CORAM HEALTHCARE CORP
Form 10-Q/A
December 19, 2001

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

FORM 10-Q/A
Amendment No. 1

(MARK ONE)

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

FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2001

OR

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

FOR THE TRANSITION PERIOD FROM TO

COMMISSION FILE NUMBER 1-11343

CORAM HEALTHCARE CORPORATION

(EXACT NAME OF REGISTRANT AS SPECIFIED IN ITS CHARTER)

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

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

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

The number of shares outstanding of the Registrant's Common Stock, $.001 par value, as of November 16, 2001 was 49,638,452.

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PART I

FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

CORAM HEALTHCARE CORPORATION
(DEBTOR-IN-POSSESSION)
CONDENSED CONSOLIDATED BALANCE SHEETS
(IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

	SEPTEMBER 30, 2001 (UNAUDITED)	DECE
ASSETS		
Current assets:		
Cash and cash equivalents	$ 18,230	$
Cash limited as to use	320	
Accounts receivable, net of allowances of $14,863 and $17,912	90,286	
Inventories	12,092	
Deferred income taxes, net	365	
Other current assets	5,892	
Total current assets	127,185	
Property and equipment, net	14,930	
Deferred income taxes, net	1,612	
Other deferred costs and intangible assets, net of accumulated amortization of $18,809 and $16,963	6,905	
Goodwill, net of accumulated amortization of $95,044 and $87,770	186,582	
Other assets	6,043	
Total assets	$ 343,257	$
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities not subject to compromise:		
Accounts payable	$ 24,149	$
Accrued compensation and related liabilities	14,366	
Current maturities of long-term debt	8	
Insurance and accreditation notes payable	876	
Income taxes payable	537	
Deferred income taxes	956	
Accrued merger and restructuring costs	814	
Accrued reorganization costs for administrative professionals	7,836	
Other accrued liabilities, including interest payable	7,704	
Total current liabilities not subject to compromise	57,246	
Total current liabilities subject to compromise (See Note 2)	167,610	
Total current liabilities	224,856	

Long-term liabilities not subject to compromise:		
Long-term debt, less current maturities	170	
Minority interests in consolidated joint ventures and preferred stock issued by a subsidiary	6,079	
Other liabilities	19,108	
Deferred income taxes	1,021	
Net liabilities of discontinued operations	26,506	
Total liabilities	277,740	
Commitments and contingencies	--	
Stockholders' equity:		
Preferred stock, par value $.001, authorized 10,000 shares, none issued	--	
Common stock, par value $.001, 150,000 shares Authorized, 49,638 shares issued and outstanding	50	
Additional paid-in capital	427,360	
Accumulated deficit	(361,893)	(
Total stockholders' equity	65,517	
Total liabilities and stockholders' equity	$ 343,257	$

See accompanying notes to unaudited condensed consolidated financial statements.

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CORAM HEALTHCARE CORPORATION
(DEBTOR-IN-POSSESSION)
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(UNAUDITED)
(IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

	THREE MONTHS ENDED SEPTEMBER 30,	
	2001	20
Net revenue	$ 93,762	$ 102
Cost of service	68,651	75
Gross profit	25,111	27
Operating expenses:		
Selling, general and administrative expenses	19,383	22
Provision for estimated uncollectible accounts	2,859	3
Amortization of goodwill	2,424	2
Restructuring cost recovery	--	
Total operating expenses	24,666	28
Operating income (loss) from continuing operations	445	

Other income (expense):		
Interest income	113	
Interest expense (excluding post-petition contractual interest of $3.5 million and $10.4 million for the three and nine months ended September 30, 2001, respectively)	(4,072)	(6
Gains on sales of businesses	--	18
Equity in net income of unconsolidated joint ventures	259	
Other income (expense), net	9	
Income (loss) from continuing operations before reorganization expenses, income taxes and minority interests	(3,246)	11
Reorganization expenses, net	(3,739)	(1
Income (loss) from continuing operations before income taxes and minority interests	(6,985)	9
Income tax expense	50	
Minority interests in net income of consolidated joint ventures	75	
Income (loss) from continuing operations	(7,110)	9
Income (loss) from disposal of discontinued operations	--	
Net income (loss)	$ (7,110)	$ 9
Basic Income (Loss) Per Share		
Income (loss) from continuing operations	$ (0.14)	$
Income (loss) from discontinued operations	--	
Net income (loss)	$ (0.14)	$
Diluted Income (Loss) Per Share		
Income (loss) from continuing operations	$ (0.14)	$
Income (loss) from discontinued operations	--	
Net income (loss)	$ (0.14)	$

See accompanying notes to unaudited condensed consolidated financial statements.

CORAM HEALTHCARE CORPORATION
(DEBTOR-IN-POSSESSION)
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)
(IN THOUSANDS)

	NINE MONTHS ENDED SEPTEMBER 30,	
	2001	2000
Net cash provided by continuing operations before reorganization expenses	$ 6,735	$ 30,513
Net cash used by reorganization expenses	(6,962)	(1,001)

Net cash provided by (used in) continuing operations (net of reorganization expenses)	(227)	29,512
Cash flows from investing activities:		
Purchases of property and equipment	(4,792)	(2,778)
Proceeds from sales of businesses	--	41,513
Proceeds from dispositions of property and equipment	69	60
Net cash provided by (used in) investing activities	(4,723)	38,795
Cash flows from financing activities:		
Borrowings on line of credit	--	1,500
Repayments of debt obligations	(277)	(55,376)
Payment of debtor-in-possession financing costs (post-petition)	--	(503)
Repayments of insurance note payable	(1,372)	--
Deposits to collateralize letters of credit	(2,095)	--
Cash distributions paid to minority interests	(308)	(850)
Net cash used in financing activities	(4,052)	(55,229)
Net increase (decrease) in cash from continuing operations	$ (9,002)	$ 13,078
Net cash used in discontinued operations	$ (27)	$ (3,192)

See accompanying notes to unaudited condensed consolidated financial statements.

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CORAM HEALTHCARE CORPORATION
(DEBTOR-IN-POSSESSION)
NOTES TO UNAUDITED CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS
SEPTEMBER 30, 2001

1. DESCRIPTION OF BUSINESS AND BASIS OF PRESENTATION

Business Activity. As of September 30, 2001, Coram Healthcare Corporation ("CHC") and its subsidiaries ("Coram" or the "company") were engaged primarily in the business of furnishing alternate site (outside the hospital) infusion therapy, including non-intravenous home health products such as durable medical equipment and respiratory services. Other services offered by Coram include centralized management, administration and clinical support for clinical research trials. Coram delivers its alternate site infusion therapy services through 76 branch offices located in 40 states and Ontario, Canada. CHC and its first tier wholly owned subsidiary, Coram, Inc. ("CI") (collectively the "Debtors"), filed voluntary petitions under Chapter 11 of the United States Bankruptcy Code (the "Bankruptcy Code") on August 8, 2000. Since that date, the Debtors have been operating as debtors-in-possession subject to the jurisdiction of the United States Bankruptcy Court for the District of Delaware (the "Bankruptcy Court"). None of the company's other subsidiaries is a debtor in the proceeding. See Note 2 for further details.

In December 1999, Coram announced that it was repositioning its business to focus on its core alternate site infusion therapy business and the clinical research business operated by its subsidiary, CTI Network, Inc. Accordingly, Coram's primary business strategy is to focus its efforts on the delivery of its core infusion therapies, including nutrition, anti-infective therapies and intravenous immunoglobulin ("IVIG") therapy for persons receiving transplants and coagulant and blood clotting therapies for persons with hemophilia. Coram has also implemented programs focused on the reduction and control of the costs of providing services and operating expenses, assessment of under-performing branches and review of branch efficiencies. Pursuant to this review, several branches have been closed or scaled back to serve as satellites for other branches and personnel have been eliminated. See Note 6 for further details. Most of the company's net revenue is derived from third-party payers such as private indemnity insurers, managed care organizations and governmental payers.

Prior to August 1, 2000, the company delivered pharmacy benefit management and specialty mail-order pharmacy services for chronically ill patients through its Coram Prescription Services ("CPS") business from one primary mail order facility, four satellite mail order facilities and one retail pharmacy. The pharmacy benefit management service provided on-line claims administration, formulary management and certain drug utilization review services through a nationwide network of retail pharmacies. CPS's specialty mail-order pharmacy services were delivered through its six facilities, which provided distribution, compliance monitoring, patient education and clinical support to a wide variety of patients. On July 31, 2000, Coram completed the sale of its CPS business to a management-led group financed by GTCR Golder Rauner, L.L.C. for a one-time payment of approximately $41.3 million. See Note 4 for further details.

Prior to January 1, 2000, the company provided ancillary network management services through its subsidiaries, Coram Resource Network, Inc. and Coram Independent Practice Association, Inc. (collectively the "Resource Network Subsidiaries" or "R-Net"), which managed networks of home healthcare providers on behalf of HMOs, PPOs, at-risk physician groups and other managed care organizations. R-Net served its customers through two primary call centers and three satellite offices. In April 1998, the company entered into a five-year capitated agreement with Aetna U.S. Healthcare, Inc. ("Aetna") (the "Master Agreement") for the management and provision of certain home health services, including home infusion, home nursing, respiratory therapy, durable medical equipment, hospice care and home nursing support for several of Aetna's disease management programs. Effective July 1, 1998, the company began receiving capitated payments on a monthly basis for members covered under the Master Agreement, assumed financial risk for certain home health services and began providing management services for a network of home health providers through R-Net. The agreements that R-Net had for the provision of ancillary network management services have been terminated and R-Net is no longer providing any ancillary network management services. Coram and Aetna were previously involved in litigation over the Master Agreement; however, the litigation was amicably resolved and the case was dismissed on April 20, 2000. The Resource Network Subsidiaries filed voluntary bankruptcy petitions on November 12, 1999 with the Bankruptcy Court under Chapter 11 of the United States Bankruptcy Code and the Resource Network Subsidiaries are being liquidated pursuant to such proceedings.

Basis of Presentation. The accompanying unaudited condensed consolidated financial statements have been prepared by the company pursuant to the rules and regulations of the Securities and Exchange Commission (the "Commission") and reflect all adjustments and disclosures (consisting of normal recurring accruals and, effective August 8, 2000, all adjustments pursuant to the adoption of SOP 90-7, Financial Reporting by Entities in Reorganization under the Bankruptcy Code ("SOP 90-7")) that are, in the opinion of management, necessary for a fair presentation of the financial position, results of operations and cash flows as of and for the interim periods presented herein. Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted pursuant to the applicable Commission regulations. The results of operations for the interim periods ended September 30, 2001 are not necessarily indicative of the results for the full fiscal year. For further information, refer to the audited consolidated financial statements and notes thereto included in the company's Annual Report on Form 10-K for the year ended December 31, 2000.

The accompanying condensed consolidated financial statements have been prepared on a going concern basis, which contemplates continuity of operations, realization of assets and liquidation of liabilities in the ordinary course of business. However, as a result of the Debtors' bankruptcy filings and circumstances relating thereto, including the company's leveraged financial structure and cumulative losses from operations, such realization of assets and liquidation of liabilities are subject to significant uncertainty. During the pendency of the Debtors' Chapter 11 bankruptcy proceedings, the company may sell or otherwise dispose of assets and liquidate or settle liabilities for amounts other than those reflected in the Condensed Consolidated Financial Statements. Further, a confirmed plan of reorganization in the Chapter 11 bankruptcy proceedings could materially change the amounts reported in the Condensed Consolidated Financial Statements, which do not give effect to any adjustments of the carrying value of assets or liabilities that might be necessary as a consequence of a confirmed plan of reorganization (see Note 2 for further details). The company's ability to continue as a going concern is dependent upon, among other things, confirmation of a plan of reorganization, future profitable operations, the ability to comply with the terms of the company's financing agreements, the ability to remain in compliance with the physician ownership and referral provisions of the Omnibus Budget Reconciliation Act of 1993 (commonly known as "Stark II") and the ability to generate sufficient cash from operations and/or financing arrangements to meet its obligations.

Reclassifications. Certain amounts in the 2000 condensed consolidated financial statements have been reclassified to conform to the 2001 presentation.

Provision for Estimated Uncollectible Accounts. Management regularly reviews the collectibility of accounts receivable utilizing system-generated reports which track collection and write-off activity. Estimated write-off percentages are then applied to each aging category by payer classification to determine the allowance for estimated uncollectible accounts. Additionally, the company establishes appropriate additional reserves for accounts that are deemed uncollectible due to occurrences such as bankruptcy filings by the payers. The allowance for estimated uncollectible accounts is adjusted as needed to reflect current collection, write-off and other trends, including changes in assessment of realizable value. While management believes the resulting net carrying amounts for accounts receivable are fairly stated at each quarter-end and that the company has made adequate provision for uncollectible accounts based on all information available, no assurances can be given as to the level of future provisions for uncollectible accounts, or how they will compare to the levels experienced in the past. The company's ability to successfully collect its accounts receivable depends, in part, on its ability to adequately supervise and train personnel in billing and collections, and minimize losses related to branch consolidations and system changes.

CORAM HEALTHCARE CORPORATION
(DEBTOR-IN-POSSESSION)
NOTES TO UNAUDITED CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS - (CONTINUED)

Earnings per Share. Basic income (loss) per share excludes any dilutive effects of options, warrants and convertible securities. The company experienced losses from continuing operations for the three and nine months ended September 30, 2001 and, in accordance with the provisions of Financial Accounting Standards Board ("FASB") Statement No. 128, Earnings Per Share, the denominator utilized to calculate earnings (loss) per share does not increase when losses from continuing operations are in evidence because to do so would be anti-dilutive. However, the company experienced income from continuing operations for the three and nine months ended September 30, 2000. The following table sets forth the computations of basic and diluted income (loss) per share for the three and nine months ended September 30, 2001 and 2000 (in thousands, except per share amounts):

	THREE MONTHS ENDED SEPTEMBER 30, 2001	THREE MONTHS ENDED SEPTEMBER 30, 2000
Numerator for basic and diluted income (loss) per share		
Income (loss) from continuing operations	$ (7,110)	$ 9,200
Income (loss) from discontinued operations	--	324
Net income (loss)	$ (7,110)	$ 9,524
Weighted average shares - denominator for basic Income (loss) per share	49,638	49,638
Effects of other dilutive securities:		
Stock options	--	--
Warrants	--	3,136
Denominator for diluted income (loss) per share - adjusted Weighted average shares and assumed conversion	49,638	52,774
Basic income (loss) per share:		
Income (loss) from continuing operations	$ (0.14)	$ 0.18
Income (loss) from discontinued operations	--	0.01
Net income (loss)	$ (0.14)	$ 0.19
Diluted income (loss) per share:		
Income (loss) from continuing operations	$ (0.14)	$ 0.17
Income (loss) from discontinued operations	--	0.01
Net income (loss)	$ (0.14)	$ 0.18

Derivatives and Hedging Activities. In June 1998, the FASB issued Statement of Financial Accounting Standards No. 133, Accounting for Derivative Instruments and Hedging Activities ("Statement 133"), which requires the recognition of all derivative instruments as assets or liabilities, measured at fair value. Statement 133 was effective for fiscal years beginning after June 15, 2000. Accordingly, the company adopted the new accounting pronouncement effective January 1, 2001; however, it had no effect on the company's financial position or operating results.

Business Combinations. In July 2001, the FASB issued Statement of Financial Accounting Standards No. 141, Business Combinations ("Statement 141"), which requires the use of the purchase method of accounting for all business combinations initiated after June 30, 2001, establishes specific criteria for the recognition of intangible assets separately from goodwill and requires unallocated negative goodwill to be written off immediately as an extraordinary gain. Statement 141 is effective for the company's financial statements for the year ending December 31, 2002. The adoption of this accounting pronouncement is not currently anticipated to have a material impact on the company's financial position or results of operations.

Goodwill and Other Intangible Assets. In July 2001, the FASB issued Statement of Financial Accounting Standards No. 142, Goodwill and Other Intangible Assets ("Statement 142"), which primarily addresses the accounting for goodwill and intangible assets subsequent to their acquisition. Statement 142 requires that goodwill and indefinite long-lived intangible assets no longer be amortized to earnings, but instead be reviewed periodically for impairment. Statement 142 is effective for the company's financial statements for the year ending December 31, 2002. Management is currently evaluating the impact that the adoption of this accounting pronouncement will have on the company's financial position and results of operations.

2. REORGANIZATION UNDER CHAPTER 11 OF THE UNITED STATES BANKRUPTCY CODE

On August 8, 2000, CHC and CI filed voluntary petitions under Chapter 11 of the Bankruptcy Code. Following the filing of the voluntary Chapter 11 petitions, the Debtors have been operating as debtors-in-possession subject to the jurisdiction of the Bankruptcy Court. None of the company's other subsidiaries is a debtor in the proceeding. The Debtors' need to seek the relief afforded by the Bankruptcy Code was due, in part, to their requirement to remain in compliance with the physician ownership and referral provisions of the Omnibus Budget Reconciliation Act of 1993 (commonly referred to as "Stark II") after December 31, 2000 (see discussion of Stark II in Note 10) and the scheduled May 27, 2001 maturity of the Series A Senior Subordinated Unsecured Notes. Accordingly, the Debtors sought advice and counsel from a variety of sources and, in connection therewith, the Board of Directors unanimously concluded that the bankruptcy and restructuring were the only viable alternatives.

On August 9, 2000, the Bankruptcy Court approved the Debtors' motions for:

(i) payment of employee wages and salaries and certain benefits and other employee obligations; (ii) payment of critical trade vendors, utilities and insurance in the ordinary course of business for both pre and post-petition expenses; (iii) access to a debtor-in-possession financing arrangement (see Note 7 for details of the executed agreement); and (iv) use of all company bank accounts for normal business operations. In September 2000, the Bankruptcy Court approved the Debtors' motion to reject four unexpired, non-residential real property leases and any associated subleases. The rejected leases include underutilized locations in: (i) Allentown, Pennsylvania; (ii) Denver, Colorado; (iii) Philadelphia, Pennsylvania; and (iv) Whippany, New Jersey. The successful rejection of the Whippany, New Jersey lease caused the company to reverse certain reserves that had previously been established related to closure of its discontinued operations. Additionally, in September 2001 the Bankruptcy Court approved the Debtors' motion for an extension of the period of time in which the Debtors can reject unexpired leases of non-residential real property up to and including January 1, 2002. Certain other motions filed by the Debtors have been granted and others are presently pending.

In September 2000 and October 2000, the Bankruptcy Court approved payments of up to approximately $2.6 million for retention bonuses to certain key employees. The bonuses were scheduled to be paid in two equal installments on (i) the later of the date of emergence from bankruptcy or December 31, 2000 and (ii) December 31, 2001. Due to events that have delayed the emergence from bankruptcy, the Bankruptcy Court approved early payment of the first installment to most individuals within the retention program and such payments, aggregating approximately $0.7 million, were made on March 15, 2001. The remaining portion of the first installment of approximately $0.5 million, which relates to the company's Chief Executive Officer and Executive Vice President, is scheduled for payment upon approval of a plan of reorganization by the Bankruptcy Court, and the second installment remains scheduled to be paid on December 31, 2001. The company is accruing monthly amounts as earned pursuant to the provisions of the retention plan.

On September 7, 2001, the Bankruptcy Court approved payments of up to $2.7 million for management incentive compensation bonuses (the "MIP Plan") related to the year ended December 31, 2000 for all individuals participating in the MIP Plan, except for the company's Chief Executive Officer. In connection therewith, payments were made to those individuals in September 2001.

On or about May 9, 2001, the Bankruptcy Court approved the Debtors' motion requesting authorization to enter into an insurance premium financing agreement with AICCO, Inc. (the "Financing Agreement") to finance the payment of premiums under certain of the Debtors' insurance policies. Under the terms of the Financing Agreement, the Debtors made a down payment of approximately $1.1 million. The amount financed is approximately $2.1 million and is secured by the unearned premiums and loss payments under the insurance policies covered by the Financing Agreement. The amount financed is being paid in eight monthly installments of approximately $0.3 million each, including interest at a per annum rate of 7.85%. In addition, AICCO, Inc. has the right to terminate the insurance policies and collect the unearned premiums (as administrative expenses) if the Debtors do not make the monthly payments called for by the Financing Agreement.

On October 29, 2001, the Debtors filed a motion with the Bankruptcy Court requesting approval of a proposed asset purchase agreement which would provide the authority for a non-debtor subsidiary of the company to sell certain durable medical equipment presently located at its New Orleans branch to a third party. A hearing on the motion will be held in November 2001; however, no assurances can be given that the Bankruptcy Court will approve the proposed transaction or that the parties will ultimately agree on a final asset purchase agreement.

CORAM HEALTHCARE CORPORATION
(DEBTOR-IN-POSSESSION)
NOTES TO UNAUDITED CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS - (CONTINUED)

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

On September 11, 2000, the Resource Network Subsidiaries filed a motion in the Debtors' Chapter 11 proceedings seeking, among other things, to have the two separate bankruptcy proceedings substantively consolidated into one proceeding. The Resource Network Subsidiaries and the Debtors engaged in discovery related to this substantive consolidation motion and, in connection therewith, the parties reached a settlement agreement in November 2000, which was approved by an order of the Bankruptcy Court. See Note 10 for further details.

On the same day that the Chapter 11 cases were filed, the Debtors filed their joint plan of reorganization (the "Joint Plan") and their joint disclosure statement with the Bankruptcy Court. The Joint Plan was subsequently amended and restated (the "Restated Joint Plan") and, on or about October 10, 2000, the Restated Joint Plan and the First Amended Disclosure Statement with respect to the Restated Joint Plan were authorized for distribution by the Bankruptcy Court. Among other things, the Restated Joint Plan provided for: (i) a conversion of all of the CI obligations represented by the company's Series A Senior Subordinated Unsecured Notes (the "Series A Notes") and the Series B Senior Subordinated Unsecured Convertible Notes (the "Series B Notes") into (a) a four-year, interest only note in the principal amount of $180 million, that would bear interest at the rate of 9% per annum and (b) all of the equity in the reorganized CI; (ii) the payment in full of all secured, priority and general unsecured debts of CI; (iii) the payment in full of all secured and priority claims against CHC; (iv) the impairment of certain general unsecured debts of CHC, including, among others, CHC's obligations under the Series A Notes and the Series B Notes; and (v) the complete elimination of the equity interests of CHC. Furthermore, pursuant to the Restated Joint Plan, CHC would be dissolved as soon as practicable after the effective date of the Restated Joint Plan and the stock of CHC would no longer be publicly traded. Therefore, under the Debtors' Restated Joint Plan, as filed, the existing stockholders of CHC would have received no value for their shares and all of the outstanding equity of CI as the surviving entity would be owned by the holders of the company's Series A Notes and Series B Notes. Representatives of the company negotiated the principal aspects of the Joint Plan with representatives of the holders of the company's Series A Notes and Series B Notes and Senior Credit Facility prior to the filing of such Joint Plan.

On or about October 20, 2000, the Restated Joint Plan and First Amended Disclosure Statement were distributed for a vote among persons holding impaired claims that were entitled to a distribution under the Restated Joint Plan. The Debtors did not send ballots to the holders of other types of claims and interested parties, including equity holders, as the holders of such claims and interested parties were deemed to reject the Restated Joint Plan. The tabulated vote of the unsecured creditors was in favor of the company's Restated Joint

Plan. However, culminating at a confirmation hearing on December 21, 2000, the Restated Joint Plan was not approved by the Bankruptcy Court. On April 25, 2001 and July 11, 2001, the Bankruptcy Court extended the period during which the Debtors have the exclusive right to file a plan or plans before the Bankruptcy Court to July 11, 2001 and August 1, 2001, respectively. Additionally, on August 2, 2001, the Bankruptcy Court extended the Debtors' exclusivity period to solicit acceptances of any filed plan or plans to November 9, 2001 (the date to solicit acceptances of the plan for CHC's equity holders was subsequently extended to November 12, 2001). On or about November 7, 2001, the company filed a motion seeking to extend the exclusivity dates to file a plan or plans and solicit acceptances thereof to December 31, 2001 and March 4, 2002, respectively. A hearing on the motion is scheduled for December 2001.

In order for the company to remain compliant with the requirements of Stark II, on December 29, 2000, pursuant to an order of the Bankruptcy Court, CI exchanged approximately $97.7 million of the Series A Notes and approximately $11.6 million of accrued but unpaid interest on the Series A Notes and the Series B Notes for 905 shares of CI Series A Cumulative Preferred Stock (see Notes 7 and 9 for further details). This transaction generated an extraordinary gain on troubled debt restructuring of approximately $107.8 million, net of tax, which was recorded in the fourth quarter of the year ended December 31, 2000. At December 31, 2000, the company's stockholders' equity exceeded the minimum Stark II requirement necessary to comply with the public company exemption. See Note 10 for further discussion regarding Stark II.

On or about February 6, 2001, the Official Committee of the Equity Security Holders (the "Equity Committee") filed a motion with the Bankruptcy Court seeking permission to bring a derivative lawsuit directly against the company's Chief Executive Officer, a former member of the Board of Directors and Cerberus Partners, L.P. (a party to the company's debtor-in-possession financing agreement, Senior Credit Facility and Securities Exchange Agreement). On February 26, 2001, the Bankruptcy Court ruled that the Equity Committee's motion would not be productive at that time and, accordingly, the motion was denied without prejudice. On the same day, the Bankruptcy Court approved the Debtors' motion and appointed Goldin Associates, L.L.C. ("Goldin") as independent restructuring advisors to the Independent Committee of the Board of Directors (the "Independent Committee"). Among other things, the scope of Goldin's services include (i) reporting its findings to the Independent Committee, including its assessment of the appropriateness of the Restated Joint Plan, and advising the Independent Committee respecting an appropriate course of action calculated to bring the Debtors' bankruptcy proceedings to a fair and satisfactory conclusion, (ii) preparing a written report as may be required by the Independent Committee and/or the Bankruptcy Court and (iii) appearing before the Bankruptcy Court to provide testimony, as needed. Goldin was also appointed as a mediator among the Debtors, the Equity Committee and other parties in interest.

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

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

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

In order to become effective, the Second Joint Plan is subject to a vote by certain impaired creditors and equity holders and final approval of the Bankruptcy Court. On September 6, 2001 and September 10, 2001, hearings before the Bankruptcy Court considered the adequacy of the Second Disclosure Statement and, in connection therewith, the Second Disclosure Statement was approved for distribution to holders of certain claims in interests who are entitled to vote on the Second Joint Plan. On or about September 21, 2001, the Debtors mailed ballots to those parties entitled to vote on the Second Joint Plan.

Among other things, the Equity Committee's motion to terminate the Debtors' exclusivity periods and file its own plan of reorganization was denied by the Bankruptcy Court on August 1, 2001. The Equity Committee also filed a motion protesting and objecting to the Debtors' Second Joint Plan. Moreover, the Official Committee of the Equity Security Holders and Official Committee of Unsecured Creditors in the Resource Network Subsidiaries' bankruptcy proceedings filed objections to confirmation of the Second Joint Plan and a motion to lift the automatic stay to pursue their claims against the company. Management of the company cannot predict what impact the Equity Committee or any other interested parties, including those parties associated with the Resource Network Subsidiaries' bankruptcy proceedings, will have on the Second Joint Plan.

The tabulation of the ballots distributed to the holders of certain claims in interests who were entitled to vote on the Second Joint Plan resulted in the CHC equity holders voting against confirmation of the Second Joint Plan and all other classes of claimholders voting in favor of the Second Joint Plan. The Bankruptcy Court may ultimately confirm a plan of reorganization notwithstanding the non-acceptance of the plan by an impaired class of creditors or equity holders if certain conditions of the Bankruptcy Code are satisfied; however, no assurances can be given regarding the confirmation of the Second Joint Plan. Bankruptcy Court confirmation hearings for final confirmation of the Second Joint Plan have commenced and will continue through early December 2001.

Under the Bankruptcy Code, certain claims against the Debtors in existence prior to the filing date are stayed while the Debtors continue their operations as debtors-in-possession. These claims are reflected in the Condensed Consolidated Balance Sheets as liabilities subject to compromise. Additional Chapter 11 bankruptcy claims have arisen and may continue to arise subsequent to the filing date resulting from the rejection of executory contracts, including certain leases, and from the determination by the Bankruptcy

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Court of allowed claims for contingencies and other disputed amounts. Parties affected by the rejections may file claims with the Bankruptcy Court in accordance with the provisions of the Bankruptcy Code and applicable rules. Claims secured by the Debtors' assets also are stayed, although the holders of such claims have the right to petition the Bankruptcy Court for relief from the automatic stay and foreclose on the property securing their claims. Additionally, certain claimants have sought relief from the Bankruptcy Court to remove the automatic stay and continue pursuit of their claims against the Debtors or the Debtors' insurance carriers.

The principal categories and balances of Chapter 11 bankruptcy claims accrued in the Condensed Consolidated Balance Sheets and included in liabilities subject to compromise are summarized as follows (in thousands) (December 31, 2000 liabilities subject to compromise have been adjusted from amounts previously reported to reflect the proposed $7.5 million reduction in performance bonuses payable to the company's Chief Executive Officer):

	SEPTEMBER 30 2001
Series A and Series B Notes in default and other long-term debt obligations	$153,422
Management incentive compensation liability	7,500
Liabilities of discontinued operations subject to compromise	2,936
Earn-out obligation	1,268
Accounts payable	1,113
Accrued merger and restructuring costs (primarily severance liabilities)	468
Legal and professional liabilities	98
Other	805
Total liabilities subject to compromise	$167,610

Subsequent to December 31, 2000, one of the Debtors' creditors issued pre-petition credits of approximately $1.1 million. These credits have been filed as claims against the Debtors' estates in the bankruptcy proceedings and have therefore been recorded as liabilities subject to compromise in the company's Condensed Consolidated Financial Statements.

In addition to the amounts disclosed in the table above, the holders of Coram, Inc.'s Series A Cumulative Preferred Stock continue to maintain a claim position within the Debtors' bankruptcy proceedings in the aggregate amount of their cumulative liquidation preference. Notwithstanding the debt to equity exchange, the aforementioned holders' priority in the Debtors' bankruptcy proceedings will be no less than it was immediately prior to said exchange.

Schedules were filed with the Bankruptcy Court setting forth the assets and liabilities of the Debtors as of the filing date as shown by the Debtors' accounting records. Differences between amounts shown by the Debtors and claims filed by creditors are being investigated and resolved. The ultimate amount and the settlement terms for such liabilities will be subject to the Second Joint Plan, which, as discussed above, has been voted on and is now subject to confirmation by the Bankruptcy Court. Therefore, it is not possible to fully or completely estimate the fair value of the liabilities subject to compromise at September 30, 2001 due to the Debtors' Chapter 11 cases and the uncertainty surrounding the ultimate amount and settlement terms for such liabilities.

Reorganization expenses are items of expense or income that are incurred or realized by the company as a result of the reorganization. These items include, but are not limited to, professional fees, expenses related to key employee retention plans, United States Trustee fees and other expenditures incurred relating to the Chapter 11 proceedings, offset by interest earned on cash accumulated related to the Debtors not paying their pre-petition liabilities and other expenditures incurred relating to the Chapter 11 proceedings. The principal components of reorganization expenses for the three and nine months ended September 30, 2001 are as follows (in thousands):

	THREE MONTHS ENDED SEPTEMBER 30,		NINE MONTHS SEPTEMBER
	2001	2000	2001
Legal, accounting and consulting fees	$ 3,525	$ 1,554	$ 8,771
Key employee retention plan expenses	413	310	1,498
United States Trustee fees	12	10	31
Interest income	(211)	(13)	(297)
Total reorganization expenses, net	$ 3,739	$ 1,861	$ 10,003

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3. DISCONTINUED OPERATIONS

In November 1999, following the filing of voluntary bankruptcy petitions for the Resource Network Subsidiaries and the plan to liquidate the R-Net division, Coram disclosed as Net Liabilities of Discontinued Operations in the Condensed Consolidated Financial Statements the excess of R-Net's liabilities over its assets. Coram also separately reflected R-Net's operating results in the Condensed Consolidated Statements of Operations as Discontinued Operations.

For the three and nine months ended September 30, 2001, no Losses from Operations of Discontinued Operations of R-Net were reflected in the company's Condensed Consolidated Statements of Operations. The $3.2 million Loss from Disposal of Discontinued Operations for the nine months ended September 30, 2000 includes additional reserves for litigation and other wind-down costs resulting from R-Net's Chapter 11 bankruptcy proceedings. The components of the net liabilities of discontinued operations included in the Condensed Consolidated Balance Sheets are summarized as follows (in thousands):

	SEPTEMBER 30, 2001
Cash	$ 1,401
Intercompany receivable (payable)	(34)
Accounts payable	(29,461)
Accrued expenses	(1,348)
Other long-term liabilities	--
	(29,442)
Net liabilities subject to compromise under Debtors' Chapter 11 case	2,936
Net liabilities of Discontinued Operations	$(26,506)

As of September 30, 2001, approximately $27.5 million of the liabilities related to the discontinued operations were subject to compromise under the R-Net Chapter 11 bankruptcy proceedings.

All of the R-Net locations have been closed in connection with the pending liquidation of R-Net. Additionally, Coram employees who were members of the Resource Network Subsidiaries' Board of Directors resigned during the year ended December 31, 2000 and currently only the Chief Restructuring Officer appointed by the Bankruptcy Court remains on the Board of Directors to manage and operate the liquidation of the R-Net business.

4. SALE OF CPS AND OTHER BUSINESSES

On July 31, 2000, the company completed the sale of substantially all of the assets and assignment of certain related liabilities of the CPS business to Curascript Pharmacy, Inc. and Curascript PBM Services, Inc. (collectively the "Buyers") for a one-time cash payment of approximately $41.3 million. The Buyers were effectively a management-led group that was financed by GTCR Golder Rauner, L.L.C. During the quarter ended September 30, 2000, the company recorded a gain of approximately $18.1 million related to the sale of the CPS business. The cash proceeds, after related expenses, were applied to the remaining principal balance under the company's revolving line of credit of $28.5 million and an additional $9.5 million was applied to the principal balance of the Series A Senior Subordinated Unsecured Notes. See Note 7 for further details.

Pursuant to a contingent consideration arrangement related to one of the company's operating subsidiaries, approximately $0.4 million was recognized as incremental proceeds during the three months ended September 30, 2000. The contingency related to the operating activities of the subsidiary through June 30, 2000. Upon payment of the contingent consideration, substantially all conditions of the initial sale and purchase agreement were satisfied.

5. RELATED PARTY TRANSACTIONS

The company's current Chairman, Chief Executive Officer and President, Daniel D. Crowley, owns a consulting company (Dynamic Healthcare Solutions, LLC ("DHS")) from which the company purchased services. Effective with the Debtors' Chapter 11 filings in the Bankruptcy Court, DHS employees who were serving as consultants to Coram terminated their employment with DHS and became fulltime Coram employees. Subsequent to December 31, 2000 and through November 16, 2001, approximately $0.2 million was paid to Mr. Crowley's company for overhead costs of the consulting company's Sacramento, California location that are directly attributable to the duties that Mr. Crowley performed on behalf of Coram in 2001. For the three and nine months ended September 30, 2000, the company paid approximately $0.1 million and $0.4 million, respectively, to Mr. Crowley's consulting company for consulting services and reimbursable expenses.

Effective August 2, 2000, the company's Board of Directors approved a contingent bonus to Mr. Crowley. Under the agreement, subject to certain material terms and conditions, Mr. Crowley is to be paid $1.8 million following the successful refinancing of the company's debt. In connection therewith and the debt to preferred stock exchange discussed in Notes 2 and 7, the company recorded a $1.8 million reorganization expense for the success bonus in 2000. Such success bonus will not be payable until such time as the Debtors' or another interested party's plan of reorganization is fully approved by the Bankruptcy Court.

As more fully discussed in Note 2, Mr. Crowley's incentive compensation may be reduced by $7.5 million in connection with the Debtors' Second Joint Plan. Such amount is recorded as current liabilities subject to compromise in the accompanying Condensed Consolidated Balance Sheets.

Effective August 1, 1999, Mr. Crowley and Cerberus Capital Management, L.P. (an affiliate of Cerberus Partners, L.P. ("Cerberus"), a party to the company's debtor-in-possession financing agreement, Senior Credit Facility and Securities Exchange Agreement), executed an agreement whereby Mr. Crowley is paid by Cerberus approximately $1 million per annum plus the potential of performance related bonus opportunities, equity options and fringe benefits. The services rendered by Mr. Crowley to Cerberus include, but are not limited to, providing business and strategic healthcare investment advice to executive management at Cerberus and its affiliates. Moreover, Mr. Crowley is the Chairman of the Board of Directors of Winterland Productions, Inc. ("Winterland"), a privately held affinity merchandise company in which an interest is owned by an affiliate of Cerberus. On January 2, 2001, Winterland voluntarily filed for protection under Chapter 11 of the United States Bankruptcy Code in the Northern District of California.

6. ACQUISITIONS AND RESTRUCTURING

Acquisitions. Certain agreements related to previously acquired businesses or interests therein provide for additional contingent consideration to be paid by the company. The amount of additional consideration, if any, is generally based on the financial performance levels of the acquired companies. As of September 30, 2001, the company may be required to pay approximately $1.3 million under such contingent obligations. However, payment of such amounts has been stayed by the Debtors' bankruptcy proceedings. Subject to certain elections by the company or the sellers, $0.6 million of these contingent obligations may be paid in cash. In the period these payments become probable, they are recorded as additional goodwill. No payments were made during the nine months ended September 30, 2001 but approximately $0.1 million was paid during the nine months ended September 30, 2000. See Note 10 for further details concerning contingencies relative to earn-out payments.

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

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

Under the Caremark Business Consolidation Plan and the Coram Restructure Plan, the total charges through September 30, 2001, the estimate of total future cash expenditures and the estimated total charges are as follows (in thousands):

	CHARGES THROUGH SEPTEMBER 30, 2001			BAL
	CASH EXPENDITURES	NON-CASH CHARGES	TOTAL	
Caremark Business Consolidation Plan:				
Personnel reduction costs	$ 11,300	$ --	$ 11,300	
Facility reduction costs	10,250	3,900	14,150	
Subtotal	21,550	3,900	25,450	
Coram Restructure Plan:				
Personnel reduction costs	2,361	--	2,361	
Facility reduction costs	995	--	995	
Subtotal	3,356	--	3,356	
Totals	$ 24,906	$ 3,900	$ 28,806	
Restructuring costs subject to compromise				

Accrued Merger and Restructuring Costs
Per the Condensed Consolidated Balance Sheets ...

During the nine months ended September 30, 2001, significant items impacting the restructuring reserves that were not subject to compromise are summarized as follows (in thousands):

Balance at December 31, 2000	$ 2,301
Activity during the nine months ended September 30, 2001:	
Payments under the plans	(904)
Reversals principally due to changes in estimates attributable to leased facilities (lease assumption by a third party) and severance obligations	(583)
Balance at September 30, 2001	$ 814

The company estimates that the future cash expenditures related to the restructuring plans stated above will be made in the following periods: 66% through September 30, 2002, 18% through September 30, 2003, 9% through September 30, 2004 and 7% thereafter.

7. DEBT OBLIGATIONS

Debt obligations are as follows (in thousands):

Debtor-In-Possession Financing Agreement ....
Senior Credit Facility ....
Series A Senior Subordinated Unsecured Notes in default ....
Series B Senior Subordinated Unsecured Convertible Notes in default ....
Insurance and accreditation notes payable ....
Other obligations, including capital leases, at interest rates ranging from 7.5% to 13.1% ....

Less: Debt obligations subject to compromise ....
Less: Current scheduled maturities ....

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

The recognition of interest expense pursuant to SOP 90-7 is appropriate during the Chapter 11 proceedings if it is probable that such interest will be an allowed priority, secured or unsecured claim. The Debtors' Second Joint Plan (see Note 2), if approved, will effectively eliminate all post-petition interest on pre-petition borrowings. Accordingly, no interest expense is being recorded on pre-petition unsecured indebtedness. The ultimate confirmed plan put forth by the Debtors or any other party in interest may have a similar effect on post-petition interest; however, appropriate approvals in accordance with the Bankruptcy Code will be required.

Exit Financing Facility. In connection with the Chapter 11 cases, on October 26, 2001, CI filed a draft of the Exit Financing Facility with the Bankruptcy Court together with other draft documents relating to the Second Joint Plan. The proposed lenders under the Exit Financing Facility would include the Holders or affiliates thereof. The agreement contemplates that CI could access, as necessary, a revolving credit facility of up to $40 million for use in connection with payments under the Second Joint Plan and for general working capital and corporate purposes of the company and its subsidiaries. If approved, the Exit Financing Facility will mature the earlier of December 2004 or the date on which the revolving loans shall become due and payable in accordance with the terms of the agreement. No assurances can be given that the parties will ultimately agree to the terms and conditions as set forth in the proposed Exit Financing Facility agreement or that such agreement will be approved by the Bankruptcy Court.

Debtor-In-Possession ("DIP") Financing Agreement. In connection with the Chapter 11 Bankruptcy Court filings, effective August 30, 2000, the Debtors entered into a secured debtor-in-possession financing agreement with Madeleine L.L.C. ("Madeleine"), an affiliate of Cerberus Partners, L.P. Prior to entering into the DIP financing agreement, management and the Board of Directors solicited advice from the company's financial advisors. Such advisors indicated that the terms and conditions of the DIP financing agreement were generally favorable when compared to a company with Coram's financial history. The agreement provided that the Debtors could access, as necessary, a line of credit of up to $40 million for use in connection with the operation of their businesses and the businesses of their subsidiaries. On September 12, 2000, the Bankruptcy Court issued an order approving the DIP financing agreement.

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The DIP financing agreement expired by its terms on August 31, 2001. The DIP financing agreement provided for maximum borrowings generally equal to the product of: (i) 65% of Net Eligible Accounts Receivable, as defined in the underlying agreement, and (ii) 95%. During the term of the DIP financing agreement, no borrowings had been made thereunder. The DIP financing agreement was secured by the capital stock of the Debtors' subsidiaries, as well as, the accounts receivable and certain other assets held by the Debtors and their subsidiaries. Under the DIP financing agreement, among other nominal fees, the Debtors paid a fee of 1% or $0.4 million and were liable for commitment fees on the unused facility at a rate of 0.5% per annum, payable monthly in arrears.

Management is currently negotiating a renewal of the DIP financing agreement; however, no assurances can be given that the parties will ultimately agree to the terms and conditions of such renewal or that a renewal will be approved by the Bankruptcy Court.

Senior Credit Facility. On August 20, 1998, the company entered into the Senior Credit Facility, which provided for the availability of up to $60.0 million for acquisitions, working capital, letters of credit and other corporate purposes. The terms of the agreement also provided for the issuance of letters of credit of up to $25.0 million provided that available credit would not fall below zero. In connection with the sale of CPS, effective July 31, 2000, the company reduced its outstanding borrowings under the Senior Credit Facility by $28.5 million, leaving only irrevocable letter of credit obligations totaling $2.7 million outstanding. Furthermore, on September 21, 2000 and January 29, 2001, the company permanently reduced the Senior Credit Facility commitment to $2.7 million and $2.1 million, respectively, in order to reduce the fees related to commitments on which the company was not able to borrow against due to the Debtors' bankruptcy proceedings. Effective February 6, 2001, the Lenders and the company terminated the Senior Credit Facility. In connection with the termination of the Senior Credit Facility and pursuant to orders of the Bankruptcy Court, the company established new letters of credit through Wells Fargo Bank Minnesota, NA ("Wells Fargo") and such new letters of credit are fully secured by interest bearing cash deposits of the company held by Wells Fargo.

The Senior Credit Facility provided for interest on outstanding indebtedness at the rate of prime plus 1.5%, payable in arrears. Additionally, the terms of the agreement provided for a fee of 1.0% per annum on the outstanding letter of credit obligations, also payable in arrears. The Senior Credit Facility further provided for additional fees to be paid on demand to any letter of credit issuer pursuant to the application and related documentation under which such letters of credit are issued. The Senior Credit Facility was secured by the capital stock of the company's subsidiaries, as well as, the accounts receivable and certain other assets held by the company and its subsidiaries. The Senior Credit Facility contained other customary covenants and events of default.

Among other fees, the company incurred approximately $0.8 million upon consummation of the Senior Credit Facility and was thereafter liable for commitment fees on the unused facility at 0.375% per annum, due quarterly in arrears. Additionally, the terms of the agreement provided for the issuance of warrants to purchase up to 1.9 million shares of the company's common stock at $0.01 per share, subject to customary anti-dilution adjustments (the "1998 Warrants"). The estimated fair value of the 1998 Warrants was determined on the date of issuance and capitalized as deferred debt issuance costs. Such costs were amortized ratably to interest expense over the life of the Senior Credit Facility; however, contemporaneous with the permanent reduction of the borrowing capacity on September 21, 2000, the company charged to interest expense approximately $1.1 million of remaining deferred debt issuance costs related to the Senior Credit Facility. The 1998 Warrants expired on February 6, 2001 when the Senior Credit Facility was terminated.

Securities Exchange Agreement. On May 6, 1998, the company entered into the Securities Exchange Agreement with the Holders of its subordinated rollover note (the "Rollover Note"). While the Rollover Note was outstanding, the Holders had the right to receive warrants to purchase up to 20% of the outstanding common stock of the company (the "Rollover Note Warrants") on a fully diluted basis. Effective April 13, 1998, the Securities Exchange Agreement provided for the cancellation of the Rollover Note, including deferred interest and fees, and the Rollover Note Warrants in an exchange for the payment of $4.3 million in cash and the issuance by the company to the Holders of (i) $150.0 million in principal amount of Series A Notes and (ii) $87.9 million in principal amount of 8.0% Series B Notes. Additionally, the Holders of the Series A Notes and the Series B Notes were given the right to approve certain new debt and the right to name one director to the company's Board of Directors. Such director was elected to the Board of Directors in June 1998 and reelected in August 1999; however, the designated board member resigned in July 2000 and has not been replaced.

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

On December 28, 2000, the Debtors announced the Bankruptcy Court's approval of their request to exchange a sufficient amount of debt and related accrued interest for equity in the form of Coram, Inc. Series A Cumulative Preferred Stock in order to maintain compliance with the physician ownership and referral provisions of the Omnibus Budget Reconciliation Act of 1993 (commonly referred to as "Stark II"). On December 29, 2000, the Securities Exchange Agreement was amended ("Amendment No. 4") and an Exchange Agreement was simultaneously executed among the Debtors and the Holders. Pursuant to such arrangements, the Holders agreed to exchange approximately $97.7 million aggregate principal amount of the Series A Notes and $11.6 million of aggregate unpaid accrued contractual interest on the Series A Notes and the Series B Notes as of December 29, 2000 for 905 shares of Coram, Inc. Series A Cumulative Preferred Stock (see Note 9 for further details regarding the preferred stock). Following the exchange, the Holders retain approximately $61.2 million aggregate principal amount of the Series A Notes and $92.1 million aggregate principal amount of the Series B Notes. Pursuant to Amendment No. 4, the per annum interest rate on both the Series A Notes and the Series B Notes has been adjusted to 9.0%. Moreover, the Series A Notes' and Series B Notes' original scheduled maturity dates of May 2001 and April 2008, respectively, have both been modified to June 30, 2001. Due to the Holders receipt of consideration with a fair value less than the face value of the exchanged principal and accrued interest, the exchange transactions qualified as a troubled debt restructuring pursuant to Statement of Financial Accounting Standards No. 15, Accounting by Debtors and Creditors for Troubled Debt Restructurings ("SFAS No. 15"). In connection therewith, the company recognized an extraordinary gain during the fourth quarter of the year ended December 31, 2000 of approximately $107.8 million, net of tax.

Although the principal amounts under the Series A Notes and Series B Notes were not paid on June 30, 2001 and the company is in technical default of the Securities Exchange Agreement, the Holders are stayed from any remedies pursuant to the provisions of the United States Bankruptcy Code.

The Securities Exchange Agreement, pursuant to which the Series A Notes and the Series B Notes were issued, contains customary covenants and events of default. Upon the Debtors' Chapter 11 bankruptcy filings, the company was in violation of certain covenants and conditions thereunder; however, such bankruptcy proceedings have stayed any remedial actions by either the Debtors or the Holders. Additionally, the company was not in compliance with other covenants relating to certain contractual relationships its wholly-owned Resource Network Subsidiaries had with certain parties that were contracted to provide services pursuant to the Aetna Master Agreement, effective May 1, 1998, and to other covenants relating to the capitalization of subsidiaries. The company received waivers from its lenders regarding such events of noncompliance. The voluntary filing of Chapter 11 bankruptcy petitions by the Resource Network Subsidiaries caused further defaults under the Securities Exchange Agreement; however, such defaults were waived by the Holders. In connection with these waivers and the waivers provided for certain matters of noncompliance under the Senior Credit Facility, the company and the Holders entered into an amendment on November 15, 1999 pursuant to which the Holders agreed that no interest on the Series A Notes and the Series B Notes would be due for the period from November 15, 1999 through the earlier of (i) final resolution of the litigation with Aetna or (ii) May 15, 2000. The Aetna litigation was settled on April 20, 2000 and, as a result, the obligation to pay interest on the Series A Notes and the Series B Notes resumed on such date. However, due to the Debtors' Chapter 11 bankruptcy filings no interest is being paid subsequent to August 8, 2000.

Other than the aforementioned default for non-payment of principal on June 30, 2001, management believes that at September 30, 2001 the company was in compliance with all other covenants of the Securities Exchange Agreement. There can be no assurance as to whether further covenant violations or defaults will occur in future periods and whether any necessary waivers would be granted.

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At the election of the company, the Series A Notes and the Series B Notes are scheduled to pay interest quarterly in arrears in cash or through the issuance of pari passu debt securities, except that Holders can require the company to pay interest in cash if the company exceeds a predetermined interest coverage ratio. Notwithstanding the contractual terms of the Securities Exchange Agreement, no interest is being paid subsequent to August 8, 2000 due to the Debtors' ongoing bankruptcy proceedings. Pursuant to the troubled debt restructuring rules promulgated under SFAS No. 15 and other accounting rules under SOP 90-7, no interest expense was recognized in the company's consolidated financial statements relative to the Series A Notes and the Series B Notes from December 29, 2000 through September 30, 2001.

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

In connection with the disposition of CPS, effective July 31, 2000, the company applied $9.5 million of the net cash proceeds derived therefrom to prepay a portion of the principal amount outstanding under the Series A Notes. The Holders of the Series A Notes waived the 103% prepayment premium thereby permitting the company to reduce the then outstanding principal balance by the full amount of the payment.

8. INCOME TAXES

During the nine months ended September 30, 2001 and 2000, the company recorded income tax expense of approximately $0.2 million and $0.3 million, respectively. The effective income tax rate for the nine-month period ended September 30, 2001 is higher than the statutory rate because the company is not recognizing the deferred income tax benefits potentially generated by the current period loss. The effective income tax rate for the nine-month period ended September 30, 2000 is lower than the statutory rate because the company is able to utilize net operating loss carryforwards ("NOLs") which are fully reserved in the valuation allowance. As of September 30, 2001, deferred tax assets were net of a $146.5 million valuation allowance. Realization of deferred tax assets is dependent upon the company's ability to generate taxable income in the future. Deferred tax assets have been limited to amounts expected to be recovered, net of deferred tax liabilities that would otherwise become payable in the carryforward period. As management believes that realization of the balance of deferred tax assets is sufficiently uncertain at this time, the balances were fully offset by valuation allowances at both September 30, 2001 and December 31, 2000.

Deferred taxes relate primarily to temporary differences consisting, in part, of accrued restructuring costs, the charge for goodwill and other long-lived assets, allowances for doubtful accounts, R-Net reserves and other accrued liabilities that are not deductible for income tax purposes until paid or realized and NOLs that may be deductible against future taxable income. As of September 30, 2001, the company had NOLs of approximately $174.0 million that are available to offset future federal taxable income and expire in varying amounts in the years 2002 through 2019. This NOL balance includes approximately $36.4 million generated prior to the creation of Coram through the merger by and among T2 Medical, Inc., Curaflex Health Services, Inc., HealthInfusion, Inc. and Medisys, Inc. Such pre-merger NOL amounts are subject to an annual usage limitation of approximately $4.5 million. The ability to utilize the full amount of the $174.0 million of NOLs is uncertain due to income tax rules related to changes in ownership.

As a result of the issuance of Coram, Inc. Series A Cumulative Preferred Stock in December 2000 (see Note 9), the company effectuated a deconsolidation of its group for federal income tax purposes. Accordingly, subsequent income tax returns will be filed with Coram, Inc. as the parent company of the new consolidated group and Coram Healthcare Corporation will file its own separate income tax returns. The issuance of the preferred stock also caused an ownership change at Coram, Inc. for federal income tax purposes. However, Coram, Inc. currently operates as a debtor-in-possession under the jurisdiction of the Bankruptcy Court and it meets certain other bankruptcy related conditions of the Internal Revenue Code ("IRC"). The bankruptcy provisions of IRC Section 382 impose limitations on the utilization of NOLs and other tax attributes.

In January 1999, the Internal Revenue Service ("IRS") completed an examination of the company's federal income tax return for the year ended September 30, 1995 and proposed substantial adjustments to the prior tax liabilities. The company previously agreed to adjustments of $24.4 million that only affect available NOLs. The issues involve the deductibility of warrants, write-off of goodwill and the ability of the company to categorize certain NOLs as specified liability losses and offset income in prior years. The alleged deficiency totaled approximately $12.7 million (obtained from federal tax refunds), plus interest and penalties to be determined. In May 1999, the company received a statutory notice of deficiency with respect to the proposed adjustments seeking to recover the amount of taxes previously refunded. In August 1999, the company filed a petition with the United States Tax Court ("Tax Court") contesting the notice of deficiency. The IRS responded to the petition and requested the petition be denied. The Tax Court proceeding is currently stayed by reason of the Debtors' bankruptcy proceedings.

Pursuant to standard IRS procedures, the resolution of the issues contained in the Tax Court petition were assigned to the administrative appeals function of the IRS. The company has tentatively reached a settlement agreement with the IRS Appeals office on the aforementioned issues. The settlement, if approved by the Joint Committee of Taxation and, if necessary, the Bankruptcy Court, would result in a federal tax liability of approximately $9.9 million, plus interest. In connection therewith, the accompanying Condensed Consolidated Financial Statements include reserves for the proposed liabilities, including approximately $5.5 million of incremental interest expense for the nine months ended September 30, 2001. The federal income tax adjustments would also give rise to additional state tax liabilities. If the company is not able to negotiate an installment plan with the IRS with respect to the proposed settlement amount or if either the Joint Committee of Taxation or the Bankruptcy Court do not approve the proposed settlement amount, the financial position and liquidity of the company could be materially adversely affected.

9. MINORITY INTERESTS

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

	SEPTEMBER 30, 2001	DECEMBER 31, 2000
Series A Cumulative Preferred Stock of Coram, Inc.	$ 5,522	$5,522
Majority-owned companies	557	456
Total minority interests	$ 6,079	$5,978

On December 29, 2000, Coram, Inc. ("CI"), a wholly-owned subsidiary of Coram Healthcare Corporation, executed the Exchange Agreement with the Holders of CI's Securities Exchange Agreement (see Note 7 for further details) to exchange approximately $97.7 million of the Series A Notes and approximately $11.6 million of accrued but unpaid interest on the Series A Notes and Series B Notes in exchange for 905 shares of CI Series A Cumulative Preferred Stock, $0.001 par value per share, having an aggregate liquidation preference of approximately $109.3 million (hereinafter referred to as the "Preferred Stock"). The Preferred Stock was issued to the Holders on a pro rata basis. Through an independent valuation, it was determined that the Preferred Stock had a fair value of approximately $6.1 million and such amount, offset by certain legal and other closing costs, nets to approximately $5.5 million.

The authorized CI Preferred Stock consists of 10,000 shares, and the only shares issued and outstanding at September 30, 2001 are those pursuant to the Exchange Agreement. So long as any shares of the Preferred Stock are outstanding, the Holders are entitled to receive preferential dividends at a rate of 15% per annum on the liquidation preference amount. Dividends are payable on a quarterly basis on the last business day of each calendar quarter. Prior to the effective date of the Debtors' plan of reorganization, dividends are to be paid in the form of additional shares of Preferred Stock having a liquidation preference amount equal to such dividend amount. Subsequent to the effective date of a plan of reorganization, at CI's election, dividends will be payable in cash or shares of common stock of CI having a fair value equal to such cash dividend payment, as determined by a consensus of investment banking firms acceptable to the Holders. In the event of default, the dividend rate shall increase to 16% per annum until such time that the event of default is cured. All dividends are to include tax indemnities and gross-up provisions (computed subsequent to the company's tax fiscal year end in connection with the preparation of the company's income tax returns) as are appropriate for transactions of this nature. In-kind dividends earned during the nine months ended September 30, 2001, exclusive of any tax indemnities and gross-up provisions, aggregated approximately 107 shares and had a liquidation preference of approximately $12.9 million.

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

Subsequent to the effective date of a plan of reorganization, each share of Preferred Stock will be entitled to one vote and shall vote together with the shares of CI's common stock on all matters submitted to a vote of stockholders. The Preferred Stock would have had 47.5% of CI's total voting power on December 31, 2000; however, such voting rights are temporarily suspended during the Debtors' bankruptcy proceedings. Subsequent to the effective date of a plan of reorganization, the Holders will have the right to appoint three directors out of a total of seven directors to CI's Board of Directors, and a quorum in meetings of the Board of Directors shall be constituted by the presence of a majority of the members, at least two of whom must be directors appointed by the Holders. During the pendency of CI's bankruptcy proceedings, the Holders have the right to appoint two directors to CI's Board of Directors. Alternatively, if no Board of Directors representation is elected by the Holders, they retain the right to appoint one observer.

The Preferred Stock is redeemable at the option of CI, in whole or in part, at any time, on not less than thirty days prior written notice, at the liquidation preference amount plus any accrued but unpaid dividends. Redemption may be made in the form of cash payments only. As of November 16, 2001, the aggregate Preferred Stock liquidation preference was approximately $122.2 million.

The Debtors' Second Joint Plan (Note 2), if confirmed in its current form, would effectively retire all of the currently outstanding Preferred Stock on or before the Plan's effective date.

10. LITIGATION AND CONTINGENCIES

Bankruptcy Proceedings. On August 8, 2000, the Debtors filed voluntary petitions for relief under Chapter 11 of the United States Bankruptcy Code with the United States Bankruptcy Court for the District of Delaware, In Re: Coram Healthcare Corporation and Coram, Inc., Case Nos. 00-3299 (MFW) and 00-3300 (MFW) (collectively the "Chapter 11 Cases"), respectively. The proceedings have been consolidated for administrative purposes only by the United States Bankruptcy Court in Delaware and are being administered under the docket of In Re: Coram Healthcare Corporation, Case No. 00-3299 (MFW). None of the Debtors' other subsidiaries are a debtor in the proceeding. See Note 2 for further details.

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

Official Committee of the Equity Security Holders' Matters. A committee of persons claiming to own shares of the company's publicly-traded common stock (the "Equity Committee") filed motions objecting to the Restated Joint Plan and the Second Joint Plan of reorganization, contending, among other things, that the company's valuation upon which the Restated Joint Plan of reorganization was premised and the underlying projections and assumptions were flawed. On December 21, 2000, the Bankruptcy Court determined not to confirm the Restated Joint Plan. The company and the Equity Committee are involved in a review of certain company information regarding, among other things, the Equity Committee's contentions. Moreover, on July 30, 2001, the Equity Committee filed a motion to terminate the Debtors' exclusivity period and file its own plan or reorganization; however, the motion was denied by the Bankruptcy Court. The CHC equity holders, including the Equity Committee, voted against confirmation of the Second Joint Plan.

Additionally, on or about February 6, 2001, the Equity Committee filed a motion with the Bankruptcy Court seeking permission to bring a derivative lawsuit directly against the company's Chief Executive Officer, a former member of the Board of Directors and Cerberus Partners, L.P. (a party to the company's debtor-in-possession financing agreement, Senior Credit Facility and Securities Exchange Agreement). The Equity Committee's lawsuit alleged a collusive plan whereby the named parties conspired to devalue the company for the benefit of the company's creditors under the Securities Exchange Agreement. On February 26, 2001, the Bankruptcy Court ruled that the Equity Committee's motion would not be productive at that time and, accordingly, the motion was denied without prejudice.

Management cannot predict whether any future objections of the Equity Committee will be forthcoming or if they would prevent confirmation of the Second Joint Plan set forth by management. Management also cannot predict if any other actions of the Equity Committee will have adverse consequences to the company.

Resource Network Subsidiaries' Bankruptcy. On November 12, 1999, the Resource Network Subsidiaries filed voluntary petitions under Chapter 11 of the United States Code in the United States Bankruptcy Court for the District of Delaware, Case No. 99-2889 (MFW). On August 19, 1999, a small group of parties with claims against the Resource Network Subsidiaries filed an involuntary bankruptcy petition under Chapter 11 against Coram Resource Network, Inc. in the United States Bankruptcy Court for the District of Delaware. The two proceedings were consolidated by stipulation of the parties and the case is pending under the style, In Re Coram Resource Network, Inc. and Coram Independent Practice Association, Inc., Case No. 99-2889 (MFW). The Resource Network Subsidiaries are now being liquidated pursuant to the proceedings. The Chief Restructuring Officer of the Resource Network Subsidiaries had threatened suit on behalf of the estates against CHC. The draft complaint included claims for damages against CHC and certain of its former and current officers and directors in excess of $41 million. The draft complaint included a threat to pierce the corporate veil of the Resource Network Subsidiaries to reach CHC and included claims of breaches by the officers and directors of their fiduciary duties to the Resource Network Subsidiaries and CHC.

On September 11, 2000, the Resource Network Subsidiaries filed a motion in the Debtor's Chapter 11 proceedings seeking, among other things, to have the two separate bankruptcy proceedings substantively consolidated into one proceeding. If granted, the Chapter 11 proceedings involving the Resource Network Subsidiaries and the Chapter 11 proceedings involving the Debtors would have been combined such that the assets and liabilities of the Resource Network Subsidiaries would be joined with the assets and liabilities of the Debtors, the liabilities of the combined entity would be satisfied from their combined funds and all intercompany claims would be eliminated. Furthermore, the creditors of both proceedings would have voted on any reorganization plan for the combined entities. The Resource Network Subsidiaries and the Debtors engaged in discovery related to this substantive consolidation motion and, in connection therewith, the parties reached a settlement agreement in November 2000. The settlement agreement was approved by the Bankruptcy Court in December 2000 and the Debtors made a payment of $0.5 million to the Resource Network Subsidiaries in January 2001.

Notwithstanding the withdrawal of the substantive consolidation motion, the Resource Network Subsidiaries still maintain proofs of claim in excess of $41 million against each of CHC's and CI's estates and the company maintains a reciprocal claim of approximately the same amount against the Resource Network Subsidiaries' estate. Additionally, the Official Committee of the Equity Security Holders and Official Committee of Unsecured Creditors in the Resource Network Subsidiaries' bankruptcy proceedings filed an objection to confirmation of the Second Joint Plan and a motion to lift the automatic stay to pursue their claims against the company. The ultimate outcome of these matters cannot be predicted with any degree of certainty, but management, in consultation with legal counsel, does not believe that the final resolution of these matters or other matters raised by the Resource Network Subsidiaries' Chief Restructuring Officer will have a material adverse impact on the company's financial position or results of operations.

Aetna U.S. Healthcare, Inc. On June 30, 1999, the company filed a complaint (the "Coram Complaint") against Aetna in the United States District Court for the Eastern District of Pennsylvania setting forth claims against Aetna for fraud, misrepresentation, breach of contract and rescission relating to the Master Agreement between the parties for ancillary network management services through the Resource Network Subsidiaries. On June 30, 1999, the company received a copy of a complaint (the "Aetna Complaint") that had been filed by Aetna on June 29, 1999 in the Court of Common Pleas of Montgomery County, Pennsylvania. The Aetna Complaint sought specific performance, injunctive relief and declaratory relief to compel the company to perform under the Master Agreement, including the payment of compensation to the healthcare providers that had rendered and continued to render services to Aetna's health plan members. As stated in the Aetna Complaint, Aetna disputed the company's right to terminate the Agreement. The company removed the Aetna Complaint to federal court. On July 20, 1999, Aetna filed a counterclaim against the company in the federal court lawsuit brought by the company. In its counterclaim, Aetna sued the company for, among other things, breach of the

Master Agreement and fraudulent misrepresentation, contending the company never intended to perform under the Master Agreement, defamation, interference with contractual relations with providers and interference with prospective contractual relations with other companies that allegedly bid for the Master Agreement.

On April 20, 2000, the company and Aetna reached an amicable resolution to the then outstanding disputes and, in connection therewith, all claims and counterclaims amongst the parties were dismissed from the courts of appropriate jurisdiction. The final resolution of these matters did not have a material effect on the company's consolidated financial position or results of operations. The impact of this dispute resolution has been charged to discontinued operations in the accompanying condensed consolidated financial statements during the nine months ended September 30, 2000.

Apria Healthcare, Inc. Apria Healthcare, Inc. and one of its affiliates, Apria Healthcare of New York State, Inc., (collectively "Apria") filed suit against CHC and the Resource Network Subsidiaries in the Superior Court of Orange County, California. Apria's claims related to services that were rendered as part of certain home health provider networks managed by the Resource Network Subsidiaries. Apria's complaint alleged that, among other things, the Resource Network Subsidiaries operated as the alter ego of CHC and, as a result, CHC should be declared responsible for the alleged breaches of the contracts that the Resource Network Subsidiaries had with Apria. The complaint included requests for declaratory, compensatory and other relief in excess of $1.4 million. On February 21, 2001, the company and Apria agreed to a "dismissal without prejudice" from the Superior Court of Orange County, California with each party responsible for its own legal fees.

TBOB Enterprises, Inc. On July 17, 2000, TBOB Enterprises, Inc. ("TBOB") filed an arbitration demand against CHC (TBOB Enterprises, Inc. f/k/a Medical Management Services of Omaha, Inc. against Coram Healthcare Corporation, in the American Arbitration Association office in Dallas, Texas). In its demand, TBOB claims that the company breached its obligations under an agreement entered into by the parties in 1996 relating to a prior earn-out obligation of the company that originated from the acquisition of the claimant's prescription services business in 1993 by a wholly-owned subsidiary of the company. The company operated the business under the name Coram Prescription Services ("CPS") and the assets of the CPS business were sold on July 31, 2000. See Note 4 for further details. TBOB alleges, among other things, that the company has impaired the earn-out payments due TBOB by improperly charging certain expenses to the CPS business and failing to fulfill the company's commitments to enhance the value of CPS by marketing its services. The TBOB demand alleges damages of more than $0.9 million. TBOB contends that this amount must be paid in addition to the final scheduled earn-out payment of approximately $1.3 million that was due in March 2001. Furthermore, pursuant to the underlying agreement with TBOB, additional liabilities related to post-petition interest on the final scheduled earn-out payment may result. In accordance with SOP 90-7, such interest, aggregating approximately $0.1 million through September 30, 2001 based on an 18% interest rate, has not been recorded in the company's Condensed Consolidated Financial Statements because TBOB is an unsecured creditor in the Debtors' bankruptcy proceedings and the interest claim may not be sustainable. TBOB reiterated its monetary demand through a proof of claim filed against CHC's estate for the aggregate amount of approximately $2.2 million (the scheduled earn-out payment plus the alleged damages). Any action relating to the final $1.3 million earn-out payment that was scheduled for March 2001, the alleged damages of $0.9 million and any interest accrued thereon have been stayed by operation of the Bankruptcy Code. On July 5, 2001, the company received a letter from TBOB's legal counsel requesting that the aforementioned arbitration remain in abeyance pending resolution of the bankruptcy proceedings. Management does not believe that final resolution of this matter will have a material adverse impact on the company's financial position or results of operations.

Internal Revenue Service Negotiations. CHC is contesting a notice of deficiency issued by the Internal Revenue Service through administrative proceedings and litigation. See Note 8 for further details.

Alan Furst et al. v. Stephen Feinberg, et al. A complaint was filed in the United States District Court for the Third District of New Jersey on November 8, 2000 and an Amended Class Action Complaint was filed on November 15, 2000, alleging that certain current and former officers and directors of the company and the company's principal lenders, Cerberus Partners, L.P., Foothill Capital Corporation and Goldman Sachs & Co., implemented a scheme to perpetrate a fraud upon the stock market regarding the common stock of CHC. A second Amended Class Action Complaint (the "Second Amended Complaint") was filed on March 21, 2001, which removed all of the officers and directors of the company as defendants, except the company's Chief Executive Officer and another current member of the Board of Directors and continued to name Cerberus Partners, L.P., Foothill Capital Corporation and Goldman Sachs & Co. as defendants. The plaintiffs alleged that the defendants artificially depressed the trading price of the company's publicly traded shares and created the false impression that stockholders' equity was decreasing in value and was ultimately worthless. The plaintiffs further alleged that members of the class sustained total investment losses of $50 million or more. On June 14, 2001, a third

Amended Class Action Complaint (the "Third Amended Complaint") was filed naming the same defendants as the Second Amended Complaint. The plaintiffs' allegations in the Third Amended Complaint were substantially similar to the allegations in the Second Amended Complaint; however, the Third Amended Complaint eliminated references to the corporate assets of Coram. The defendants filed a motion to dismiss the Third Amended Complaint, as they believe the claims are inadequately pleaded and meritless. That motion has not yet been adjudicated. The company notified its insurance carrier of the lawsuit and intends to avail itself of any appropriate insurance coverage for its directors and officers, who are vigorously contesting the allegations. The company cannot predict the outcome of this case nor can it predict the scope and nature of any indemnification that the directors and officers may have with the company's insurance carrier.

General. Management of the company and its subsidiaries intends to vigorously defend the company in the matters described above. Nevertheless, due to the uncertainties inherent in litigation, including possible indemnification against other parties, the ultimate disposition of such matters cannot presently be determined. Adverse outcomes in some or all of the proceedings could have a material adverse effect on the financial position, results of operations and liquidity of the company.

The company and its subsidiaries are also parties to various other legal actions arising out of the normal course of their businesses, including employee claims, reviews of cost reports submitted to Medicare and examinations by regulators such as Medicare and Medicaid fiscal intermediaries and the Centers for Medicare and Medicaid Services (formerly the Health Care Financing Administration). Management believes that the ultimate resolution of such other actions will not have a material adverse effect on the financial position, results of operations or liquidity of the company.

PricewaterhouseCoopers LLP. On July 7, 1997, the company filed suit against Price Waterhouse LLP (now known as PricewaterhouseCoopers LLP) in the Superior Court of San Francisco, California, seeking damages in excess of $165.0 million. As part of the settlement that resolved a case filed by the company against Caremark International, Inc. and Caremark, Inc. (collectively "Caremark"), Caremark assigned and transferred to the company all of Caremark's claims and causes of action against Caremark's independent auditors, PricewaterhouseCoopers LLP, related to the lawsuit filed by the company against Caremark. This assignment of claims includes claims for damages sustained by Caremark in defending and settling its lawsuit with the company. The case was dismissed from the California court because of inconvenience to witnesses with a right to re-file in Illinois. The company re-filed the lawsuit in state court in Illinois and PricewaterhouseCoopers LLP filed a motion to dismiss the company's lawsuit on several grounds, but its motion was denied on March 15, 1999. PricewaterhouseCoopers LLP filed an additional motion to dismiss the lawsuit in May 1999, and that motion was dismissed on January 28, 2000. On April 19, 2001, PricewaterhouseCoopers LLP filed a motion for partial summary judgement with regard to a portion of Caremark's claims; however, this motion was subsequently denied. The lawsuit is currently in the discovery stage and a trial is scheduled to commence after June 22, 2002. There can be no assurance of any recovery from PricewaterhouseCoopers LLP.

Government Regulation. Under the physician ownership and referral provisions of the Omnibus Budget Reconciliation Act of 1993 (commonly referred to as "Stark II"), it is unlawful for a physician to refer patients for certain designated health services reimbursable under the Medicare or Medicaid programs to an entity with which the physician and/or the physician's family, as defined under Stark II, has a financial relationship, unless the financial relationship fits within an exception enumerated in Stark II or regulations promulgated thereunder. A "financial relationship" under Stark II is defined broadly as an ownership or investment interest in, or any type of compensation arrangement in which remuneration flows between the physician and the provider. The company has financial relationships with physicians and physician owned entities in the form of medical director agreements and service agreements pursuant to which the company provides pharmacy products. In each case, the relationship has been structured, based upon advice of legal counsel, using an arrangement management believes to be consistent with the applicable exceptions set forth in Stark II.

In addition, the company is aware of certain referring physicians (or their immediate family members) that have had financial interests in the company through ownership of shares of the company's common stock. The Stark II law includes an exception for the ownership of publicly traded stock in companies with equity above certain levels. This exception of Stark II requires the issuing company to have stockholders' equity of at least $75 million either as of the end of its most recent fiscal year or on average over the last three fiscal years. Due principally to the extraordinary gain on troubled debt restructuring (see Note 7) and the disposition of the CPS business, at December 31, 2000 the company's stockholders' equity was above the required level. However, as of September 30, 2001, the company's total stockholders' equity was approximately $65.5 million. As a result, the company will no longer qualify for the Stark II exception without a significant increase in stockholders' equity effective January 1, 2002. The penalties for failure to comply with Stark II include, among other things, non-payment of claims and civil penalties that could be imposed upon the company and, in some instances upon the referring physician, regardless of whether the company intended to violate the law.

Management has been advised by counsel that a company whose stock is publicly traded has, as a practical matter, no reliable way to implement and maintain an effective compliance plan for addressing the requirements of Stark II other than complying with the public company exception. Accordingly, if the company's common stock remains publicly traded and its stockholders' equity falls below the required levels, the company would be forced to cease accepting referrals of patients covered by the Medicare or Medicaid programs or run a significant risk of noncompliance with Stark II. Because referrals of the company's patients with such government-sponsored benefit programs comprise approximately 25% and 23% of the company's consolidated net revenue (excluding CPS) for the nine months ended September 30, 2001 and the year ended December 31, 2000, respectively, discontinuing the acceptance of patients with government-sponsored benefit programs would have a material adverse effect on the financial condition, results of operations and cash flows of the company. Additionally, ceasing to accept such referrals could materially adversely affect the company's business reputation in the market as it may cause the company to be a less attractive provider to which a physician could refer his or her patients. The