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CURATIVE HEALTH SERVICES INC

Form 8-K/A

May 03, 2002

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 8-K/A

AMENDMENT NO. 1 TO CURRENT REPORT

Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

Date of report (Date of earliest event reported): February 28, 2002

CURATIVE HEALTH SERVICES, INC.

(Exact name of registrant as specified in its charter)

| | | |
|---|-----------------------------|---|
| Minnesota | 000-19370 | 41-1503914 |
| (State or other jurisdiction of incorporation or organization) | (Commission File Number) | (I.R.S. Employer Identification No.) |

150 Motor Parkway Hauppauge, New York 11788
(Address of principal executive offices) (Zip Code)

Registrant's telephone number, including area code: (631) 232-7000

5051 Highway 7, Ste. 100, St. Louis Park, MN 55416
(Former name or former address, if changed since last report.)

This amendment is being filed to revise Item 7 in the Registrant's current report on Form 8-K filed March 11, 2002, to include the historical and pro forma financial information required by paragraphs (a) and (b) of Item 7 which were omitted from the report as initially filed in accordance with paragraph (a)(4) of Item 7.

Item 7. Financial Statements and Exhibits

(a) Financial Statements of Business Acquired

- (1) The report of independent auditors, audited balance sheets, related audited statements of income and retained earnings and cash flows of Apex Therapeutic Care, Inc. as of and for the years ended September 30, 2001 and 2000.
- (2) The report of independent auditors, audited balance sheets, related audited statements of income and retained earnings and cash flows of Apex Therapeutic Care, Inc. as of and for the years ended September 30, 2000 and 1999.
- (3) The unaudited condensed statements of operations, unaudited condensed balance sheets and unaudited condensed statements of cash flows as of and for the quarters ended December 31, 2001 and 2000.

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(b) Pro Forma Financial Information

The unaudited pro forma consolidated balance sheet and statement of operations of Curative Health Services, Inc. and Subsidiaries as of and for the year ended December 31, 2001.

(c) Exhibits

23.1 Consent of Martini, Iosue & Akpovi

APEX THERAPEUTIC CARE, INC.
FINANCIAL STATEMENTS
AS OF AND FOR THE YEARS ENDED
SEPTEMBER 30, 2001 AND 2000

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Apex Therapeutic Care, Inc.
Westlake Village, California

We have audited the accompanying balance sheets of Apex Therapeutic Care, Inc. as of September 30, 2001 and 2000 and the related statements of income and retained earnings and cash flows for the years then ended. These financial statements are the responsibility of Apex Therapeutic Care, Inc.'s management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes

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assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Apex Therapeutic Care, Inc. as of September 30, 2001 and 2000 and the results of its operations and its cash flows for the years then ended in conformity with generally accepted accounting principles.

/s/ Martini, Iosue & Akpovi

Encino, California
November 30, 2001

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APEX THERAPEUTIC CARE, INC.
BALANCE SHEETS
SEPTEMBER 30, 2001 AND 2000

| | 2001 | 2000 |
|---|--------------|---------------|
| | ----- | ----- |
| ASSETS | | |
| CURRENT ASSETS | | |
| Cash | \$ 757,244 | \$ 54,080 |
| Accounts receivable (net of allowance for doubtful accounts of \$567,490 and \$543,828) | 11,794,313 | 11,073,189 |
| Inventory | 3,804,779 | 1,884,478 |
| Other current assets | 69,677 | 82,817 |
| | ----- | ----- |
| TOTAL CURRENT ASSETS | 16,426,013 | 13,094,564 |
| | ----- | ----- |
| PROPERTY AND EQUIPMENT, NET | 230,836 | 237,716 |
| | ----- | ----- |
| OTHER ASSETS | | |
| Deposits | 22,933 | 22,267 |
| Deferred tax assets, net | 581,342 | 377,864 |
| Due from related party | 39,638 | -0- |
| Other assets, net | 37,888 | 77,476 |
| | ----- | ----- |
| TOTAL OTHER ASSETS | 681,801 | 477,607 |
| | ----- | ----- |
| TOTAL ASSETS | \$17,338,650 | \$ 13,809,887 |
| | ===== | ===== |

LIABILITIES AND STOCKHOLDERS' EQUITY

| | | |
|---------------------------------------|--------------|--------------|
| CURRENT LIABILITIES | | |
| Accounts payable and accrued expenses | \$ 6,122,670 | \$ 4,542,717 |
| Income taxes payable | 108,883 | 184,584 |
| Current portion of notes payable | 8,630 | 14,763 |

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| | | |
|---|--------------|--------------|
| Due to related party | -0- | 32,454 |
| Note payable - related party | -0- | 925,922 |
| Dividends payable | 500,000 | -0- |
| | ----- | ----- |
| TOTAL CURRENT LIABILITIES | 6,740,183 | 5,700,440 |
| | ----- | ----- |
| LONG-TERM LIABILITIES | | |
| Deferred compensation | 151,311 | 80,937 |
| Line of credit | -0- | 1,499,456 |
| Notes payable | 52,282 | 89,268 |
| | ----- | ----- |
| TOTAL LONG-TERM LIABILITIES | 203,593 | 1,669,661 |
| | ----- | ----- |
| TOTAL LIABILITIES | 6,943,776 | 7,370,101 |
| | ----- | ----- |
| COMMITMENTS AND CONTINGENCIES | | |
| STOCKHOLDERS' EQUITY | | |
| Common stock, stated value, authorized 1,000,000 shares issued and outstanding 100,000 shares | 210,000 | 210,000 |
| Common stock - restricted, issued and outstanding 20,000 shares | 395,626 | 56,518 |
| Retained earnings | 9,789,248 | 6,173,268 |
| | ----- | ----- |
| TOTAL STOCKHOLDERS' EQUITY | 10,394,874 | 6,439,786 |
| | ----- | ----- |
| TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY | \$17,338,650 | \$13,809,887 |
| | ===== | ===== |

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

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APEX THERAPEUTIC CARE, INC.
STATEMENTS OF INCOME AND RETAINED EARNINGS
FOR THE YEARS ENDED SEPTEMBER 30, 2001 AND 2000

| | 2001 | 2000 |
|----------------------------|--------------|--------------|
| | ----- | ----- |
| NET SALES | \$54,536,664 | \$45,339,312 |
| COST OF SALES | 37,821,316 | 32,451,828 |
| | ----- | ----- |
| GROSS PROFIT | 16,715,348 | 12,887,484 |
| OPERATING EXPENSES | 9,558,269 | 8,552,586 |
| | ----- | ----- |
| INCOME FROM OPERATIONS | 7,157,079 | 4,334,898 |
| | ----- | ----- |
| OTHER INCOME (EXPENSES) | | |
| Miscellaneous income | 8,509 | -0- |
| Interest income | 3,030 | -0- |
| Loss on disposal of assets | (3,780) | (19,263) |
| Miscellaneous expense | -0- | (23,987) |
| Interest expense | (274,650) | (583,346) |
| | ----- | ----- |
| NET OTHER EXPENSES | (266,891) | (626,596) |
| | ----- | ----- |

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| | | |
|--|--------------|--------------|
| INCOME BEFORE PROVISION FOR INCOME TAXES | 6,890,188 | 3,708,302 |
| PROVISION FOR INCOME TAXES | 2,774,208 | 1,445,516 |
| NET INCOME | 4,115,980 | 2,262,786 |
| RETAINED EARNINGS | | |
| Beginning of year | 6,173,268 | 3,910,482 |
| Dividends | (500,000) | -0- |
| End of year | \$ 9,789,248 | \$ 6,173,268 |

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

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APEX THERAPEUTIC CARE, INC.
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED SEPTEMBER 30, 2001 AND 2000

| | 2001 | 2000 |
|---|-------------|-------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Net income | \$4,115,980 | \$2,262,786 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Provision for bad debts | 23,662 | 395,000 |
| Amortization and depreciation | 119,587 | 108,160 |
| Loss on disposal of assets | 3,780 | 19,263 |
| Deferred income tax benefit | (203,478) | (321,542) |
| Deferred compensation | 70,374 | 184,968 |
| Stock-based compensation | 339,108 | 56,518 |
| (Increase) decrease in assets: | | |
| Accounts receivable | (744,786) | 868,672 |
| Inventory | (1,920,301) | (584,722) |
| Deposits | (666) | 1,075 |
| Due from related party | (39,638) | -0- |
| Other assets, net | 13,789 | (62,336) |
| Increase (decrease) in liabilities: | | |
| Accounts payable and accrued expenses | 1,579,953 | (221,145) |
| Income taxes payable | (75,701) | (1,612,207) |
| Due to related party | (32,454) | -0- |
| NET CASH PROVIDED BY OPERATING ACTIVITIES | 3,249,209 | 1,094,490 |
| CASH USED BY INVESTING ACTIVITIES | | |
| Purchase of property and equipment | (77,548) | (163,895) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Principal payments on note payable to related party | (925,922) | (701,323) |
| Net increase (decrease) in line of credit | (1,499,456) | (415,028) |
| Principal payments on notes payable | (43,119) | -0- |
| Proceeds from sale of common stock | -0- | 200,000 |

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| | | |
|---------------------------------------|-------------|-----------|
| NET CASH USED BY FINANCING ACTIVITIES | (2,468,497) | (916,351) |
| NET INCREASE IN CASH | 703,164 | 14,244 |
| CASH, BEGINNING OF YEAR | 54,080 | 39,836 |
| CASH, END OF YEAR | \$ 757,244 | \$ 54,080 |

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

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APEX THERAPEUTIC CARE, INC.
 NOTES TO FINANCIAL STATEMENTS
 SEPTEMBER 30, 2001 AND 2000

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Description of Business

Apex Therapeutic Care, Inc. (the "Company") is a wholesale distributor of pharmaceutical products consisting primarily of antihemophilic factors and other plasma derived therapeutic agents. The Company's sales are made to pharmacies located in various states throughout the continental United States.

Accounts Receivable

The allowance for doubtful accounts is based on management's evaluation of outstanding accounts receivable at the end of the year given their prior experience with third party insurance company receivables. Bad debt expense for the years ended September 30, 2001 and 2000 was \$345,455 and \$817,564, respectively.

Inventory

Inventory is stated at the lower of average cost (which approximates first in, first out) or market. Inventory consists of finished goods.

Property and Equipment

Property and equipment are recorded at lower of cost or net realizable value. Depreciation is computed using the straight-line method over the estimated useful lives of the related assets, which range from five to seven years. Leasehold improvements are amortized over the shorter of the lease term or the estimated useful life of the asset. Maintenance and repairs are charged to expense as incurred.

Other Assets, Net

Other assets consist principally of deferred financing fees, organizational costs and security deposits. The deferred financing fees are amortized straight-line over the term of the financing facility. The organizational costs are amortized straight-line over ten years. Accumulated amortization

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for the deferred financing fees was \$80,252 and \$41,730 and accumulated amortization for organizational costs was \$1,457 and \$1,041 at September 30, 2001 and 2000, respectively.

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NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Income Taxes

Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amount of existing assets and liabilities and their respective tax bases and operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using the enacted rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

Use of Estimates

Management of the Company has made a number of estimates and assumptions relating to the reporting of assets and liabilities and the disclosure of contingent assets and liabilities to prepare these financial statements in conformity with generally accepted accounting principles. Actual results could differ from those estimates.

Concentration of Credit Risk

As of September 30, 2001, the Company had an account with a bank which exceeded the \$100,000 federally insured limit.

Reclassifications

Certain income statement accounts reported on the financial statements for September 30, 2000 have been reclassified to conform to the financial statement reclassifications for September 30, 2001.

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NOTE 2 - PROPERTY AND EQUIPMENT

Property and equipment consisted of the following at September 30:

| | 2001 | 2000 |
|--------------------------------|-----------|-----------|
| | ----- | ----- |
| Computer hardware and software | \$174,139 | \$114,539 |
| Office furniture and equipment | 127,801 | 124,484 |
| Leasehold improvements | 54,306 | 52,606 |
| Warehouse equipment | 23,779 | 20,479 |

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| | | |
|--------------------------------|-----------|-----------|
| Convention equipment | 5,893 | 1,785 |
| | ----- | ----- |
| | 385,918 | 313,893 |
| Less: Accumulated depreciation | (155,082) | (76,177) |
| | ----- | ----- |
| Property and equipment, net | \$230,836 | \$237,716 |
| | ===== | ===== |

NOTE 3 - LINE OF CREDIT

In August 1999, the Company entered into a credit facility with a lender that permits the Company to borrow up to 80% of its eligible receivables. The credit facility has a maximum borrowing limit of \$6,500,000 and expires August 15, 2002. Interest on advances under the terms of this credit facility accrues at a per annum rate of one percent (1%) in excess of the rate of interest announced publicly by Citibank, N.A., from time to time as its "prime rate" (6.0% and 9.5% at September 30, 2001 and 2000, respectively) and is payable monthly. The Company must pay a quarterly fee equal to one-half of one percent (0.5%) on the unused portion of the facility. Amounts owed to the bank under this credit facility are secured by all assets of the Company. The balance outstanding at September 30, 2001 and 2000, was \$0 and \$1,499,456, respectively.

NOTE 4 - STOCKHOLDERS' EQUITY

In November 1999, the Company sold 2,000 shares of common stock to an officer of the Company for \$200,000. Subsequently, the Board of Directors amended and restated the Company's articles of incorporation to effect a ten-for-one split of the Company's outstanding common stock. The split of the Company's stock was effected in the form of a stock dividend. Pursuant to the amendment, the Company is authorized to issue 1,000,000 shares of its common stock of which 100,000 shares were issued and outstanding as of September 30, 2001 and 2000.

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NOTE 5 - STOCK APPRECIATION RIGHTS

In October 1999, the Company adopted a non-qualified Stock Appreciation Rights Plan (SAR Plan), whereby selected key employees are granted performance unit rights (SAR Units) which are rights to receive an amount based on the appreciated value of the Company's common stock over an established base price. SAR Units begin vesting on the date of grant and vest at 20% per year for five years. The maximum number of SAR Units that may be granted under the plan is 10,000. The maximum term of the plan is ten years. On October 1, 1999, the Company issued 6,750 SAR Units at a weighted average-base price of \$0.125 per unit. The date of grant for these units was deemed by the Company's Board of Directors to be April 1, 1998.

During the year ended September 30, 2001, 250 SAR Units were exercised. Upon the exercise of the SAR Units, the appreciated value was determined and paid to the employee.

During the year ended September 30, 2000, 2,250 SAR Units were exercised. Upon the exercise of the SAR Units, the appreciated value was determined and the amounts were converted into Notes Payable with a term of 84 months. The notes are subordinate to any amounts due under the Company's Line of Credit Agreement and bear interest at 9% per annum.

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The principal portion of these notes matures as follows during the years ending September 30:

| | |
|------------|----------|
| 2002 | \$ 8,630 |
| 2003 | 9,439 |
| 2004 | 10,325 |
| 2005 | 11,293 |
| 2006 | 12,353 |
| Thereafter | 8,872 |
| | ----- |
| | \$60,912 |

During the year ended September 2000, an employee forfeited rights to 3,500 SAR Units.

Outstanding SAR Units at September 30, 2001 and 2000 were 750 and 1,000, respectively. Deferred compensation expense related to the outstanding units during the years ended September 30, 2001 and 2000 were \$70,374 and \$184,968, respectively.

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NOTE 6 - PROVISION FOR INCOME TAXES

The provision (benefit) for income taxes for the years ended September 30, 2001 and 2000 consists of the following:

| | 2001 | 2000 |
|----------|-------------|-------------|
| | ----- | ----- |
| Current | \$2,977,686 | \$1,767,058 |
| Deferred | (203,478) | (321,542) |
| | ----- | ----- |
| | \$2,774,208 | \$1,445,516 |
| | ===== | ===== |

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and liabilities at September 30, 2001 and 2000 are presented below:

| Deferred tax assets: | 2001 | 2000 |
|--|-----------|-----------|
| | ----- | ----- |
| Accounts receivable principally due to allowance for doubtful accounts | \$243,113 | \$232,976 |
| Inventory | 10,359 | 6,075 |
| Accrued stockholder bonus | -0- | 32,130 |
| Accrued commissions | 86,712 | 31,172 |
| Accrued vacation | 23,235 | 185 |
| Deferred compensation | 64,822 | 64,416 |
| Stock-based compensation | 169,486 | 24,212 |
| | ----- | ----- |
| Total deferred tax assets | 597,727 | 391,166 |
| Deferred tax liabilities - property and equipment, principally due | | |

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| | | |
|--------------------------------|-----------|-----------|
| to differences in depreciation | (16,385) | (13,302) |
| | ----- | ----- |
| Deferred tax assets, net | \$581,342 | \$377,864 |

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NOTE 6 - PROVISION FOR INCOME TAXES (continued)

In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. Management considers the scheduled reversals of deferred tax liabilities, projected future taxable income, and tax planning strategies in making this assessment. Based upon the level of historical taxable income and projections for future taxable income over the periods which the deferred tax assets are deductible, management believes it is more likely than not the Company will realize the benefits of these deductible differences. Accordingly, no valuation allowance has been recorded at September 30, 2001 and 2000.

NOTE 7 - RELATED PARTY TRANSACTIONS

Two stockholders who own a combined 50% of the outstanding stock of the Company (including restricted stock) also own 100% of the outstanding stock of ActSys Medical, Inc. The Company has obtained direct financing from this related entity to finance its growth. The Company also sells pharmaceutical products to this entity, purchases pharmaceutical products from this entity and shares certain corporate expenses including wages and insurance.

In November 1999, the Company converted the amount due to this related entity into a term loan agreement that required monthly payments of \$76,701 through November 2001. In August 2000, the term loan was converted into a new loan to expedite the payment terms. This loan required monthly payments of \$119,901 and was paid off during the year ended September 30, 2001.

During the year ended September 30, 2001, the Company also sold pharmaceutical products to another entity related through common ownership and management. The Company also subleases office space to this related entity.

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NOTE 7 - RELATED PARTY TRANSACTIONS (continued)

The following table summarizes the transactions between the Company and these related entities and the outstanding amounts due to and from these entities at September 2001 and 2000:

| | 2001 | 2000 |
|-----------------------------------|-------------|-------------|
| | ----- | ----- |
| For the years ended September 30: | | |
| Sales | \$6,640,958 | \$6,643,586 |
| Rental income | \$ 7,164 | \$ -0- |
| Purchases | \$1,152,324 | \$1,227,096 |
| Management fees paid, net | \$ 137,752 | \$ 249,156 |

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| | | |
|------------------|-----------|------------|
| Interest expense | \$ 33,289 | \$ 133,547 |
|------------------|-----------|------------|

As of September 30:

| | | |
|------------------------------|------------|------------|
| Accounts receivable | \$ 204,385 | \$ -0- |
| Due from related party | \$ 39,638 | \$ -0- |
| Accounts payable | \$ 45,978 | \$ -0- |
| Due to related party | \$ -0- | \$ 32,454 |
| Note payable - related party | \$ -0- | \$ 925,922 |

NOTE 8 - EMPLOYEE BENEFIT PLAN

The Company adopted a 401(k) plan on January 1, 2001. All employees of the Company are eligible to participate in a qualified 401(k) Plan. In general, employees may contribute up to 15% of their eligible compensation to the Plan. The Company makes discretionary matching contributions which are determined annually. The Company's contribution to the Plan during the year ended September 30, 2001 was \$55,097.

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NOTE 9 - COMMITMENTS AND CONTINGENCIES

Lease Commitments

The Company leases office and warehouse facilities under noncancelable operating leases which expire over the next year. These leases generally contain renewal options for periods ranging from one to three years.

The Company subleases a portion of its facilities to an entity related through common ownership and management. This sublease is \$597 per month and is subleased on a month-to-month basis.

Future minimum lease payments are \$92,268 for the year ending September 30, 2002.

Rental expense for noncancelable operating leases during the fiscal years ended September 30, 2001 and 2000 was \$104,548 and \$104,330, respectively.

Employment Agreement/Restricted Stock

On August 1, 2000, the Company executed an employment agreement with one of its officers. The agreement calls for a minimum salary of \$100,000 per year through the expiration of the agreement on July 31, 2005. Additionally, on August 1, 2000, the Company issued 20,000 shares of its restricted common stock to the officer as an inducement for the officer to enter into and perform under the terms of the employment agreement.

The value of the 20,000 shares of restricted common stock issued on August 1, 2000 was determined to be \$1,695,549. The value of the stock will be recognized as compensation ratably over the term of the employment agreement. Accordingly, the Company recognized compensation and restricted common stock of \$339,108 and \$56,518 for the years ended September 30, 2001 and 2000, respectively.

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Financial Guarantee

The Company has a continuing guarantee of a \$4,000,000 credit facility of a related entity. It is reasonably possible that the Company would be required to make payments under its guarantee. The Company monitors the financial performance of this entity on a monthly basis. No amount has been accrued for the Company's obligations under its guarantee arrangement.

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NOTE 10 - BUSINESS AND CREDIT CONCENTRATIONS

The Company's operations may be adversely impacted by future federal and state healthcare budget cuts, as a significant portion of the Company's revenue is dependent on certain governmental healthcare programs.

The Company estimates an allowance for doubtful accounts based on the credit worthiness of its customers as well as general economic conditions. Consequently, an adverse change in those factors may affect the Company's estimate of its bad debts.

At September 30, 2001, \$11,365,265 or 90% of the Company's total accounts receivable were due from five customers. Revenues from sales to these customers were approximately 94% of the Company's net sales for the year ended September 30, 2001.

At September 30, 2000, \$5,141,914 or 44% of the Company's total trade accounts receivable were due from one customer. Revenues from sales to this customer were approximately 31% of the Company's net sales for the year ended September 30, 2000.

Two of the Company's suppliers accounted for approximately 68% of total purchases during the year ended September 30, 2001.

Three of the Company's suppliers accounted for approximately 73% of total purchases during the year ended September 30, 2000.

NOTE 11 - DISCLOSURE FOR THE STATEMENT OF CASH FLOWS

Additional Disclosures

Cash paid during the years ended September 30, 2001 and 2000 for:

| | 2001 | 2000 |
|--------------|-------------|-------------|
| | ----- | ----- |
| Income taxes | \$3,053,672 | \$3,396,745 |
| | ===== | ===== |
| Interest | \$ 274,650 | \$ 583,346 |
| | ===== | ===== |

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NOTE 11 - DISCLOSURE FOR THE STATEMENT OF CASH FLOWS (continued)

Non Cash Investing and Financing Transactions

During the year ended September 30, 2001, the Company's Board of Directors declared dividends of \$500,000 to be accrued and distributed according to the stockholders' ownership percentages. The accrued dividends increased dividends payable and decreased retained earnings.

During the year ended September 30, 2000, the Company received property and equipment at a net book value of \$26,891 from a related entity and increased the amount due to this entity for the same amount.

During the year ended September 30, 2000, the Company converted \$1,670,525 of the amount due to a related entity to a note payable.

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APEX THERAPEUTIC CARE, INC.
FINANCIAL STATEMENTS
AS OF AND FOR THE YEARS ENDED
SEPTEMBER 30, 2000 AND 1999

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Independent Auditors' Report

Balance Sheets

Statements of Income and Retained Earnings

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Apex Therapeutic Care, Inc.
Westlake Village, California

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We have audited the accompanying balance sheets of Apex Therapeutic Care, Inc. as of September 30, 2000 and 1999 and the related statements of income and retained earnings and cash flows for the years then ended. These financial statements are the responsibility of Apex Therapeutic Care, Inc.'s management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Apex Therapeutic Care, Inc. as of September 30, 2000 and 1999 and the results of its operations and its cash flows for the years then ended in conformity with generally accepted accounting principles.

/s/ Martini, Iosue & Akpovi

Encino, California
November 2, 2000

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APEX THERAPEUTIC CARE, INC.
BALANCE SHEETS
SEPTEMBER 30, 2000 AND 1999

| | 2000 | 1999 |
|--|------------|------------|
| | ----- | ----- |
| ASSETS | | |
| CURRENT ASSETS | | |
| Cash | \$ 54,080 | \$ 39,836 |
| Accounts receivable (net of allowance for doubtful accounts of \$543,828 and \$148,828) | 11,073,189 | 12,336,861 |
| Inventory | 1,884,478 | 1,299,756 |
| Other current assets | 82,817 | 21,000 |
| | ----- | ----- |
| TOTAL CURRENT ASSETS | 13,094,564 | 13,697,453 |
| | ----- | ----- |
| PROPERTY AND EQUIPMENT, NET | 237,716 | 135,414 |
| | ----- | ----- |
| OTHER ASSETS | | |
| Deposits | 22,267 | 23,342 |
| Deferred tax assets, net | 377,864 | 56,322 |
| Other assets | 77,476 | 115,896 |
| | ----- | ----- |
| TOTAL OTHER ASSETS | 477,607 | 195,560 |
| | ----- | ----- |

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| | | |
|---|--------------|--------------|
| TOTAL ASSETS | \$13,809,887 | \$14,028,427 |
| | ===== | ===== |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| CURRENT LIABILITIES | | |
| Accounts payable and accrued expenses | \$ 4,542,717 | \$ 4,763,862 |
| Income taxes payable | 184,584 | 1,796,791 |
| Current portion of notes payable | 14,763 | -0- |
| Due to affiliate | 32,454 | 1,632,808 |
| Note payable - affiliate | 925,922 | -0- |
| | ----- | ----- |
| TOTAL CURRENT LIABILITIES | 5,700,440 | 8,193,461 |
| | ----- | ----- |
| OTHER LIABILITIES | | |
| Deferred compensation | 80,937 | -0- |
| Line of credit | 1,499,456 | 1,914,484 |
| Notes payable | 89,268 | -0- |
| | ----- | ----- |
| TOTAL OTHER LIABILITIES | 1,669,661 | 1,914,484 |
| | ----- | ----- |
| TOTAL LIABILITIES | 7,370,101 | 10,107,945 |
| | ----- | ----- |
| COMMITMENTS AND CONTINGENCIES | | |
| STOCKHOLDERS' EQUITY | | |
| Common stock, stated value, authorized 1,000,000 shares, issued and outstanding 100,000 shares | 210,000 | 10,000 |
| Common stock - restricted, issued and outstanding 20,000 shares | 56,518 | -0- |
| Retained earnings | 6,173,268 | 3,910,482 |
| | ----- | ----- |
| TOTAL STOCKHOLDERS' EQUITY | 6,439,786 | 3,920,482 |
| | ----- | ----- |
| TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY | \$13,809,887 | \$14,028,427 |
| | ===== | ===== |

The accompanying notes are an integral part of these financial statements

APEX THERAPEUTIC CARE, INC.
STATEMENTS OF INCOME AND RETAINED EARNINGS
FOR THE YEARS ENDED SEPTEMBER 30, 2000 AND 1999

| | 2000 | 1999 |
|--------------------|--------------|--------------|
| | ----- | ----- |
| NET SALES | \$45,339,312 | \$35,218,635 |
| COST OF SALES | 32,451,828 | 24,072,162 |
| | ----- | ----- |
| GROSS PROFIT | 12,887,484 | 11,146,473 |
| | ----- | ----- |
| OPERATING EXPENSES | 8,552,586 | 5,287,697 |
| | ----- | ----- |

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| | | |
|--|--------------|--------------|
| INCOME FROM OPERATIONS | 4,334,898 | 5,858,776 |
| | ----- | ----- |
| OTHER INCOME (EXPENSES) | | |
| Miscellaneous income | -0- | 20,843 |
| Loss on disposal of assets | (19,263) | -0- |
| Miscellaneous expense | (23,987) | -0- |
| Interest expense | (583,346) | (305,838) |
| | ----- | ----- |
| NET OTHER EXPENSES | (626,596) | (284,995) |
| | ----- | ----- |
| INCOME BEFORE PROVISION FOR INCOME TAXES | 3,708,302 | 5,573,781 |
| PROVISION FOR INCOME TAXES | 1,445,516 | 2,171,093 |
| | ----- | ----- |
| NET INCOME | 2,262,786 | 3,402,688 |
| RETAINED EARNINGS | | |
| Beginning of year | 3,910,482 | 507,794 |
| | ----- | ----- |
| End of year | \$ 6,173,268 | \$ 3,910,482 |
| | ===== | ===== |

The accompanying notes are an integral part of these financial statements

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APEX THERAPEUTIC CARE, INC.
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED SEPTEMBER 30, 2000 AND 1999

| | 2000 | 1999 |
|--|-------------|--------------|
| | ----- | ----- |
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Net income | \$2,262,786 | \$ 3,402,688 |
| Adjustments to reconcile net income to net cash provided (used) by operating activities: | | |
| Provision for bad debts | 395,000 | 56,728 |
| Amortization and depreciation | 108,160 | 15,607 |
| Loss on disposal of assets | 19,263 | -0- |
| Deferred income tax benefit | (321,542) | (16,041) |
| Deferred compensation | 184,968 | -0- |
| Stock-based compensation | 56,518 | -0- |
| (Increase) decrease in assets: | | |
| Accounts receivable | 868,672 | (10,643,972) |
| Inventory | (584,722) | (623,014) |
| Deposits | 1,075 | (23,342) |
| Other assets | (62,336) | (126,567) |
| Increase (decrease) in liabilities: | | |
| Accounts payable and accrued expenses | (221,145) | 2,484,667 |
| Income taxes payable | (1,612,207) | 1,482,864 |
| | ----- | ----- |
| NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES | 1,094,490 | (3,990,382) |

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| | | |
|---|-----------|-----------|
| CASH USED BY INVESTING ACTIVITIES | ----- | ----- |
| Purchase of property and equipment | (163,895) | (147,186) |
| | ----- | ----- |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Net increase (decrease) in loans from affiliate | (701,323) | 2,242,272 |
| Net increase (decrease) in line of credit | (415,028) | 1,914,484 |
| Proceeds from sale of common stock | 200,000 | -0- |
| | ----- | ----- |
| NET CASH PROVIDED (USED) BY FINANCING ACTIVITIES | (916,351) | 4,156,756 |
| | ----- | ----- |
| NET INCREASE IN CASH | 14,244 | 19,188 |
| CASH, BEGINNING OF YEAR | 39,836 | 20,648 |
| | ----- | ----- |
| CASH, END OF YEAR | \$ 54,080 | \$ 39,836 |
| | ===== | ===== |

The accompanying notes are an integral part of these financial statements

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APEX THERAPEUTIC CARE, INC.
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2000 AND 1999

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Description of Business

Apex Therapeutic Care, Inc. (the "Company") is a wholesale distributor of pharmaceutical products consisting primarily of antihemophilic factors and other plasma derived therapeutic agents. The Company's sales are made to pharmacies located in various states throughout the continental United States.

Accounts Receivable

The allowance for doubtful accounts is based on management's evaluation of outstanding accounts receivable at the end of the year given their prior experience with third party insurance company receivables. Bad debt expense for the years ended September 30, 2000 and September 30, 1999 was \$817,564 and \$119,558, respectively.

Inventory

Inventory is stated at the lower of average cost (which approximates first in, first out) or market. Inventory consists of finished goods.

Property and Equipment

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Property and equipment are recorded at lower of cost or net realizable value. Depreciation is computed using the straight-line method over the estimated useful lives of the related assets, which range from five to seven years. Leasehold improvements are amortized over the shorter of the lease term or the estimated useful life of the asset. Maintenance and repairs are charged to expense as incurred.

Other Assets

Other assets consist principally of deferred financing fees, organizational costs and security deposits. The deferred financing fees are amortized straight-line over the term of the financing facility. The organizational costs are amortized straight-line over ten years. Accumulated amortization for the deferred financing fees was \$41,730 and \$3,210 and accumulated amortization for organizational costs was \$1,041 and \$625 at September 30, 2000 and September 30, 1999, respectively.

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APEX THERAPEUTIC CARE, INC.
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2000 AND 1999

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Income Taxes

Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amount of existing assets and liabilities and their respective tax bases and operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using the enacted rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

Use of Estimates

Management of the Company has made a number of estimates and assumptions relating to the reporting of assets and liabilities and the disclosure of contingent assets and liabilities to prepare these financial statements in conformity with generally accepted accounting principles. Actual results could differ from those estimates.

NOTE 2 - PROPERTY AND EQUIPMENT

Property and equipment consisted of the following at September 30:

| | 2000 | 1999 |
|--|------|------|
|--|------|------|

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| | | |
|--------------------------------|-----------|-----------|
| | ----- | |
| Office furniture and equipment | \$124,484 | \$ 52,637 |
| Computer hardware and software | 114,539 | 88,446 |
| Leasehold improvements | 52,606 | -0- |
| Warehouse equipment | 20,479 | 5,076 |
| Convention equipment | 1,785 | 1,027 |
| | ----- | ----- |
| | 313,893 | 147,186 |
| Less: Accumulated depreciation | (76,177) | (11,772) |
| | ----- | ----- |
| Property and equipment, net | \$237,716 | \$135,414 |
| | ===== | ===== |

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APEX THERAPEUTIC CARE, INC.
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2000 AND 1999

NOTE 3 - LINE OF CREDIT

In August 1999, the Company entered into a credit facility with a lender that permits the Company to borrow up to 80% of its eligible receivables. The credit facility has a maximum borrowing limit of \$6,500,000 and expires August 15, 2002. Interest on advances under the terms of this credit facility accrues at a per annum rate of one percent (1%) in excess of the rate of interest announced publicly by Citibank, N.A., from time to time as its "prime rate" (9.50% at September 30, 2000) and is payable monthly. The Company must pay a quarterly fee equal to one-half of one percent (0.5%) on the unused portion of the facility. Amounts owed to the bank under this credit facility are secured by all assets of the Company. The credit facility requires the Company to comply with certain working capital financial covenants. At September 30, 2000, the Company was in compliance with or received waivers for such covenants.

Prior to August 1999, the Company had a credit line agreement with a bank with a maximum borrowing limit of \$1,500,000. Interest on advances under the terms of this line of credit agreement accrued at the bank's prime rate. The balance outstanding was paid off with proceeds from the new credit facility and the agreement was terminated.

NOTE 4 - STOCKHOLDERS' EQUITY

In November 1999, the Company sold 2,000 shares of common stock to an officer of the Company for \$200,000. Subsequently, the Board of Directors amended and restated the Company's articles of incorporation to effect a ten-for-one split of the Company's outstanding common stock. The split of the Company's stock was effected in the form of a stock dividend. Pursuant to the amendment, the Company is authorized to issue 1,000,000 shares of its common stock of which 100,000 shares were issued and outstanding as of September 30, 2000 (also see Note 8).

NOTE 5 - STOCK APPRECIATION RIGHTS

In October 1999, the Company adopted a non-qualified Stock Appreciation Rights

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Plan (SAR Plan), whereby selected key employees are granted performance unit rights (SAR Units) which are rights to receive an amount based on the appreciated value of the Company's common stock over an established base price. SAR Units begin vesting on the date of grant and vest at 20% per year for five years. The maximum number of SAR Units that may be granted under the plan is

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APEX THERAPEUTIC CARE, INC.
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2000 AND 1999

NOTE 5 - STOCK APPRECIATION RIGHTS (continued)

10,000. The maximum term of the plan is ten years. On October 1, 1999, the Company issued 6,750 SAR Units at a weighted average-base price of \$0.125 per unit. The date of grant for these units was deemed by the Company's Board of Directors to be April 1, 1998. During the fiscal year ended September 30, 2000, 2,250 SAR Units were exercised. Upon the exercise of the SAR Units, the appreciated value was determined and the amounts were converted into Notes Payable with a term of 84 months. The notes are subordinate to any amounts due under the Company's Line of Credit and Agreement and bear interest at 9% per annum.

The principal portion of these notes matures as follows during the years ending September 30:

| | |
|------------|-----------|
| 2001 | \$ 14,763 |
| 2002 | 12,571 |
| 2003 | 13,750 |
| 2004 | 15,040 |
| 2005 | 16,451 |
| Thereafter | 31,456 |
| | ----- |
| | \$104,031 |

In September 2000, an employee forfeited rights to 3,500 SAR Units.

At September 30, 2000, 1,000 SAR Units remain outstanding. As of September 30, 2000, the Company accrued deferred compensation related to these outstanding units of \$80,937.

NOTE 6 - PROVISION FOR INCOME TAXES

The provision (benefit) for income taxes for the years ended September 30, 2000 and 1999 consists of the following:

| | 2000 | 1999 |
|----------|-------------|-------------|
| | ----- | ----- |
| Current | \$1,767,058 | \$2,187,134 |
| Deferred | (321,542) | (16,041) |
| | ----- | ----- |
| | \$1,445,516 | \$2,171,093 |

=====

=====

APEX THERAPEUTIC CARE, INC.
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2000 AND 1999

NOTE 6 - PROVISION FOR INCOME TAXES (continued)

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and liabilities at September 30, 2000 and 1999 are presented below:

Deferred tax assets:

| | 2000 | 1999 |
|---|-----------|-----------|
| | ----- | ----- |
| Accounts receivable principally due to allowance for doubtful accounts | \$232,976 | \$ 63,758 |
| Inventory | 6,075 | 3,759 |
| Accrued stockholder bonus | 32,130 | -0- |
| Accrued commissions | 31,172 | -0- |
| Accrued vacation | 185 | -0- |
| Deferred compensation | 64,416 | -0- |
| Stock-based compensation | 24,212 | -0- |
| | ----- | ----- |
| Total deferred tax assets | 391,166 | 67,517 |
| Deferred tax liabilities - property and equipment, principally due to differences in depreciation | (13,302) | (11,195) |
| | ----- | ----- |
| Deferred tax assets, net | \$377,864 | \$ 56,322 |
| | ===== | ===== |

In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. Management considers the scheduled reversals of deferred tax liabilities, projected future taxable income, and tax planning strategies in making this assessment. Based upon the level of historical taxable income and projections for future taxable income over the periods which the deferred tax assets are deductible, management believes it is more likely than not the Company will realize the benefits of these deductible differences. Accordingly, no valuation allowance has been recorded at September 30, 2000 and 1999.

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SEPTEMBER 30, 2000 AND 1999

NOTE 7 - RELATED PARTY TRANSACTIONS

Two stockholders who own a combined 50% of the outstanding stock of the Company (including restricted stock) also own 100% of the outstanding stock of ActSys Medical, Inc. (the "affiliate"). The Company has obtained direct financing from the affiliate to finance its growth. The Company also sells pharmaceutical products to the affiliate, purchases pharmaceutical products from the affiliate and shares certain corporate expenses including wages and insurance.

In November 1999, the Company converted the amount due to its affiliate into a term loan agreement that required monthly payments of \$76,701 through November 2001. In August 2000, the term loan was converted into a new loan to expedite the payment terms. The new loan requires monthly payments of \$119,901 through May 2001. The term loan bears interest at a rate of 9.50%.

The following table summarizes the transactions between the Company and its affiliate and the outstanding amounts due to the affiliate at September 2000 and 1999:

| | 2000 | 1999 |
|-----------------------------------|-------------|-------------|
| | ----- | |
| For the years ended September 30: | | |
| Sales | \$6,643,586 | \$4,375,037 |
| Purchases | \$1,227,096 | \$2,653,116 |
| Management fees paid, net | \$ 249,156 | \$ 529,836 |
| Interest expense | \$ 133,547 | \$ 179,139 |
| As of September 30: | | |
| Due to affiliate | \$ 32,454 | \$1,632,808 |
| Note payable - affiliate | \$ 925,922 | \$ -0- |

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APEX THERAPEUTIC CARE, INC.
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2000 AND 1999

NOTE 8 - COMMITMENTS AND CONTINGENCIES

Lease Commitments

The Company leases office and warehouse facilities under noncancelable operating leases which expire over the next two years. These leases generally contain renewal options for periods ranging from one to three years.

Future minimum lease payments are \$111,806 and \$7,200 for the years ended September 30, 2001 and 2002, respectively.

Rental expense for operating leases during the fiscal years ended September 30, 2000 and 1999 was \$104,330 and \$23,178, respectively.

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Employment Agreement/Restricted Stock

On August 1, 2000, the Company executed an employment agreement with one of its officers. The agreement calls for a minimum salary of \$100,000 per year through the expiration of the agreement on July 31, 2005. Additionally, on August 1, 2000, the Company issued 20,000 shares of its restricted common stock to the officer as an inducement for the officer to enter into and perform under the terms of the employment agreement.

The value of the 20,000 shares of restricted common stock issued on August 1, 2000 was determined to be \$1,695,549. The value of the stock will be recognized as compensation ratably over the term of the employment agreement. Accordingly, the Company recognized compensation and restricted common stock of \$56,618 for the year ended September 30, 2000.

Legal Proceedings

The Company is a defendant in a lawsuit that alleges the Company obtained customers by using information stolen by a former employee of a competitor. The Company's counsel has indicated that an out of court settlement will most likely be reached and has estimated the settlement to range between \$75,000 and \$150,000. Accordingly, the Company has accrued \$75,000 as of September 30, 2000.

Financial Guarantee

In August 1999, the Company issued a continuing guarantee of a \$3,500,000 credit facility of an affiliated Company. It is reasonably possible that the Company would be required to make payments under its guarantee. The Company monitors the financial performance of the affiliated Company on a monthly basis. No amount has been accrued for the Company's obligations under its guarantee arrangement.

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APEX THERAPEUTIC CARE, INC.
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2000 AND 1999

NOTE 9 - BUSINESS AND CREDIT CONCENTRATIONS

The Company's operations may be adversely impacted by future federal and state healthcare budget cuts, as a significant portion of the Company's revenue is dependent on certain governmental healthcare programs.

At September 30, 2000, \$5,141,914 or 44% of the Company's total trade accounts receivable were due from one customer. Revenues from sales to this customer were approximately 31% of the Company's net sales for the year ended September 30, 2000.

At September 30, 1999, \$7,051,429 or 54% of the Company's total trade accounts receivable were due from one customer. Revenues from sales to this customer were approximately 51% of the Company's net sales for the year ended September 30, 1999.

The Company estimates an allowance for doubtful accounts based on the credit worthiness of its customers as well as general economic conditions. Consequently, an adverse change in those factors may affect the Company's estimate of its bad debts.

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Three of the Company's suppliers accounted for approximately 73% of total purchases during the year ended September 30, 2000.

NOTE 10 - DISCLOSURE FOR THE STATEMENT OF CASH FLOWS

Additional Disclosures

Cash paid during the years ended September 30, 2000 and 1999 for:

| | 2000 | 1999 |
|--------------|-------------|-----------|
| | ----- | ----- |
| Income taxes | \$3,396,745 | \$774,237 |
| | ===== | ===== |
| Interest | \$ 583,346 | \$118,560 |
| | ===== | ===== |

Non Cash Investing and Financing Transactions

During the year ended September 30, 2000, the Company received property and equipment at a net book value of \$26,891 from its affiliate and increased the amount due to its affiliate for the same amount.

During the year ended September 30, 2000, the Company converted \$1,670,525 of the amount due to its affiliate to a note payable.

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APEX THERAPEUTIC CARE, INC.
UNAUDITED CONDENSED FINANCIAL STATEMENTS
AS OF AND FOR THE QUARTER ENDED
DECEMBER 31, 2001 AND 2000

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Condensed Statements of Operations

Condensed Balance Sheets

Condensed Statements of Cash Flows

Notes to Condensed Financial Statements

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APEX THERAPEUTIC CARE, INC.
CONDENSED STATEMENTS OF OPERATIONS
(In thousands)
(Unaudited)

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| | Three Months Ended | |
|--|--------------------|-----------|
| | December 31, | |
| | 2001 | 2000 |
| | ----- | |
| Revenues | \$ 13,262 | \$ 11,621 |
| Costs and operating expenses: | | |
| Cost of sales and services | 9,265 | 7,937 |
| Selling, general and administrative | 2,576 | 1,715 |
| ----- | ----- | ----- |
| Total costs and operating expenses | 11,841 | 9,652 |
| ----- | ----- | ----- |
| Income from operations | 1,421 | 1,969 |
| Interest income | 3 | - |
| ----- | ----- | ----- |
| Income before taxes | 1,424 | 1,969 |
| Income taxes | 633 | 890 |
| ----- | ----- | ----- |
| Net income | \$ 791 | \$ 1,079 |
| | ===== | ===== |

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APEX THERAPEUTIC CARE, INC.
CONDENSED BALANCE SHEETS
(In thousands)
(Unaudited)

| | December 31, | September 30, |
|---------------------------------------|--------------|---------------|
| | 2001 | 2001 |
| | ---- | ---- |
| ASSETS | | |
| Cash and cash equivalents | \$ 11 | \$ 757 |
| Accounts receivable, net | 12,157 | 11,794 |
| Inventory | 5,010 | 3,805 |
| Prepaid and other current assets | 75 | 70 |
| ----- | ----- | ----- |
| Total current assets | 17,253 | 16,426 |
| Property and equipment, net | 225 | 231 |
| Other assets | 635 | 682 |
| ----- | ----- | ----- |
| Total assets | \$18,113 | \$17,339 |
| | ===== | ===== |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| Accounts payable and accrued expenses | \$ 6,635 | \$ 6,240 |
| Dividend payable | 500 | 500 |
| ----- | ----- | ----- |
| Total current liabilities | 7,135 | 6,740 |

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| | | |
|--|----------|----------|
| Long term liability | 210 | 204 |
| Stockholders' equity | | |
| Common stock | 690 | 606 |
| Retained earnings | 10,078 | 9,789 |
| | ----- | ----- |
| Total stockholders' equity | 10,768 | 10,395 |
| | | |
| Total liabilities and stockholders' equity | \$18,113 | \$17,339 |
| | ===== | ===== |

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APEX THERAPEUTIC CARE, INC.
CONDENSED STATEMENTS OF CASH FLOWS
(In thousands)
(Unaudited)

| | Three months ended December 31, | |
|---|---------------------------------|----------|
| | 2001 | 2000 |
| | ----- | |
| OPERATING ACTIVITIES | | |
| Net income | \$ 791 | \$ 1,079 |
| Adjustments to reconcile net income to net cash (used in) provided by operating activities | | |
| Depreciation and amortization | 32 | 28 |
| Gain from early extinguishment of debt | - | (8) |
| Changes in operating assets and liabilities | (2,308) | (437) |
| | ----- | ----- |
| NET CASH USED IN PROVIDED BY OPERATING ACTIVITIES | (1,485) | 662 |
| INVESTING ACTIVITIES | | |
| Purchase of property and equipment | (17) | (14) |
| | ----- | ----- |
| NET CASH USED IN INVESTING ACTIVITIES | (17) | (14) |
| FINANCING ACTIVITIES | | |
| Borrowing (Repayments) on line of credit and notes payable | 755 | (338) |
| Loan from affiliate | - | (340) |
| | - | ----- |
| NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES | 755 | (678) |
| | --- | ----- |
| DECREASE IN CASH AND CASH EQUIVALENTS | (747) | (30) |
| CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD | 757 | 54 |
| | --- | -- |
| CASH AND CASH EQUIVALENTS AT END OF PERIOD | \$ 11 | \$ 24 |
| | ===== | ===== |

NOTES TO CONDENSED FINANCIAL STATEMENTS

Note 1. Basis of Presentation

The condensed financial statements are unaudited and reflect all adjustments (consisting only of normal recurring adjustments) which are, in the opinion of management, necessary for a fair presentation of the financial position and operating results for the interim periods. The condensed financial statements should be read in conjunction with the financial statements for the year ended September 30, 2001 and notes thereto. The results of operations for the three months ended December 31, 2001 are not necessarily indicative of the results to be expected for the entire fiscal year ending September 30, 2002.

Note 2. Subsequent events

On February 28, 2002 Apex Therapeutic Care, Inc. was sold to Curative Health Services, Inc. for \$60 million. The sale proceeds consisted of \$19 million in cash, \$5 million in a seller's note and \$36 million (1,806,000 shares) of Curative Health Services, Inc. stock.

CURATIVE HEALTH SERVICES, INC. AND SUBSIDIARIES
UNAUDITED PRO FORMA CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
AS OF AND FOR THE YEAR ENDED
DECEMBER 31, 2001

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Pro Forma Condensed Consolidated Balance Sheet

Pro Forma Condensed Consolidated Statement of Operations

Notes to Pro Forma Condensed Consolidated Financial Statements

UNAUDITED PRO FORMA CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS

The following unaudited pro forma condensed consolidated financial statements give pro forma effect to the completion of the purchase by Curative Health Services, Inc. of all of the outstanding shares of stock of Apex Therapeutic Care, Inc. for the year ended December 31, 2001. The pro forma financial statements reflect the December 31, 2001 audited balance sheet and statement of

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operations of Curative Health Services, Inc. and Subsidiaries and the September 30, 2001 audited balance sheet and statement of income of Apex Therapeutic Care, Inc. The pro forma condensed consolidated financial statements include certain estimates and adjustments, as set forth in the notes to the unaudited condensed consolidated financial statements, and are presented for illustrative purposes only. The pro forma information presented is not necessarily indicative of the results to be expected in the future for Curative Health Services, Inc. and Subsidiaries.

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CURATIVE HEALTH SERVICES, INC. AND SUBSIDIARIES
PRO FORMA CONDENSED CONSOLIDATED BALANCE SHEETS-UNAUDITED
AS OF DECEMBER 31, 2001

| | Curative Health Services, Inc. and Subsidiaries | Apex Therapeutic Care, Inc. | Consolidating Adjustments |
|---|---|-----------------------------------|------------------------------|
| ----- | | | |
| ASSETS | | | |
| Cash and cash equivalents | \$ 12,264 | \$ 757 | \$ (4,121) (1), (2) |
| Accounts receivable | 13,139 | 11,794 | |
| Inventory | 4,547 | 3,805 | |
| Deferred tax assets | 6,265 | - | |
| Prepaid & other current assets | 745 | 70 | - |
| | ----- | ----- | ----- |
| Total current assets | 36,960 | 16,426 | (4,121) |
| Property and equipment, net | 3,795 | 231 | |
| Goodwill and intangibles, net | 34,787 | - | 49,605 (1) |
| Other assets | 1,385 | 682 | 2,036 (1) |
| | ----- | ----- | ----- |
| Total assets | \$ 76,927 | \$ 17,339 | \$ 47,520 |
| | ===== | ===== | ===== |
| LIABILITIES & STOCKHOLDERS' EQUITY | | | |
| Accounts payable | \$ 9,249 | \$ 6,123 | \$ |
| Accrued expenses and income taxes | 25,186 | 109 | |
| Bank loan | - | 8 | (8) (1) |
| Dividends payable | - | 500 | - |
| | ----- | ----- | ----- |
| Total current liabilities | 34,435 | 6,740 | (8) |
| Long term obligations | 6,000 | 204 | 5,000 (1) |
| Commitments and contingencies | | | |
| Stockholders' equity | | | |
| Preferred stock, \$.01 par value per share, 10,000,000 shares authorized, none issued | - | | |
| Preferred stock, Series A Junior | | | |
| Participating, par value \$.01 per share, | | | |

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500,000 shares authorized, none issued -

| | | | |
|--|-----------|-----------|-----------------|
| Common stock, \$.01 par value per share; | 75 | 606 | (577) (1) |
| Additional paid in capital | 34,019 | | 52,894 (1), (2) |
| Retained earnings | 2,398 | 9,789 | (9,789) (1) |
| | ----- | ----- | ----- |
| Total stockholders' equity | 36,492 | \$ 10,395 | \$ 42,528 |
| | ----- | ----- | ----- |
| Total liabilities and stockholders' equity | \$ 76,927 | \$ 17,339 | \$ 47,520 |
| | ===== | ===== | ===== |

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CURATIVE HEALTH SERVICES, INC. AND SUBSIDIARIES
CONSOLIDATED CONDENSED STATEMENT OF OPERATIONS-UNAUDITED
FOR THE YEAR ENDED DECEMBER 31, 2001

| | Curative Health Services, Inc. and Subsidiaries | Apex Therapeutic Care, Inc. | Consolidating Adjustments | Consolidated pro forma statement of operations |
|-------------------------------------|---|-----------------------------------|------------------------------|---|
| ----- | | | | |
| Revenues: | | | | |
| Services | \$ 44,862 | \$ - | \$ | \$ 44,862 |
| Products | 36,776 | 54,536 | (6,675) (4) | 86,063 |
| | ----- | ----- | ----- | ----- |
| Total revenues | 81,638 | 54,536 | (6,675) | 130,925 |
| Cost of services | 25,887 | - | | 25,887 |
| Cost of product sales | 29,779 | 37,821 | (6,429) (4) | 62,253 |
| Selling, general and administrative | 51,466 | 9,553 | - | 64,286 |
| | ----- | ----- | ----- | ----- |
| Total cost and operating expense | 107,132 | 47,374 | (6,429) | 154,426 |
| | ----- | ----- | ----- | ===== |
| (Loss) income from operations | (25,494) | 7,162 | (246) | (18,578) |
| Interest expense | - | 275 | 220 (5) | 495 |
| Interest income | 816 | 3 | 90 (5) | 909 |
| Net (loss) income before taxes | (24,678) | 6,890 | (376) | (18,164) |
| Income tax (benefit) provision | (2,473) | 2,774 | (154) (3) | 147 |
| | ----- | ----- | ----- | ----- |
| Net (loss) income | \$ (22,205) | \$ 4,116 | \$ (222) | \$ (18,311) |
| | ===== | ===== | ===== | ===== |
| Net (loss) income per share, basic | \$ (3.09) | | | \$ (1.82) |
| | ===== | | | ===== |
| Net (loss) income per share, | \$ (3.09) | | | \$ (1.82) |

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| | | | |
|----------------------------------|-------|-----|------------|
| diluted | ===== | | ===== |
| Weighted average shares, basic | 7,193 | 120 | 10,058 (6) |
| | ===== | === | ===== |
| Weighted average shares, diluted | 7,193 | 120 | 10,058 (6) |
| | ===== | === | ===== |

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On February 28, 2002 Apex Therapeutic Care, Inc. was sold to Curative Health Services, Inc. for \$60 million. The sale proceeds consisted of \$19 million in cash, \$5 million in a seller's note and \$36 million (1,806,000 shares) of Curative Health Services, Inc. stock.

NOTES TO UNAUDITED PRO FORMA CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Details of the pro forma adjustments relating to the acquisition of Apex Therapeutic Care, Inc. follow.

- 1) To record the effect of the stock purchase of Apex Therapeutic Care, Inc. on cash balances, equity accounts, long term debt and the repayment of the outstanding debt of Apex Therapeutic Care, Inc. Also reflects a loan of \$2.036 million made to a former shareholder at closing. The purchase price allocation and amounts allocated to goodwill and other intangibles are preliminary and are subject to finalization of valuation.
- 2) To record the effect of the \$16.9 million private placement stock offering on cash and equity accounts. The proceeds from the private placement were utilized for the purchase of Apex Therapeutic Care, Inc. and working capital needs.
- 3) To record additional tax benefit.
- 4) To eliminate affiliate sales, cost of sales and profit not anticipated to occur post acquisition.
- 5) Record interest expense on \$5.0 million sellers' note recorded as part of Apex Therapeutic Care, Inc. purchase and interest income on \$2.036 million loan given to former shareholder.
- 6) Total of 2.865 million shares added to reflect shares used for purchase of Apex Therapeutic Care, Inc. stock (1.806 million) and the issuance of the private placement shares (1.059 million).

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Signature

Pursuant to the requirements of the Securities Exchange Act of 1934,

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the Registrant has duly caused this report to be signed on its behalf by the undersigned, hereunto duly authorized.

CURATIVE HEALTH SERVICES, INC.

Date: May 3, 2002

By /s/ Thomas Axmacher

Thomas Axmacher
Chief Financial Officer

Exhibit 23-1

CONSENT OF INDEPENDENT AUDITORS

We consent to the incorporation by reference in the Registration Statement (Form S-3 No. 333-83342) and related Prospectus of Curative Health Services, Inc. pertaining to the registration of 1,059,000 shares of its common stock, in the Registration Statement (Form S-8 No. 333-73376) pertaining to Curative Health Services, Inc. 2001 Broad-Based Stock Incentive Plan and Non-Qualified Stock Option Agreements for David Lawson, Steven Michurski, and Beth Oliver, in the Registration Statement (Form S-8 No. 333-60854) pertaining to Curative Health Services, Inc. Non-Employee Director Stock Option Plan, as amended, in the Registration Statement (Form S-8 No. 333-60852) pertaining to Curative Health Services, Inc. 2000 Stock Incentive Plan in the Registration Statement (Form S-8 No. 333-65751) pertaining to the Curative Health Services, Inc. and subsidiaries 1991 Stock Option Plan, as amended, in the Registration Statement (Form S-8 No. 333-65753) pertaining to Curative Health Services, Inc. Non-Employee Director Stock Option Plan, as amended, in the Registration Statement (Form S-8 No. 33-19370) pertaining to the Curative Health Services, Inc. and subsidiaries Director Share Purchase Program and in the Registration Statement (Form S-8 No. 33-85188) pertaining to the Curative Health Services, Inc. and subsidiaries Employee 401(k) Savings Plan of our report dated November 2, 2000 with respect to the consolidated financial statements of Apex Therapeutic Care, Inc. as of and for the years ended September 30, 2000 and 1999, and of our report dated November 30, 2001 with respect to the consolidated financial statements of Apex Therapeutic Care, Inc. as of and for the years ended September 30, 2001 and 2000 included in Amendment No. 1 to the Current Report (Form 8-K) of Curative Health Services, Inc. originally filed on March 11, 2002.

/s/ Martini, Iosue & Akpovi

Encino, California
May 3, 2002