the third quarter, \$3.8 million of interest was capitalized to the Second Lien Notes, increasing the principal amount to \$113.8 million as of September 30, 2018. The Second Lien Notes mature on August 15, 2020, provided that if the 2021 Notes are refinanced prior to August 15, 2020, then the scheduled maturity date of the Second Lien Notes shall be June 30, 2022.

In connection with the Second Lien Note Facility, the Company also issued warrants (the "2017 Warrants") to the purchasers of the Second Lien Notes pursuant to a Warrant Purchase Agreement dated as of June 29, 2017 (the "Warrant Purchase Agreement"). The 2017 Warrants entitle the purchasers of the Warrants to purchase shares of Common Stock, representing at the time of any exercise of the 2017 Warrants an equivalent number of shares equal to 4.99% of the Common Stock of the Company on a fully diluted basis, subject to the terms of the Warrant Agreement governing the Warrants, dated as of June 29, 2017 (the "Warrant Agreement"). The 2017 Warrants, considered a derivative and subject to remeasurement at each reporting period, are reflected in other non-current liabilities at a fair value of \$21.7 million.

The Second Lien Notes are not subject to scheduled amortization installments. The Second Lien Notes are pre-payable at the Company's option at specified premiums to the principal amount that will decline over the term of the Second Lien Note Facility. If the Second Lien Notes are prepaid prior to the third anniversary of the Closing Date, the Company will need to pay a make-whole premium based on the present value (using a discount rate based on the specified treasury rate plus 50 basis points) of all remaining interest payments on the Second Lien Notes being prepaid prior to the third anniversary of the Closing Date, plus 4.0% of the principal amount of Second Lien Notes being prepaid. On or after the third anniversary of the Closing Date, the prepayment premium is 4.0%, which declines to 2.0% on or after the fourth anniversary of the Closing Date, and declines to 0.0% on or after the fifth anniversary of the Closing Date. The occurrence of certain events of default may increase the applicable rate of interest by 2.0% and could result in the acceleration of the Company's obligations under the Second Lien Note Facility prior to stated maturity and an obligation of the Company to pay the full amount of its obligations under the Second Lien Note Facility.

The Second Lien Note Facility contains customary events of default that include, among others, non-payment of principal, interest or fees, violation of covenants, inaccuracy of representations and warranties, bankruptcy and insolvency events, material judgments, cross-defaults to material indebtedness and events constituting a change of control. In addition, the obligations under the Second Lien Note Facility will be guaranteed by joint and several guarantees from the Company's subsidiaries.

In connection with the Second Lien Note Facility, the Company, its subsidiaries and the Second Lien Collateral Agent entered into a Second Lien Guaranty and Security Agreement, dated as of June 29, 2017 (the “Second Lien Guaranty and Security Agreement”). Pursuant to the Second Lien Guaranty and Security Agreement, the obligations under the Second Lien Notes will be secured by second priority liens on, and security interests in, substantially all of the assets of the Company and its subsidiaries.

In connection with the First Lien Note Facility and the Second Lien Note Facility, the Company, the First Lien Collateral Agent and the Second Lien Collateral Agent, entered into an intercreditor agreement containing customary provisions to, among other things, subordinate the lien priority of the liens granted under the Second Lien Note Facility to the liens granted under the First Lien Note Facility.



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## 2021 Notes

On February 11, 2014, the Company issued \$200.0 million aggregate principal amount of the 2021 Notes. The 2021 Notes are senior unsecured obligations of the Company and are fully and unconditionally guaranteed by all existing and future subsidiaries of the Company.

Interest on the 2021 Notes accrues at a fixed rate of 8.875% per annum and is payable in cash semi-annually on February 15 and August 15 of each year. The debt discount of \$5.0 million at issuance is being amortized as interest expense through maturity which will result in the accretion over time of the outstanding debt balance to the principal amount. The 2021 Notes are the Company's senior unsecured obligations and rank equally in right of payment with all of its other existing and future senior unsecured indebtedness and senior in right of payment to all of its existing and future subordinated indebtedness.

The 2021 Notes are guaranteed on a full, joint and several basis by each of the Company's existing and future domestic restricted subsidiaries that is a borrower under any of the Company's credit facilities or that guarantees any of the Company's debt or that of any of its restricted subsidiaries, in each case incurred under the Company's credit facilities. As of September 30, 2018, the Company does not have any independent assets or operations, and as a result, its direct and indirect subsidiaries (other than minor subsidiaries), each being 100% owned by the Company, are fully and unconditionally, jointly and severally, providing guarantees on a senior unsecured basis to the 2021 Notes.

## Fair Value of Financial Instruments

The following details our financial instruments where the carrying value and the fair value differ (in thousands):

Financial Instrument	Carrying Value as of September 30, 2018	Markets for Identical Item (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
First Lien Note Facility	\$ 198,801	\$ —	—\$ —	\$ 202,512
Second Lien Note Facility	103,571	—	—	117,219
2017 Warrants	21,724	—	21,724	—
2021 Notes	197,927	—	189,500	—
Total	\$ 522,023	\$ —	—\$ 211,224	\$ 319,731

The fair value hierarchy for disclosure of fair value measurements is as follows:

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2: Quoted prices, other than quoted prices included in Level 1, which are observable for the assets or liabilities, either directly or indirectly.

Level 3: Inputs that are unobservable for the assets or liabilities.

Financial assets with carrying values approximating fair value include cash and cash equivalents and accounts receivable. Financial liabilities with carrying values approximating fair value include accounts payable and capital leases. The carrying value of these financial assets and liabilities approximates fair value due to their short maturities.

**NOTE 8 — COMMITMENTS AND CONTINGENCIES**

## Legal Proceedings

The Company is a party to various legal, regulatory and governmental proceedings incidental to its business. Based on current knowledge, management does not believe that loss contingencies arising from pending legal, regulatory and governmental matters, including the matters described herein, will have a material adverse effect on the consolidated financial position or liquidity of the Company. However, in light of the inherent uncertainties involved in pending legal, regulatory and governmental matters, some of which are beyond the Company's control, and the indeterminate damages sought in some of these matters, an adverse outcome in one or more of these matters could be material to the Company's results of operations or cash flows for any particular reporting period.

With respect to all legal, regulatory and governmental proceedings, the Company considers the likelihood of a negative outcome. If the Company determines the likelihood of a negative outcome with respect to any such matter is probable and the amount of the loss can be reasonably estimated, the Company records an accrual for the estimated

loss for the expected outcome of the matter. If the likelihood of a negative outcome with respect to material matters is reasonably possible and the Company is

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able to determine an estimate of the possible loss or a range of loss, whether in excess of a related accrued liability or where there is no accrued liability, the Company discloses the estimate of the possible loss or range of loss. However, the Company is unable to estimate a possible loss or range of loss in some instances based on the significant uncertainties involved in, and/or the preliminary nature of, certain legal, regulatory and governmental matters.

On December 18, 2017, a commercial payor of the Company sent a letter that claimed an alleged breach of the Company's obligation under its provider contracts. No legal proceeding has been filed. The Company is not able to estimate the amount of any possible loss. The Company believes this claim is without merit and intends to vigorously defend against this claim if any such legal proceeding is commenced.

## Government Regulation

Various federal and state laws and regulations affecting the healthcare industry impact or may in the future impact the Company's current and planned operations, including, without limitation, federal and state laws and regulations prohibiting kickbacks in connection with healthcare services, prohibiting certain conduct deemed to be anti-competitive (antitrust laws) and restricting drug distribution. Other laws and regulations that may affect our business include, but are not limited to, consumer protection, insurance, licensure, and privacy. There can be no assurance 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 effect on the Company's financial statements.

From time to time, the Company responds to investigatory subpoenas and requests for information from governmental agencies and private parties. The Company cannot predict with certainty what the outcome of any of the foregoing might be. While the Company believes it is in substantial compliance with all existing laws and regulations material to the operation of its business, such laws and regulations are often uncertain in their application to our business practices as they evolve and are subject to rapid change. As controversies continue to arise in the healthcare industry, federal and state regulation and enforcement priorities in this area can be expected to increase, the impact of which cannot be predicted. There can be no assurance that the Company will not be subject to scrutiny or challenge under one or more regulations or that any such challenge would not be successful. Any such challenge, whether or not successful, could have a material effect upon the Company's Consolidated Financial Statements. A violation of the federal Anti-Kickback Statute, for example, may result in substantial criminal and civil penalties, as well as suspension or exclusion from the Medicare and Medicaid programs. Moreover, the costs and expenses associated with defending these actions, even where successful, can be significant.

## NOTE 9 — CONCENTRATION OF RISK

### Customer and Credit Concentration Risk

The Company provides trade credit to its customers in the normal course of business. No single payor accounted for more than 10.0% of revenue during the three and nine months ended September 30, 2018. One commercial payor, United Healthcare, accounted for approximately 18.1% and 21.0% of revenue during the three and nine months ended September 30, 2017, respectively.

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## NOTE 10 — INCOME TAXES

The Company's federal and state income tax provision from continuing operations for the three months and nine months ended September 30, 2018 and 2017 is summarized in the following table (in thousands):

	Three Months Ended September 30, 2018		Nine Months Ended September 30, 2017	
Current				
Federal	\$—	\$(925 )	\$—	\$(925 )
State	50	378	84	528
Total current	50	(547 )	84	(397 )
Deferred				
Federal	—	515	—	1,523
State	52	92	107	271
Total deferred	52	607	107	1,794
Total income tax expense	\$ 102	\$ 60	\$ 191	\$ 1,397

The Company's reconciliation of the statutory rate from continuing operations to the effective income tax rate for the three months and nine months ended September 30, 2018 and 2017 is summarized as follows (in thousands):

	Three Months Ended September 30, 2018		Nine Months Ended September 30, 2017	
Tax benefit at statutory rate	\$(1,680)	\$(4,307)	\$(7,564)	\$(20,543)
State tax expense, net of federal taxes	102	378	191	528
Alternative Minimum Tax receivable	—	(925 )	—	(925 )
Valuation allowance changes affecting income tax provision	1,261	4,876	7,163	22,194
Permanent items	419	38	401	143
Income tax expense	\$ 102	\$ 60	\$ 191	\$ 1,397

On December 22, 2017, the President of the United States signed into law the Tax Cuts and Jobs Act of 2017 or U.S. Federal Tax Reform (the "Reform"). The enactment included broad tax changes that are applicable to BioScrip, Inc. Most notably, the Reform decreased the U.S. corporate income tax rate from a high of 35% to a flat 21% rate effective January 1, 2018. As a result, the Company has revalued its ending net deferred tax assets as of December 31, 2017. At September 30, 2018, the Company had Federal net operating loss ("NOL") carry forwards of approximately \$427.0 million, of which \$10.8 million is subject to an annual limitation, which will begin expiring in 2026 and later. The Company also has a carryforward of approximately \$37.1 million related to the interest expense limitation, which is not subject to an expiration period. The Company has post-apportioned state NOL carry forwards of approximately \$467.1 million, the majority of which will begin expiring in 2018 and later.

## NOTE 11 — STOCK-BASED COMPENSATION

## BioScrip Equity Incentive Plans

Under the Company's 2018 Equity Incentive Plan (the "2018 Plan"), approved at the annual meeting by the stockholders on May 3, 2018, the Company may issue, among other things, incentive stock options, non-qualified stock options, stock appreciation rights ("SARs"), restricted stock units, stock grants, and performance units to key employees and directors. The 2018 Plan is administered by the Company's Management Development and Compensation Committee (the "Compensation Committee"), a standing committee of the Board of Directors.

A total of 16,406,939 shares of stock are authorized for issuance under the 2018 Plan, to include shares that remained available for grant under the 2008 Plan as of the effective date of the 2018 Plan. The authorized shares were reduced by all shares granted under the 2008 Plan after December 31, 2017 in accordance with the terms of the 2018 Plan. No key employee in any calendar year will be granted more than 3,000,000 shares of Stock with respect to (i) Options to

purchase shares of Stock, (ii) Stock

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Appreciation Rights (based on the appreciation with respect to shares of Stock); and (iii) Stock Grants and Restricted Stock Units that are intended to comply with the requirements of Section 162(m) of the Code.

As of September 30, 2018, 13,339,067 shares remain available for grant under the 2018 Plan.

**Stock Options**

The Company recognized compensation expense related to stock options of \$0.3 million and \$0.1 million during the three months ended September 30, 2018 and 2017, respectively, and \$0.9 million and \$0.8 million during the nine months ended September 30, 2018 and 2017, respectively.

**Restricted Stock**

The Company recognized \$0.8 million and \$0.4 million of compensation expense related to restricted stock awards during the three months ended September 30, 2018 and 2017, respectively, and \$1.8 million and \$0.6 million of compensation expense during the nine months ended September 30, 2018 and 2017, respectively.

**Stock Appreciation Rights and Market Based Cash Awards**

The Company recognized nominal amounts of compensation expense related to stock appreciation rights awards during the three months ended September 30, 2018 and 2017 and the nine months ended September 30, 2018 and 2017.

The Company recognized \$0.1 million and a nominal amount of compensation expense related to market based cash awards during the three months ended September 30, 2018 and 2017, respectively, and \$0.2 million and \$0.1 million of compensation expense during nine months ended September 30, 2018 and 2017, respectively.

**Employee Stock Purchase Plan**

On May 3, 2018, the Company's stockholders approved an amendment to the BioScrip, Inc. Employee Stock Purchase Plan (the "ESPP"). The ESPP provides all eligible employees, as defined under the ESPP, the opportunity to purchase up to a maximum number of shares of Common Stock of the Company as determined by the Compensation Committee. Participants in the ESPP may acquire the Common Stock at a cost of 85% of the lower of the fair market value on the first or last day of the quarterly offering period.

As of September 30, 2018, 1,422,842 shares remained available for grant under the ESPP. Since inception, the ESPP's third-party service provider has purchased 827,158 shares on the open market and delivered these shares to the Company's employees pursuant to the ESPP. During the three months ended September 30, 2018 and 2017, the Company incurred less than \$0.1 million of expense. During the nine months ended September 30, 2018 and 2017, the company incurred \$0.1 million of expense related to the ESPP.

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

The following discussion should be read in conjunction with the Audited Consolidated Financial Statements, including the notes thereto, and Management’s Discussion and Analysis of Financial Condition and Results of Operations included in our Annual Report on Form 10-K for the year ended December 31, 2017 (the “Annual Report”) filed with the U.S. Securities and Exchange Commission (“SEC”), as well as our Unaudited Consolidated Financial Statements and the related notes thereto included elsewhere in this report.

This Quarterly Report on Form 10-Q (this “Quarterly Report”) contains statements not purely historical and which may be considered forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended (the “Securities Act”), and Section 21E of the Securities Exchange Act of 1934, as amended (the “Exchange Act”), including statements regarding our expectations, beliefs, future plans and strategies, anticipated events or trends concerning matters that are not historical facts or that necessarily depend upon future events. In some cases, you can identify forward-looking statements by terms such as “may,” “will,” “should,” “could,” “would,” “expect,” “plan,” “anticipate,” “believe,” “estimate,” “project,” “predict,” “potential,” and similar expressions. Specifically, this Quarterly Report contains, among others, forward-looking statements about:

- our ability to make principal and interest payments on our debt and satisfy the other covenants contained in our debt agreements;
- our high level of indebtedness;
- our expectations regarding financial condition or results of operations in future periods;
- our future sources of, and needs for, liquidity and capital resources;
- our expectations regarding economic and business conditions;
- our expectations regarding potential legislative and regulatory changes impacting the level of reimbursement received from the Medicare program and state Medicaid programs;
  - periodic reviews and billing audits from governmental and private payors;
- 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 laws, particularly those affecting governmental oversight of our business;
- our expectations regarding the outcome of litigation;
- our ability to maintain contracts and relationships with our customers;
- our ability to avoid delays in payment from our customers;
- sales and marketing efforts;
- the status of material contractual arrangements, including the negotiation or re-negotiation of such arrangements;
- future capital expenditures;
- our ability to hire and retain key employees;
- our ability to execute our acquisition and growth strategy; and
- our ability to successfully integrate other businesses we may acquire.

Investors are cautioned that any such forward-looking statements are not guarantees of future performance, involve risks and uncertainties and that actual results may differ materially from those possible results discussed in the forward-looking statements as a result of various factors. Important factors that could cause such differences include, among other things:

- risks associated with increased or changing government regulation related to the health care and insurance industries in general, and more specifically, home infusion providers;
- our ability to comply with debt covenants in our Notes Facility (as defined below) and unsecured notes indenture;
- risks associated with our issuance of the 2017 Warrants (as defined below);
- risks associated with the retention or transition of executive officers and key employees;
- our expectation regarding the interim and ultimate outcome of commercial disputes, including litigation;
- unfavorable economic and market conditions;
-

disruptions in supplies and services resulting from force majeure events such as war, strike, riot, crime, or “acts of God” such as hurricanes, flooding, blizzards or earthquakes;

reductions to and delays or suspensions of federal and state payments for services provided;

efforts to reduce healthcare costs and alter health care financing, which may involve reductions in reimbursement for our products and services and value based payment initiatives, including accountable care organizations;

the effect of health reform efforts, including the 21st Century Cures Act (the “Cures Act”) and the Patient Protection and Affordable Care Act, as amended by the Health Care and Education Reconciliation Act of 2010 (together the “Affordable Care Act”);

existence of complex laws and regulations relating to our business;



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- availability of financing sources;
- declines and other changes in revenue due to the expiration of short-term contracts;
- network lockouts and decisions to in-source by health insurers including lockouts with respect to acquired entities;
- unforeseen contract terminations;
- difficulties in the implementation and ongoing evolution of our operating systems;
- difficulties with the implementation of our growth strategy and integrating businesses we have acquired or will acquire;
- increases or other changes in our acquisition cost for our products;
- increased competition from competitors having greater financial, technical, reimbursement, marketing and other resources could have the effect of reducing prices and margins;
- disruptions in our relationship with our primary supplier of prescription products;
- the level of our indebtedness and its effect on our ability to execute our business strategy and increased risk of default under our debt obligations;
- introduction of new drugs, which can cause prescribers to adopt therapies for existing patients that are less profitable to us;
- changes in industry pricing benchmarks, which could have the effect of reducing prices and margins; and
- other risks and uncertainties described from time to time in our filings with the SEC.

You should not place undue reliance on such forward-looking statements as they speak only as of the date they are made. Except as required by law, 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.

### Business Overview

We are a national provider of infusion solutions with nearly 70 service locations around the U.S. We partner with physicians, hospital systems, skilled nursing facilities, and healthcare payors to provide patients with access to post-acute care services. We are committed to bringing customer-focused healthcare infusion therapy services into the home or alternate site setting. By collaborating with the full spectrum of healthcare professionals and the patient, we aim to provide cost-effective care that is driven by clinical excellence, customer service and values that promote positive outcomes and an enhanced quality of life for those whom we serve.

Our platform provides nationwide service capabilities and the ability to deliver clinical management services that offer patients a high-touch, community-based and home-based care environment. Our core services are provided in coordination with, and under the direction of, the patient's physician. Our multidisciplinary team of clinicians, including pharmacists, nurses, dietitians and respiratory therapists, works with the physician to develop a plan of care suited to our patient's specific needs. Whether in the home, physician office, ambulatory infusion center, skilled nursing facility or other alternate sites of care, we provide products, services and condition-specific clinical management programs tailored to improve the care of individuals with complex health conditions such as gastrointestinal abnormalities, infectious diseases, cancer, multiple sclerosis, organ and blood cell transplants, bleeding disorders, immune deficiencies and heart failure.

We operate in one segment, Infusion Services, and accordingly, we do not present disaggregated segment information.

### Regulatory Matters Update

Approximately 19.1% and 15.6% of revenue for the three months ended September 30, 2018 and 2017, respectively, and approximately 19.6% and 16.0% of revenue for the nine months ended September 30, 2018 and 2017, respectively, was derived directly from the Medicare program, state Medicaid programs and other government payors. We also provide services to beneficiaries of Medicare, Medicaid and other government-sponsored healthcare programs indirectly through managed care entities. Medicare Part D, for example, is administered through managed care entities. In the normal course of business, we and our customers are subject to legislative and regulatory changes impacting the level of reimbursement received from the Medicare program and state Medicaid programs.

### State Medicaid Programs

Medicaid coverage of infusion therapy varies by state. We are sensitive to possible changes in state Medicaid programs. Budgetary concerns in many states have resulted in, and may continue to result in, reductions to Medicaid

reimbursement and delays in payment of outstanding claims. In addition, many states have implemented or are considering strategies to reduce coverage, restrict eligibility, or enroll Medicaid recipients in managed care programs. Each individual state Medicaid program represents less than 5% of our consolidated revenue for the three months and nine months ended September 30, 2018, and no individual state Medicaid reimbursement reduction is expected to have a material effect

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on our Consolidated Financial Statements. We are continually assessing the impact of the state Medicaid reimbursement cuts as states propose, finalize and implement various cost-saving measures.

Given the reimbursement pressures, we strive to improve operational efficiencies and reduce costs to mitigate the impact on results of operations where possible. In some cases, reimbursement rate reductions may result in negative operating results, and we would likely exit some or all services where rate reductions result in unacceptable returns to our stockholders.

### Medicare

We receive reimbursement for infusion therapy under the Medicare program. Coverage is limited based on the place of service, diagnosis, and method of drug delivery. In recent years, legislative and regulatory changes have resulted in limitations and reductions in reimbursement under the Medicare program. For example, the Cures Act, which Congress passed in December 2016, changed the payment methodology for certain infusion drugs under the Part B DME benefit. Significant reductions to the amount paid by Medicare for many infusion drugs took effect January 1, 2017. In addition, the Cures Act provides for the implementation of a clinical services payment under Part B for “qualified home infusion therapy suppliers.” Under this new payment system, Medicare will reimburse home infusion therapy suppliers based on a single, all-inclusive rate. The services payment provision does not take effect until January 1, 2021. However, the Bipartisan Budget Act of 2018 provides for temporary transitional benefit payments, starting January 1, 2019, for Medicare Part B home infusion services. This temporary benefit will continue until January 1, 2021, when the services payment in the Cures Act takes effect.

There are also more general efforts to reduce federal spending. For example, the Budget Control Act of 2011 (the “BCA”) requires automatic spending reductions to reduce the federal deficit, including Medicare spending reductions of up to 2% per fiscal year, with a uniform percentage reduction across all Medicare programs. Centers for Medicare and Medicaid Services (“CMS”) began imposing a 2% reduction on Medicare claims in 2013. These reductions have been extended through 2027.

Approximately 6.8% and 7.6% of revenue for the three and nine months ended September 30, 2018, respectively, and 6.3% and 6.8% of revenue for the three and nine months ended September 30, 2017, respectively, was derived from Medicare.

### Critical Accounting Estimates

Our Unaudited Consolidated Financial Statements have been prepared in accordance with United States 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 liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period.

Accordingly, actual results could differ from these estimates.

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 at the date of the financial statements and the reported amounts of revenues and expenses for the period presented. Our actual results may differ from these estimates, and different assumptions or conditions may yield different estimates. Our critical accounting estimates have not changed from the description provided in our Annual Report, except for the changes related to the implementation of ASU 2014-09 as they relate to transaction price and implicit price concessions; see Note 3 - Revenue. For a full description of our accounting policies please refer to Management’s Discussion and Analysis of Financial Condition and Results of Operations in the Annual Report.

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## Collectability of Accounts Receivable

The following table sets forth the aging of our net accounts receivable (net of allowance for contractual adjustments, and prior to allowance for doubtful accounts), aged based on date of service and categorized based on the three primary overall types of accounts receivable characteristics (in thousands):

	September 30, 2018			December 31, 2017		
	0 - 180 days	Over 180 days	Total	0 - 180 days	Over 180 days	Total
Government	\$ 12,555	\$ 3,028	\$ 15,583	\$ 20,602	\$ 10,082	\$ 30,684
Commercial	80,508	10,825	91,333	63,767	18,779	82,546
Patient	1,922	4,790	6,712	2,577	7,627	10,204
Gross accounts receivable	\$ 94,985	\$ 18,643	113,628	\$ 86,946	\$ 36,488	123,434
Allowance for doubtful accounts			—			(37,912 )
Net accounts receivable			\$ 113,628			\$ 85,522

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## Results of Operations

The following consolidated statements have been derived from our unaudited consolidated financial statements included in this Quarterly Report on Form 10-Q. The discussion set forth below compares our results of operations for the three months and nine months ended September 30, 2018 with the results of operations for the corresponding periods in 2017.

Three months ended September 30, 2018 compared to three months ended September 30, 2017

	Three Months Ended September 30, (in thousands)		As a Percentage of Revenue	
	2018	2017	2018	2017
Net revenue	180,962	198,692	100.0 %	100.0 %
Gross profit	65,911	66,563	36.4 %	33.5 %
Other operating expenses	38,216	38,143	21.1 %	19.2 %
Bad debt expense	—	6,488	— %	3.3 %
General and administrative expenses	12,478	9,405	6.9 %	4.7 %
Restructuring, acquisition, integration, and other expenses	885	4,037	0.5 %	2.0 %
Change in fair value of equity linked liabilities	1,605	1,103	0.9 %	0.6 %
Depreciation and amortization expense	5,767	7,058	3.2 %	3.6 %
Interest expense	14,971	13,360	8.3 %	6.7 %
Loss on extinguishment of debt	—	—	— %	— %
Loss on dispositions	(10 )	(33 )	— %	— %
Loss from continuing operations, before income taxes	(8,001 )	(12,998 )	(4.4 )%	(6.5 )%
Income tax expense	102	60	0.1 %	— %
Loss from continuing operations, net of income taxes	(8,103 )	(13,058 )	(4.5 )%	(6.6 )%
Income (loss) from discontinued operations, net of income taxes	(71 )	66	— %	— %
Net loss	(8,174 )	(12,992 )	(4.5 )%	(6.5 )%

**Net Revenue.** Net revenue for the three months ended September 30, 2018 decreased \$17.7 million, or 8.9%, to \$181.0 million, compared to net revenue of \$198.7 million for the same period in 2017. The decrease in net revenue primarily reflects the Company's shift in strategy to focus on growing its core revenue mix, including the impact of the UnitedHealthcare contract transition effective September 30, 2017. Additionally, implementation of Topic 606 during the first quarter of 2018 resulted in the recognition of amounts previously recorded as bad debt expense as a reduction to revenue. The impact of the change in accounting principle during the three months ended September 30, 2018 was a \$5.7 million, or 3.1%, reduction to revenue. Prior period amounts have not been reclassified, consistent with the modified retrospective implementation approach, as outlined in Topic 606.

**Gross Profit.** Gross profit consists of revenue less cost of revenue (excluding depreciation expense). The cost of revenue (excluding depreciation expense) primarily includes the costs of prescription medications, supplies, nursing services, shipping and other direct and indirect costs. Gross profit as a percentage of revenue improved by 2.9 percentage points for the three months ended September 30, 2018 as compared to the same period in 2017 due to an improved mix of higher margin core therapy revenues versus lower margin non-core therapy revenues, coupled with a decreased cost of prescription medicines as a result of improved supply chain management, offset partially by the impact of ASC Topic 606 implementation. The decrease in gross profit of \$0.7 million or 1.0% was primarily driven by the decrease in revenue of \$5.7 million associated with the impact of implementation of ASC Topic 606 (see Note 3 - Revenue) and lower revenues from the impact of the UnitedHealthcare contract transition effective September 30, 2017, partially offset by higher gross profit margins due to higher core mix and lower costs of prescription medications.

**Other Operating Expenses.** Other operating expenses consist primarily of wages and benefits, travel expenses, professional service and field office expenses for our healthcare professionals engaged in providing infusion services to our patients. Other operating expenses for the three months ended September 30, 2018 increased \$0.1 million or

0.2% compared to the same period in 2017 due to a nominal increase in professional service and field office expenses. Bad Debt Expense. Bad debt expense decreased \$6.5 million during the three months ended September 30, 2018 as compared to the same period in 2017 consistent with the implementation of ASC Topic 606 (see Note 3 - Revenue) which resulted in the

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recognition of all of the Company's bad debt expense as a reduction to revenue for the three months ended September 30, 2018. Bad debt expense as a percentage of revenue was 3.3% during the same period in 2017. General and Administrative Expenses. General and administrative expenses consist of wages and benefits for corporate overhead personnel, and certain corporate level professional service fees, including legal, accounting, and IT fees. The increase of \$3.1 million or 32.7% in general and administrative expenses during the three months ended September 30, 2018 as compared to the same period in 2017, resulted primarily from increased stock based compensation, employee benefit and professional service fees including legal and accounting.

Restructuring, Acquisition, Integration, and Other Expenses. Restructuring, acquisition, integration, and other expenses decreased by \$3.2 million or 78.1% during the three months ended September 30, 2018 as compared to the same period in 2017. The decrease was driven by a reduction of restructuring, acquisition and integration activity during the current quarter. Restructuring, acquisition, integration, and other expenses consist primarily of employee severance and other benefit-related costs, third-party consulting costs, redundant facility and personnel-related costs and certain other costs associated with our restructuring, acquisition, and integration activities.

Depreciation and Amortization Expense. Depreciation and amortization expense includes the depreciation of property and equipment and the amortization of intangible assets such as customer relationships, trademarks, and non-compete agreements with estimable lives. During the three months ended September 30, 2018 and 2017, depreciation expense was \$3.6 million and \$4.1 million, respectively, and amortization expense was \$2.2 million and \$3.0 million, respectively. The decrease in depreciation and amortization expense during the three months ended September 30, 2018 as compared to the same period in 2017 is attributable to full depreciation of certain property and equipment and full amortization of certain intangible assets.

Interest Expense. Interest expense consists of interest expense, amortization of deferred financing costs and debt discounts reduced by an immaterial amount of interest income. During the three months ended September 30, 2018 and 2017, interest expense was \$15.0 million and \$13.4 million, respectively, including \$2.0 million and \$1.7 million of amortization of deferred financing costs and debt discounts, respectively. The increase in interest expense during the three months ended September 30, 2018 as compared to the same period in 2017 is primarily the result of increasing variable interest rates on the First and Second Lien Note Facilities.

Change in Fair Value of Equity Linked Liabilities. The increase in the fair value of equity linked liabilities of \$1.6 million during the three months ended September 30, 2018 represents the mark to market adjustment associated with the issuance of the 2017 Warrants in connection with the Second Lien Note Facility (see Note 7 - Debt). The increase is primarily driven by an increase in the Company's stock price.

Income Tax Expense. Income tax expense for the three months ended September 30, 2018 of \$0.1 million includes a \$1.3 million increase in deferred tax asset valuation allowances and \$0.1 million of state tax expense, partially offset by a federal tax benefit of \$1.7 million and \$0.4 million of permanent items. Income tax expense for the three months ended September 30, 2017 of \$0.1 million includes a \$4.9 million increase in deferred tax asset valuation allowances and \$0.4 million of state tax expense, partially offset by a federal tax benefit of \$4.3 million and alternative minimum taxes of \$0.9 million.

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Nine months ended September 30, 2018 compared to nine months ended September 30, 2017

	Nine Months Ended September 30, (in thousands)		As a Percentage of Revenue	
	2018	2017	2018	2017
Net revenue	\$525,335	\$634,608	100.0 %	100.0 %
Gross profit	180,916	199,048	34.4 %	31.4 %
Other operating expenses	116,378	124,755	22.2 %	19.7 %
Bad debt expense	—	19,648	— %	3.1 %
General and administrative expenses	34,084	28,325	6.5 %	4.5 %
Restructuring, acquisition, integration, and other expenses	4,789	11,407	0.9 %	1.8 %
Change in fair value of equity linked liabilities	1,228	1,103	0.2 %	0.2 %
Depreciation and amortization expense	18,617	21,288	3.5 %	3.4 %
Interest expense	42,171	38,649	8.0 %	6.1 %
Loss on extinguishment of debt	—	13,453	— %	2.1 %
Loss (gain) on dispositions	(330 )	652	(0.1 )%	0.1 %
Loss from continuing operations, before income taxes	(36,021 )	(60,232 )	(6.9 )%	(9.5 )%
Income tax expense	191	1,397	— %	0.2 %
Loss from continuing operations, net of income taxes	(36,212 )	(61,629 )	(6.9 )%	(9.7 )%
Income (loss) from discontinued operations, net of income taxes	(118 )	(606 )	— %	(0.1 )%
Net loss	\$(36,330 )	\$(62,235 )	(6.9 )%	(9.8 )%

**Net Revenue.** Net revenue for the nine months ended September 30, 2018 decreased \$109.3 million, or 17.2%, to \$525.3 million, compared to net revenue of \$634.6 million for the same period in 2017. The decrease in net revenue primarily reflects the Company's shift in strategy to focus on growing its core revenue mix, including the impact of the UnitedHealthcare contract transition effective September 30, 2017, and lower patient volumes in certain product lines, including the impact of temporary closures of Company branches due to inclement winter weather during the first quarter. Additionally, implementation of Topic 606 during the first quarter of 2018 resulted in the recognition of amounts previously recorded as bad debt expense as a reduction to revenue. The impact of the change in accounting principle during the nine months ended September 30, 2018 was a \$16.5 million, or 3.1%, reduction to revenue. Prior period amounts have not been reclassified, consistent with the modified retrospective implementation approach, as outlined in Topic 606.

**Gross Profit.** Gross profit consists of revenue less cost of revenue (excluding depreciation expense). The cost of revenue (excluding depreciation expense) primarily includes the costs of prescription medications, supplies, nursing services, shipping and other direct and indirect costs. Gross profit as a percentage of revenue improved by 3.0 percentage points for the nine months ended September 30, 2018 as compared to the same period in 2017 due to an improved mix of higher margin core therapy revenues versus lower margin non-core therapy revenues, coupled with decreased cost of prescription medicines as a result of improved supply chain management, offset partially by the impact of ASC Topic 606 implementation. The decrease in gross profit of \$18.1 million or 9.1% was primarily driven by the decrease in revenue of \$16.5 million associated with the impact of implementation of ASC Topic 606 (see Note 3 - Revenue), lower revenues from the impact of the UnitedHealthcare contract transition effective September 30, 2017, and lower patient volumes in certain product lines, including the impact of temporary closures of Company branches due to inclement winter weather during the first quarter, partially offset by higher gross profit margins due to higher core mix and lower costs of prescription medications.

**Other Operating Expenses.** Other operating expenses consist primarily of wages and benefits, travel expenses, professional service and field office expenses for our healthcare professionals engaged in providing infusion services to our patients. Other operating expenses for the nine months ended September 30, 2018 decreased \$8.4 million or 6.7% compared to the same period in 2017 due to decreased wage, benefit, and other employee costs as a result of integration, restructuring, and other workforce optimization efforts.



Bad Debt Expense. Bad debt expense decreased \$19.6 million during the nine months ended September 30, 2018 as compared to the same period in 2017 consistent with the implementation of ASC Topic 606 (see Note 3 - Revenue) which resulted in the recognition of all of the Company's bad debt expense as a reduction to revenue for the nine months ended September 30, 2018. Bad debt expense as a percentage of revenue was 3.1% during the same period in 2017.

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**General and Administrative Expenses.** General and administrative expenses consist of wages and benefits for corporate overhead personnel and certain corporate level professional service fees, including legal, accounting, and IT fees. The increase in general and administrative expenses of \$5.8 million or 20.3% resulted primarily from increased stock based compensation expense, investments in our field force including our National Meeting, sales force effectiveness tools and strategies, and additional professional service fees including legal and accounting.

**Restructuring, Acquisition, Integration, and Other Expenses.** Restructuring, acquisition, integration, and other expenses decreased by \$6.6 million or 58.0% during the nine months ended September 30, 2018. The decrease was driven by a reduction of restructuring, acquisition and integration activity during the nine months ended September 30, 2018. Restructuring, acquisition, integration, and other expenses consist primarily of employee severance and other benefit-related costs, third-party consulting costs, redundant facility and personnel-related costs and certain other costs associated with our restructuring, acquisition, and integration activities.

**Depreciation and Amortization Expense.** Depreciation and amortization expense includes the depreciation of property and equipment and the amortization of intangible assets such as customer relationships, trademarks, and non-compete agreements with estimable lives. During the nine months ended September 30, 2018 and 2017, we recorded depreciation expense of \$11.5 million and \$11.9 million, respectively, and amortization expense of intangibles of \$7.1 million and \$9.4 million, respectively. The decrease in depreciation and amortization expense during the nine months ended September 30, 2018 as compared to the same period in 2017 is primarily attributable to full amortization of certain intangible assets.

**Change in Fair Value of Equity Linked Liabilities.** The increase in the fair value of equity linked liabilities of \$1.2 million during the nine months ended September 30, 2018 represents the mark to market adjustment associated with the issuance of the 2017 Warrants in connection with the Second Lien Note Facility (see Note 7 - Debt). The increase is primarily driven by an increase in the Company's stock price.

**Interest Expense.** Interest expense consists of interest expense, amortization of deferred financing costs and debt discounts, reduced by an immaterial amount of interest income. During the nine months ended September 30, 2018 and 2017, we recorded interest expense of \$42.2 million and \$38.6 million, respectively, including \$6.1 million and \$4.7 million of amortization of deferred financing costs and debt discounts, respectively. The increase in interest expense during the nine months ended September 30, 2018 as compared to the same period in 2017 is primarily the result of the changes in debt structure (see Note 7 - Debt), and increasing variable interest rates on the First and Second Lien Note Facilities.

**Income Tax Expense.** Income tax expense for the nine months ended September 30, 2018 of \$0.2 million includes a \$7.2 million increase in deferred tax asset valuation allowances and \$0.2 million of state tax expense, offset by a federal tax benefit of \$7.6 million and permanent items of \$0.2 million. Income tax expense for the nine months ended September 30, 2017 of \$1.4 million includes a \$22.2 million increase in deferred tax asset valuation allowances, \$0.5 million of state tax expense, \$0.1 million of permanent items, offset by a federal tax benefit of \$20.5 million and alternative minimum taxes of \$0.9 million.

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## Non-GAAP Measures

The following table reconciles GAAP loss from continuing operations, net of income taxes to Consolidated Adjusted EBITDA. Consolidated Adjusted EBITDA is net loss adjusted for interest expense, income tax expense, depreciation and amortization, impairments, loss on extinguishment of debt, and stock-based compensation expense. Consolidated Adjusted EBITDA also excludes restructuring, acquisition, integration and other expenses including non-operating costs associated with restructuring, acquisition and integration initiatives, such as employee severance costs, certain legal and professional fees, training costs, redundant wage costs, impacts recorded from the change in contingent consideration obligations, and other costs related to contract terminations and closed branches/offices.

Consolidated Adjusted EBITDA is a measure of earnings that management monitors as an important indicator of financial performance, particularly future earnings potential and recurring cash flow. Consolidated Adjusted EBITDA is also a primary objective of the management bonus plan. Inclusion of Consolidated Adjusted EBITDA is intended to provide investors insight into the manner in which management views the performance of the Company.

Non-GAAP financial measures have limitations as analytical tools and should not be considered in isolation or as a substitute for our financial results prepared in accordance with GAAP. Our calculation of Non-GAAP Consolidated Adjusted EBITDA, as presented, may differ from similarly titled measures reported by other companies. We encourage investors to review these reconciliations and we qualify our use of non-GAAP financial measures with cautionary statements as to their limitations.

	Three Months Ended		Nine Months Ended	
	September 30, 2018	September 30, 2017	September 30, 2018	September 30, 2017
(in thousands)				
Loss from continuing operations, net of income taxes	\$(8,103 )	\$(13,058 )	\$(36,212 )	\$(61,629 )
Interest expense	(14,971 )	(13,360 )	(42,171 )	(38,649 )
Change in fair value of equity linked liabilities	(1,605 )	(1,103 )	(1,228 )	(1,103 )
Gain (loss) on dispositions	10	33	330	(652 )
Loss on extinguishment of debt	—	—	—	(13,453 )
Income tax expense	(102 )	(60 )	(191 )	(1,397 )
Depreciation and amortization	(5,767 )	(7,058 )	(18,617 )	(21,288 )
Stock-based compensation	(1,224 )	(545 )	(3,032 )	(1,525 )
Restructuring, acquisition, integration, and other expenses	(885 )	(4,037 )	(4,789 )	(11,407 )
Consolidated Adjusted EBITDA	\$16,441	\$13,072	\$33,486	\$27,845

Consolidated Adjusted EBITDA increased during the three and nine months ended September 30, 2018 compared to the same period of the prior year primarily due to the overall impact of the Company's shift in strategy to focus on growing its core revenue mix, including the UnitedHealthcare contract transition effective September 30, 2017, and restructuring and integration efforts which optimized operations.

## Liquidity and Capital Resources

## Off-Balance Sheet Arrangements

As of September 30, 2018, we did not have any material off-balance sheet arrangements, as defined in Item 303(a)(4)(ii) of Regulation S-K.

## Sources and Uses of Funds

Net cash used in operating activities from continuing operations totaled \$20.1 million during the nine months ended September 30, 2018 compared to \$3.3 million during the nine months ended September 30, 2017, an increase of \$16.8 million. The increase primarily relates to lower cash collections of accounts receivable, partially offset by strategic inventory management initiatives.



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Net cash used in investing activities from continuing operations during the nine months ended September 30, 2018 was \$9.4 million compared to \$6.6 million in cash used during the same period in 2017. The increase in cash used in investing was primarily due to increased renovation and expansion of certain company branch locations.

Net cash provided by financing activities from continuing operations during the nine months ended September 30, 2018 was \$8.5 million compared to \$44.4 million in cash provided by financing activities during the same period in 2017, which was driven primarily by the first quarter 2017 private placement (see Note 5) and first quarter 2017 Priming Credit Agreement (see Note 7).

At September 30, 2018, we had working capital of \$75.9 million, including \$18.9 million of cash on hand, compared to working capital of \$81.5 million at December 31, 2017. The \$5.6 million decrease in working capital results primarily from the decrease in our cash and cash equivalents and restricted cash of \$21.1 million offset by an increase in our accounts receivable of \$28.1 million. Accounts receivable balances have increased due to temporal slower cash collections. During the second quarter, the Company exercised the \$10.0 million delayed draw provided for in our Second Lien Note Facility. At September 30, 2018, we had outstanding letters of credit totaling \$4.3 million, collateralized by restricted cash of \$4.3 million.

A summary of the Company's debt is included in Note 7 to the Financial Statements.

### Future Cash Requirements

Net cash used in operating activities from continuing operations totaled \$20.1 million during the nine months ended September 30, 2018. Our working capital decreased \$5.6 million as of September 30, 2018 compared to December 31, 2017, primarily as a result of a decrease in our cash and cash equivalents of \$20.5 million due to lower operating cash flow driven by an increase in accounts receivable due to temporal slower collection rates. At September 30, 2018, we had \$18.9 million of unrestricted cash on hand. We expect cash and cash equivalents during the fourth quarter of 2018 to remain consistent or increase compared to September 30, 2018 levels, driven by increasing profitability, lower levels of strategic inventory purchases, and improved cash collections of accounts receivable.

If we cannot successfully execute our strategic plans we will likely require additional or alternative sources of liquidity, including additional borrowings.

On June 29, 2017, we entered into the Notes Facilities pursuant to which we issued new senior secured notes and refinanced our existing senior secured credit facilities. Please refer to "Debt Facilities" in this section.

We regularly evaluate market conditions and financing options to improve our current liquidity profile and enhance our financial flexibility. These options may include opportunities to raise additional funds through the issuance of various forms of equity and/or debt securities or other instruments, the sale of assets or refinancing all or a portion of our indebtedness. However, there is no assurance that, if necessary, we would be able to raise capital to provide required liquidity.

Additionally, we will pursue our operational and strategic plan and will also review a range of strategic alternatives, which could include, among other things, transitioning chronic therapies to alliance partners, a potential sale or merger of our company, or continuing to pursue our operational and strategic plan. Additionally, we may pursue joint venture arrangements, additional business acquisitions and other transactions designed to expand our business.

As of the filing of this Quarterly Report, we expect that our cash on hand and cash from operations will be sufficient to fund our anticipated working capital, scheduled interest repayments and other cash needs for at least the next 12 months. Quarterly principal payments on the Notes Facilities of \$1.25 million commence on September 30, 2019.

The accompanying unaudited consolidated financial statements have been prepared on a going concern basis, which contemplates realization of assets and satisfaction of liabilities in the ordinary course of business. As such, they do not include any adjustments to the recoverability and reclassification of recorded amounts that might be necessary should we be unable to continue as a going concern.

### Item 3. Quantitative and Qualitative Disclosures About Market Risks

There have been no material changes to our exposure to market risk since the Annual Report.

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### Item 4. Controls and Procedures

#### Evaluation of Disclosure Controls and Procedures

The Company maintains disclosure controls and procedures (as such term is defined under Rule 13a-15(e) promulgated under the Exchange Act) that are designed to ensure that information required to be disclosed by the Company in the reports we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to the Company's management, including its Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure. Under the supervision and with the participation of the Company's management, including its Chief Executive Officer and Chief Financial Officer, management evaluated the effectiveness of the Company's disclosure controls and procedures as of September 30, 2018. Based on that evaluation, the Company's Chief Executive Officer and its Chief Financial Officer concluded that, as a result of not having completed the remediation of the material weakness in internal control over financial reporting identified and described in Item 9A of our Annual Report on Form 10-K for the year ended December 31, 2017, our disclosure controls and procedures were not effective as of September 30, 2018.

#### Remediation Plans

Management is actively remediating the identified material weakness, and has identified the following remediation steps:

- Enhance risk assessment processes and monitoring activities to ensure the Company designs, implements, and operates effective controls that are responsive to identified risks.

- Implementation of controls to validate key inputs and calculations used in spreadsheets used to determine financial statement amounts and disclosures.

- Implementation of controls to identify and clear unmatched transactions in suspense accounts.

- Implementation of monitoring controls to be operated by a centralized resource to ensure periodic counts of inventory and fixed assets are completed and differences are timely processed by our accounting systems.

- Enhance controls surrounding the timely and accurate recognition of fixed asset disposals and abandonments.

#### Changes in Internal Control Over Financial Reporting

Aside from actions taken as described above in "Remediation Plans", there have been no changes in our internal control over financial reporting that occurred during the three and nine months ended September 30, 2018 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

## PART II

### OTHER INFORMATION

#### Item 1. Legal Proceedings

For a summary of legal proceedings please refer to Note 8 within the financial statements section of this document.

#### Item 1A. Risk Factors

The risk factors disclosed in "Item 1A. Risk Factors" included in our Annual Report on Form 10-K for the year ended December 31, 2017 are hereby incorporated by reference.

#### Item 5. Other Information

None.

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## Item 6. Exhibits

## (a) Exhibits.

Exhibit Number	Description
2.1+	<u>Asset Purchase Agreement, dated June 11, 2016, by and among HS Infusion Holdings, Inc., the direct and indirect subsidiaries of HS Infusion Holdings, Inc. set forth on the signature pages, the Company and HomeChoice Partners, Inc. (the “Home Solutions Agreement”) (incorporated by reference to Exhibit 2.1 to the Company’s Current Report on Form 8-K filed on June 13, 2016, SEC File Number 000-28740).</u>
2.2	<u>First Amendment, dated June 16, 2016, to the Home Solutions Agreement (incorporated by reference to Exhibit 2.1 to the Company’s Current Report on Form 8-K/A filed on June 20, 2016, SEC File Number 000-28740).</u>
2.3	<u>Second Amendment, dated September 2, 2016, to the Home Solutions Agreement (incorporated by reference to Exhibit 2.1 to the Company’s Current Report on Form 8-K filed on September 7, 2016, SEC File Number 001-11993).</u>
2.4	<u>Third Amendment, dated September 9, 2016, to the Home Solutions Agreement (incorporated by reference to Exhibit 2.1 to the Company’s Current Report on Form 8-K filed on September 12, 2016, SEC File Number 001-11993).</u>
3.1	<u>Second Amended and Restated Certificate of Incorporation of the Company (incorporated by reference to Exhibit 3.2 to the Company’s Registration Statement on Form S-4 (File No. 333-119098) declared effective on January 26, 2005).</u>
3.2	<u>Amendment to the Second Amended and Restated Certificate of Incorporation of the Company (incorporated by reference to Exhibit 3.1 to the Company’s Current Report on Form 8-K filed on June 10, 2010, SEC File Number 000-28740).</u>
3.3	<u>Certificate of Amendment of the Second Amended and Restated Certificate of Incorporation of BioScrip, Inc. dated November 30, 2016 (Incorporated by reference to Exhibit 3.1 to the Company’s Form 8-K filed on December 2, 2016).</u>
3.4	<u>Certificate of Designations for Series A Convertible Preferred Stock (incorporated by reference to Exhibit 3.1 to the Company’s Current Report on Form 8-K filed on March 10, 2015, SEC File Number 000-28740).</u>
3.5	<u>Certificate of Designations for Series B Convertible Preferred Stock (incorporated by reference to Exhibit 3.1 to the Company’s Current Report on Form 8-K filed on June 13, 2016, SEC File Number 000-28740).</u>
3.6	<u>Certificate of Designations for Series C Convertible Preferred Stock (incorporated by reference to Exhibit 3.1 to the Company’s Current Report on Form 8-K filed on June 14, 2016, SEC File Number 000-28740).</u>
3.7	<u>Certificate of Designations, Preferences, and Rights for Series D Junior Participating Preferred Stock (incorporated by reference to Exhibit 3.1 to the Company’s Current Report on Form 8-K filed on August 12, 2016, SEC File Number 000-28740).</u>
3.8	<u>Amended and Restated By-Laws of the Company (incorporated by reference to Exhibit 3.2 to the Company’s Current Report on Form 8-K filed on April 28, 2011, SEC File Number 000-28740).</u>
4.1	<u>Registration Rights Agreement, dated June 29, 2017, by and among the Company and the parties signatory thereto (incorporated by reference to Exhibit 4.2 to the Company’s Current Report on Form 8-K filed on June 29, 2017, SEC File Number 001-11993).</u>
4.2	<u>Warrant Agreement, dated June 29, 2017, by and among the Company and the subscribers signatory thereto (incorporated by reference to Exhibit 4.1 to the Company’s Current Report on Form 8-K filed on June 29, 2017, SEC File Number 001-11993).</u>
31.1	<u>Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.</u>
31.2	<u>Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.</u>
32.1	<u>Certification of Chief Executive Officer pursuant to 18 U.S. C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.</u>

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

101.INS XBRL Instance Document

101.SCH XBRL Taxonomy Extension Schema Document

101.CAL XBRL Taxonomy Extension Calculation Linkbase Document

101.DEF XBRL Taxonomy Extension Definition Linkbase Document

101.LAB XBRL Taxonomy Extension Labels Linkbase Document

101.PRE XBRL Taxonomy Extension Presentation Linkbase Document

Certain  
schedules  
attached to  
the Home  
Solutions  
Agreement  
have been  
omitted  
pursuant to  
Item  
601(b)(2) of  
+ Regulation  
S-K. The  
Company  
will furnish  
the omitted  
schedules to  
the Securities  
and Exchange  
Commission  
upon request  
by the  
Commission.

SIGNATURES



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Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, on November 6, 2018.

BIOSCRIP INC.

/s/ Stephen Deitsch  
Stephen Deitsch

Chief Financial Officer and Treasurer (Principal Financial Officer and Duly Authorized Officer)