CORAM HEALTHCARE CORP
Form 10-Q
November 19, 2004

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

FORM 10-Q

(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, 2004

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, COLORADO	80202
(Address of principal executive offices)	(Zip Code)

(303) 292-4973

(Registrant s telephone number, including area code)

None

(Former name, former address and former fiscal year, if changed since last report)

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 [ ]

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 under the Exchange Act). Yes [ ] No [X]

Indicate by check mark whether the registrant has filed all documents and reports required to be filed by Sections 12, 13 or 15(d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court. Yes [ ] No [ ] (On August 8, 2000, the registrant and one of its wholly-owned subsidiaries filed voluntary petitions under Chapter 11 of Title 11 of the United States Code in the United States Bankruptcy Court for the District of Delaware (the Bankruptcy Court). On October 27, 2004, the Bankruptcy Court granted a request for confirmation of the Chapter 11 Trustee s Second Amended Joint Plan of Reorganization, as modified, by an order effective on November 1, 2004. Through November 15, 2004, no securities have been distributed under the confirmed plan of reorganization.)

As of November 15, 2004, there were 49,638,452 outstanding shares of the registrant s common stock, $0.001 par value, which is the registrant s only outstanding class of voting stock.

TABLE OF CONTENTS

PART I
- ITEM 1. FINANCIAL STATEMENTS
  - CONDENSED CONSOLIDATED BALANCE SHEETS
  - CONDENSED CONSOLIDATED STATEMENTS OF INCOME
  - CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
  - NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
- ITEM 2. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS
- ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK
- ITEM 4. CONTROLS AND PROCEDURES

PART II OTHER INFORMATION
- ITEM 1. LEGAL PROCEEDINGS
- ITEM 3. DEFAULTS UPON SENIOR SECURITIES
- ITEM 6. EXHIBITS

SIGNATURES

EXHIBIT INDEX

Chief Executive Officer Certification

Chief Financial Officer Certification

Chief Executive Officer Certification

Chief Financial Officer Certification

Table of Contents

PART I

FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

CORAM HEALTHCARE CORPORATION

CONDENSED CONSOLIDATED BALANCE SHEETS
(in thousands, except per share amounts)

	September 30, 2004	December 31, 2003
	(UNAUDITED)	
ASSETS		
Current assets:		
Cash and cash equivalents	$ 32,321	$ 38,449
Cash limited as to use	101	84
Accounts receivable, net of allowances of $25,378 and $20,672	117,056	107,620
Inventories	11,523	12,715
Deferred income taxes, net	360	110
Other current assets	7,819	5,831
Total current assets	169,180	164,809
Property and equipment, net	21,162	13,197
Deferred income taxes, net	1,234	463
Intangible assets, net	4,958	4,760
Goodwill	57,186	57,186
Other assets	5,533	5,428
Total assets	$ 259,253	$ 245,843
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities not subject to compromise:		
Accounts payable	$ 31,020	$ 29,171
Accrued compensation and related liabilities	27,771	23,723
Current maturities of long-term debt and insurance note payable	2,295	660
Current portion of capital lease obligations	2,038	1,052
Current portion of income tax settlement	1,799	4,355
Income and franchise taxes payable	1,514	164
Deferred income taxes	1,594	573
Accrued merger and restructuring costs	23	55

Accrued reorganization costs	6,690	8,596
Other current and accrued liabilities (See Note 11)	13,102	12,363
Total current liabilities not subject to compromise	87,846	80,712
Total current liabilities subject to compromise (See Note 2)	16,366	16,846
Total current liabilities	104,212	97,558
Long-term liabilities not subject to compromise:		
Long-term debt, less current maturities	303	592
Capital lease obligations, less current portion	4,551	1,614
Income tax settlement, less current portion	14,454	15,615
Minority interests in consolidated joint ventures and preferred stock issued by a subsidiary	6,167	6,510
Other liabilities	3,067	4,242
Net liabilities for liquidation of discontinued operations	27,176	27,161
Total liabilities	159,930	153,292
Commitments and contingencies		
Stockholders equity:		
Preferred stock, par value $0.001, authorized 10,000 shares, none issued		
Common stock, par value $0.001, 150,000 shares authorized, 49,638 shares issued and outstanding	50	50
Additional paid-in capital	427,568	427,526
Accumulated deficit	(328,295)	(335,025)
Total stockholders equity	99,323	92,551
Total liabilities and stockholders equity	$ 259,253	$ 245,843

See accompanying notes to unaudited condensed consolidated financial statements.

Table of Contents

CORAM HEALTHCARE CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF INCOME
(UNAUDITED)
(in thousands, except per share amounts)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2004	**2003**	**2004**	**2003**
Net revenue	$128,200	$123,318	$372,203	$356,759
Cost of service	90,251	86,313	266,245	256,835
Gross profit	37,949	37,005	105,958	99,924
Operating expenses:				
Selling, general and administrative expenses	24,150	24,170	72,122	70,188
Provision for estimated uncollectible accounts	6,976	4,642	19,752	12,388
Restructuring cost recoveries		(39)		(39)
Total operating expenses	31,126	28,773	91,874	82,537
Operating income from continuing operations	6,823	8,232	14,084	17,387
Other income (expenses):				
Interest income	69	71	221	265
Interest expense (excluding post-petition contractual interest of approximately $260 for both the three months ended September 30, 2004 and 2003 and $779 for both the nine months ended September 30, 2004 and 2003)	(411)	(632)	(1,110)	(1,342)
Equity in net income of unconsolidated joint ventures	368	458	1,022	1,057
Other expense, net	(18)	(449)	(92)	(453)
Income from continuing operations before reorganization expenses, income taxes and minority interests	6,831	7,680	14,125	16,914
Reorganization expenses, net	(1,493)	(5,355)	(7,109)	(11,232)
Income from continuing operations before income taxes and minority interests	5,338	2,325	7,016	5,682
Income tax expense	(74)	(1)	(119)	(72)
Minority interests in net income of consolidated joint ventures, net	(228)	(158)	(147)	(460)

Income from continuing operations	5,036	2,166	6,750	5,150
Loss from disposal of discontinued operations	(15)	(2)	(20)	(101)
Net income	$ 5,021	$ 2,164	$ 6,730	$ 5,049
Net Income Per Common Share:				
Basic and Diluted:				
Income from continuing operations	$ 0.10	$ 0.04	$ 0.14	$ 0.10
Loss from disposal of discontinued operations				
Net income per common share	$ 0.10	$ 0.04	$ 0.14	$ 0.10
Weighted average common shares used in the computation of basic net income per common share	49,638	49,638	49,638	49,638
Weighted average common shares used in the computation of diluted net income per common share	49,964	49,746	49,835	49,700

See accompanying notes to unaudited condensed consolidated financial statements.

Table of Contents

CORAM HEALTHCARE CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)
(in thousands)

	Nine Months Ended September 30,	
	2004	**2003**
Net cash provided by continuing operations before reorganization items	$15,948	$21,079
Net cash used by reorganization items	(9,011)	(7,408)
Net cash provided by continuing operations (net of reorganization items)	6,937	13,671
Cash flows from investing activities:		
Purchases of property and equipment	(5,275)	(4,411)
Proceeds from dispositions of property and equipment		2
Net cash used in investing activities	(5,275)	(4,409)
Cash flows from financing activities:		
Principal payments on long-term debt	(742)	(51)
Principal payments on capital lease obligations	(4,237)	(65)
Principal payments on income tax settlement	(2,306)	
Refunds of deposits to collateralize letters of credit		413
Cash distributions to minority interests	(500)	(450)
Net cash used in financing activities	(7,785)	(153)
Net increase (decrease) in cash from continuing operations	$ (6,123)	$ 9,109
Net cash used in discontinued operations	$ (5)	$ (173)
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Cash paid during the period for:		
Interest	$ 783	$ 51
Income and franchise taxes	169	272
SUPPLEMENTAL SCHEDULE OF SIGNIFICANT NON-CASH ACTIVITIES		

Capital lease transactions to acquire equipment	$ 8,160	$ 1,399
Insurance premium financing and other agreements	4,604	2,791

See accompanying notes to unaudited condensed consolidated financial statements.

CORAM HEALTHCARE CORPORATION
NOTES TO UNAUDITED CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS
SEPTEMBER 30, 2004

1. DESCRIPTION OF BUSINESS, BASIS OF PRESENTATION AND ACCOUNTING POLICIES

Description of Business

As of September 30, 2004, Coram Healthcare Corporation (CHC) and its subsidiaries (collectively Coram or the company) were primarily engaged in the business of furnishing alternate site (outside the hospital) infusion therapies, which also include non-intravenous home health products such as respiratory therapy services and durable medical equipment. Other services offered by Coram include centralized management, administration and clinical support for clinical research trials, as well as hospital outsource compounding services. Coram currently delivers its alternate site infusion therapy services through 75 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 Title 11 of the United States Code (the Bankruptcy Code) on August 8, 2000 in the United States Bankruptcy Court for the District of Delaware (the Bankruptcy Court) *In re Coram Healthcare Corporation,* Case No. 00-3299, and *In re Coram, Inc.,* Case No. 00-3300, (collectively the Bankruptcy Cases). The Bankruptcy Cases have been consolidated for administrative purposes only by the Bankruptcy Court and are being jointly administered under the docket of *In re Coram Healthcare Corporation,* Case No. 00-3299 (MFW). Commencing on August 8, 2000, the Debtors operated as debtors-in-possession subject to the jurisdiction of the Bankruptcy Court; however, a Chapter 11 trustee (Arlin M. Adams, Esquire) was appointed by the Bankruptcy Court on March 7, 2002. With the appointment of a Chapter 11 trustee, while still under the jurisdiction of the Bankruptcy Court, the Debtors are no longer debtors-in-possession. On October 27, 2004, the Bankruptcy Court granted the request of the Chapter 11 trustee for confirmation of his proposed plan of reorganization; however, certain appeals are pending. None of CHC s other subsidiaries is a debtor in the Bankruptcy Cases and, other than Coram Resource Network, Inc. and Coram Independent Practice Association, Inc. (collectively the Resource Network Subsidiaries or R-Net), none of CHC s other subsidiaries is a debtor in any bankruptcy case. See Notes 2 and 3 for further details.

Coram is dependent upon its alternate site infusion therapy business, the clinical research business operated by its CTI Network, Inc. subsidiary and hospital outsource compounding services provided by its SoluNet LLC subsidiary. Management s primary business strategy is to focus Coram s efforts on the delivery of its core infusion therapies, which include nutrition, anti-infective therapies, intravenous immunoglobulin, pain management and coagulant and blood clotting therapies for individuals with hemophilia. Additionally, commencing in 2004, therapies corresponding to the Food and Drug Administration approved Alpha-1 Antitrypsin Deficiency drug Aralast have been included as one of the company s core therapy offerings. For each of the periods presented, the company s primary operations and assets were in the United States. The company maintains infusion operations in Canada; however, assets, revenue and profitability related to the Canadian businesses are not material to the company s consolidated financial position or operations.

Based on the materiality concepts of Statement of Financial Accounting Standards No. 131, *Disclosures About Segments of an Enterprise and Related Information*, management concluded that the company has only one reportable business segment.

Basis of Presentation

The condensed consolidated financial statements have been prepared by the company pursuant to the rules and regulations promulgated by the United States Securities and Exchange Commission (the SEC) and reflect all adjustments and disclosures (consisting of normal recurring accruals and, effective August 8, 2000, all adjustments

and disclosures pursuant to Statement of Position 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 company s consolidated 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 accounting principles generally accepted in the United States have been condensed or omitted pursuant to the applicable SEC rules and regulations. The results of operations for the interim period ended September 30, 2004 are not necessarily indicative of the results for the full calendar year. The condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements included in the company s Annual Report on Form 10-K for the year ended December 31, 2003 (hereinafter referred to as CHC s 2003 Form 10-K).

Table of Contents

CORAM HEALTHCARE CORPORATION
NOTES TO UNAUDITED CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS (Continued)

The 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, the Chapter 11 trustee s confirmed plan of reorganization will, among other things, dissolve CHC (see Note 2 for further details) and reorganize CI. Moreover, as a result of the reorganized company qualifying for fresh start accounting treatment on the effective date of the plan of reorganization, there will be material changes in the amounts reported in the condensed consolidated financial statements. The accompanying consolidated financial statements do not give effect to any adjustments of the carrying value of assets or liabilities that will be necessary as a consequence of CHC s dissolution, the confirmed plan of reorganization or fresh start accounting. Moreover, during the pendency of the Bankruptcy Cases and through the effective date of the Chapter 11 trustee s confirmed plan of reorganization, 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.

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Certain amounts in the condensed consolidated statement of cash flows for the nine months ended September 30, 2003 have been reclassified to conform to the 2004 presentation.

Accounting Policies

Refer to Notes 2 and 7 to the company s audited consolidated financial statements included in CHC s 2003 Form 10-K for discussion of the company s significant accounting policies.

Stock-Based Compensation. The company elected to measure compensation expense related to its employee stock-based compensation plans in accordance with Accounting Principles Board Opinion No. 25, *Accounting for Stock Issued to Employees* (APB 25), and disclose the pro forma impact of accounting for employee stock-based compensation plans pursuant to the fair value-based provisions of Statement of Financial Accounting Standards No. 123, *Accounting for Stock-Based Compensation* (Statement 123). Because the exercise price of the company s employee stock options equals the market price of the underlying stock on the date of grant, no APB 25 stock-based compensation expense has been recognized for the company s stock-based compensation plans in the condensed consolidated financial statements. Had compensation expense for such plans been recognized in accordance with the provisions of Statement 123, the company s pro forma financial results would have been as follows (in thousands, except per share amounts):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2004	**2003**	**2004**	**2003**
Net income, as reported	$ 5,021	$ 2,164	$ 6,730	$ 5,049
Less: Pro forma stock-based compensation expense (determined using the fair value method for all awards)		(1)		(15)

Pro forma net income	$ 5,021	$ 2,163	$ 6,730	$ 5,034
Net income per common share:				
Basic and diluted, as reported	$ 0.10	$ 0.04	$ 0.14	$ 0.10
Basic and diluted, pro forma	$ 0.10	$ 0.04	$ 0.14	$ 0.10

For purposes of pro forma disclosures, the estimated fair value of the options is amortized to expense over the options vesting period. Because compensation expense associated with an award is recognized over the vesting period, the impact on the pro forma net income disclosed above may not be representative of pro forma compensation expense in future periods.

Table of Contents

CORAM HEALTHCARE CORPORATION
NOTES TO UNAUDITED CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS (Continued)

In December 2002, the Financial Accounting Standards Board (the FASB) issued Statement of Financial Accounting Standards No. 148, *Accounting for Stock-Based Compensation Transition and Disclosure* (Statement 148). This accounting pronouncement amended Statement 123 and provided alternative methods of transition for a voluntary change to the fair value-based method of accounting for stock-based employee compensation. Management evaluated the various methods of transitioning to Statement 123 as outlined in Statement 148 but concluded that the company would continue to use the intrinsic method provided in APB 25 as the company s accounting policy for stock-based compensation plans. In October 2004, the FASB concluded its deliberations regarding Statement of Financial Accounting Standards No. 123R, *Share-Based Payment* (Statement 123R), which will require publicly traded companies to measure compensation cost for all share-based payments (including those payments that are pursuant to stock-based compensation plans) at fair value. Statement 123R is expected to be effective for the first interim or annual period beginning after June 15, 2005. Management is currently evaluating the impact, if any, that the adoption of this new accounting pronouncement will have on the company.

Income Per Common Share. Basic net income per common share excludes any dilutive effects of stock options, warrants and convertible securities. The following table sets forth the computations of basic and diluted net income per common share for the three and nine months ended September 30, 2004 and 2003 (in thousands, except per share amounts):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2004	2003	2004	2003
Numerator for basic and diluted net income per common share:				
Income from continuing operations	$ 5,036	$ 2,166	$ 6,750	$ 5,150
Loss from disposal of discontinued operations	(15)	(2)	(20)	(101)
Net income	$ 5,021	$ 2,164	$ 6,730	$ 5,049
Weighted average common shares denominator for basic net income per common share	49,638	49,638	49,638	49,638
Effect of dilutive securities:				
Stock options	326	108	197	62
Denominator for diluted net income per common share adjusted weighted average common shares	49,964	49,746	49,835	49,700
Basic and diluted net income per common share:				
Income from continuing operations	$ 0.10	$ 0.04	$ 0.14	$ 0.10

Loss from disposal of discontinued operations				
Net income	$ 0.10	$ 0.04	$ 0.14	$ 0.10

Pursuant to the terms and conditions of the Chapter 11 trustee s confirmed plan of reorganization (see Note 2 for further details), the company s stock options and warrants, as well as the underlying common stock of such equity instruments, will not be allowed equity interests. Accordingly, such stock options and warrants will be cancelled on the effective date of such plan of reorganization without consideration to the holders thereof.

Other Expense, Net. As a result of reconciling certain pre-petition proofs of claim filed in the Bankruptcy Cases, the company recorded approximately $0.5 million of expense during the three and nine months ended September 30, 2003.

Table of Contents

CORAM HEALTHCARE CORPORATION
NOTES TO UNAUDITED CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS (Continued)

2. REORGANIZATION UNDER CHAPTER 11 OF THE BANKRUPTCY CODE

The Bankruptcy Code and applicable rules require a Chapter 11 trustee to perform specific duties relating to the administration of a bankruptcy case. Generally, a Chapter 11 trustee shall investigate the acts, conduct, assets, liabilities, financial condition and operations of a debtor, and any other matter relevant to the case or to the formulation of a plan of reorganization. The Bankruptcy Code also requires a Chapter 11 trustee to, as soon as practical, file with the presiding bankruptcy court (i) a statement of any investigation so conducted, including any facts ascertained pertaining to fraud, dishonesty, incompetence, misconduct, mismanagement or irregularities in the management of the affairs of the debtor, or to a cause of action available to the estate, and (ii) a plan of reorganization, or file a report as to why a plan of reorganization would not be filed. Furthermore, the Bankruptcy Code permits a Chapter 11 trustee to operate the debtor s business. As with a debtor-in-possession, a Chapter 11 trustee may enter into transactions in the ordinary course of business without notice or a hearing before the presiding bankruptcy court; however, non-ordinary course actions still require prior authorization from the bankruptcy court. A Chapter 11 trustee also assumes responsibility for management functions, including decisions relative to the hiring and firing of personnel. As is the case with the Debtors, when existing management is necessary to run the day-to-day operations, a Chapter 11 trustee may retain and oversee such management group. After a Chapter 11 trustee is appointed, a debtor s board of directors does not retain its ordinary management powers. While the Debtors Chapter 11 trustee has assumed the board of directors management rights and responsibilities, he is doing so without any pervasive changes to the company s existing management or organizational structure.

Confirmed Plan of Reorganization and Related Activities

Two competing proposed plans of reorganization were filed in the Bankruptcy Cases. The two competing plans of reorganization were proposed by (i) the Chapter 11 trustee and (ii) the Official Committee of Equity Security Holders of Coram Healthcare Corporation (the Equity Committee). The hearings to consider confirmation of the two competing plans of reorganization commenced on September 30, 2003 and the related briefing period concluded on June 14, 2004. On October 5, 2004, the Bankruptcy Court issued an opinion and an order relative to the Debtors jointly administered confirmation proceedings. For the reasons set forth in its opinion, the Bankruptcy Court denied the request of the Equity Committee for confirmation of its proposed plan of reorganization. Additionally, the Bankruptcy Court indicated that the Chapter 11 trustee s request for confirmation of the Chapter 11 Trustee s Second Amended Joint Plan of Reorganization would be granted if such plan of reorganization was modified in accordance with the Bankruptcy Court s opinion. The Bankruptcy Court opinion and order can be found as exhibits to CHC s Current Report on Form 8-K filed with the United States Securities and Exchange Commission (the SEC) on October 8, 2004.

On October 6, 2004, the Equity Committee filed a notice of appeal in the Bankruptcy Court relative to the aforementioned opinion and order.

On October 15, 2004, the Chapter 11 trustee submitted the Modification of Chapter 11 Trustee s Second Amended Joint Plan of Reorganization (the Plan Modification) to the Bankruptcy Court to effect the modifications outlined in the October 5, 2004 opinion. On October 27, 2004, the Bankruptcy Court granted the Chapter 11 trustee s request for confirmation of the Chapter 11 Trustee s Second Amended Joint Plan of Reorganization, as modified and supplemented, (hereinafter referred to as the Confirmed Plan of Reorganization) by an order effective on November 1, 2004. The Bankruptcy Court s confirmation order, which prescribes an effective date for the Confirmed Plan of Reorganization of December 1, 2004, can be found as an exhibit to CHC s Current Report on Form 8-K filed with the SEC on November 2, 2004. Additionally, the Chapter 11 Trustee s Second Amended Joint Plan of Reorganization, the

Plan Modification and the Plan Supplement to the Chapter 11 Trustee s Amended Joint Plan of Reorganization can be found as exhibits to CHC s Current Reports on Form 8-K filed with the SEC on April 23, 2004, October 21, 2004 and October 14, 2003, respectively.

On November 1, 2004, the Equity Committee filed a notice of appeal in the Bankruptcy Court relative to the aforementioned confirmation order. On such date, the Equity Committee also filed in the Bankruptcy Court its Emergency Motion for Stay of Confirmation Order Pending Appeal (the Stay Motion), which can be found at docket number 4071 in the Debtors jointly administrated bankruptcy proceedings. On November 8, 2004, the Bankruptcy Court denied the requests of the Equity Committee that were the subject of the Stay Motion. However, on November 15, 2004 the Equity Committee filed its Emergency Motion for Stay of Confirmation Order Pending Appeal (the Emergency Stay Motion) in the United States District Court for the District of Delaware (the District Court). On such date, the District Court (i) granted the Emergency Stay Motion, in part, and (ii) stayed the Bankruptcy Court s confirmation order pending the District Court s consideration of written responses to the Emergency Stay Motion and replies

CORAM HEALTHCARE CORPORATION
NOTES TO UNAUDITED CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS (Continued)

thereto (the District Court may also hear oral arguments or take other actions as it deems necessary). Management can provide no assurances as to the ultimate outcome of the District Court proceedings.

The following summary of the Confirmed Plan of Reorganization provides only general information. Readers should refer to the plan of reorganization filed with the SEC for a complete description thereof. Among other things, the Confirmed Plan of Reorganization provides for:

1) an agreement with the Debtors noteholders whereby such noteholders will receive 100% of the common and preferred equity interests in reorganized CI in exchange for (i) cancellation of their CI preferred stock and their outstanding unsecured indebtedness under the Securities Exchange Agreement (i.e., the Series B Senior Subordinated Unsecured Convertible Notes) and (ii) a $56 million contribution to the Debtors in the form of cash and the assumption of financial responsibility for a settlement agreement among the company and the Internal Revenue Service (the IRS) (see Note 9).

2) unsecured creditor payments at 100% of their allowed pre-petition claims, plus post-petition interest, under certain circumstances, at the federal judgment rate.

3) consummation of the R-Net Settlement Agreement, as such arrangement is described in Note 11.

4) cancellation of all outstanding CHC common stock equity interests as of the effective date of the Confirmed Plan of Reorganization (hereinafter such date is referred to as the Effective Date) in exchange for cash payments to such stockholders

consisting of:

(i) an amount equal to the plan funding cash (i.e., the Debtors cash, determined in accordance with accounting principles generally accepted in the United States, on the Effective Date, plus the aforementioned $56 million contribution from the Debtors noteholders, offset by the amount due under the aforementioned IRS settlement agreement on the Effective Date) less allowances for (a) all allowed administrative claims for professional fees and out-of-pocket expenses incurred on or before the Effective Date, (b) all allowed pre-petition priority tax claims, (c) all allowed pre-petition priority non-tax claims, (d) all allowed pre-petition general unsecured claims, except those of the Debtors noteholders, and (e) $10.0 million, which represents reorganized CI s retained cash. The net amount resulting from this analysis will not be known until after the Effective Date and subsequent to the resolution of certain disputed claims. Accordingly, no assurances can be given as to what amount will ultimately be available to the holders of the CHC common stock equity interests.

(ii) the net future proceeds, if any, from certain litigation or causes of action against PricewaterhouseCoopers LLP, Daniel D. Crowley and certain outside members of CHC s Board of Directors. The proceeds from such causes of action, if any, will be distributed in the following order of priority: (a) to reorganized CI in an amount equal to its costs related to the causes of action incurred after the Effective Date, (b) to the holders of allowed general unsecured claims, excluding the Debtors noteholders, on a pro rata basis and in an amount equal to interest at the federal judgment rate on each individual allowed general unsecured claim for the period from August 8, 2000 to the date that such general unsecured creditor s claim was paid in full and (c) to the holders of the CHC common stock equity interests on a pro rata basis. See Notes 4 and 11 for further discussion concerning the pending litigation and the circumstances surrounding the proposed litigation.

5) extinguishment of the rights of the holders of stock options and warrants without consideration being paid to such holders.

6) dissolution of CHC by the Chapter 11 trustee as soon as practical after the Effective Date.

7) reorganized CI s retention of $10.0 million of the Debtors cash on the Effective Date.

8) releases that bind certain parties to the Confirmed Plan of Reorganization.

9) administrative professional payments at 100% of their allowed amounts.

Other Bankruptcy-Related Disclosures

Under Chapter 11 of the Bankruptcy Code, certain claims against the Debtors in existence prior to the filing date are stayed while the Debtors operations continue under the purview of a Chapter 11 trustee or while the Debtors are conducting business as debtors-in-possession. These claims are reflected in the condensed consolidated balance sheets as liabilities subject to compromise. Additional claims have arisen since the bankruptcy filing date and may continue to arise due to the rejection of executory contracts and unexpired non-residential real property leases and from determinations by the Bankruptcy Court of allowed claims for contingent, unliquidated

Table of Contents

CORAM HEALTHCARE CORPORATION
NOTES TO UNAUDITED CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS (Continued)

and other disputed amounts. Parties affected by the rejection of an executory contract or unexpired non-residential real property lease may file claims with the Bankruptcy Court in accordance with the provisions of Chapter 11 of the Bankruptcy Code and applicable rules. Claims secured by the Debtors assets, if any, are also stayed, although the holders of such claims have the right to petition the Bankruptcy Court for relief from the automatic stay to permit such creditors to foreclose on the property securing their claims. Additionally, certain claimants have sought relief from the Bankruptcy Court to lift the automatic stay and continue the pursuit of their claims against the Debtors or the Debtors insurance carriers.

On July 15, 2004, the Bankruptcy Court approved a motion submitted by the Chapter 11 trustee whereby the period of time that the Debtors must assume or reject unexpired leases of non-residential real property was extended through December 31, 2004.

The principal categories and balances of Chapter 11 bankruptcy items accrued in the condensed consolidated balance sheets and included in liabilities subject to compromise are summarized as follows (in thousands):

	September 30, 2004	December 31, 2003
Series B Senior Subordinated Unsecured Convertible Notes in default	$ 9,000	$ 9,000
Liabilities of discontinued operations subject to compromise	2,936	2,936
Earn-out obligation	1,500	1,500
Other accrued liabilities	1,324	1,324
Accounts payable	910	1,390
Accrued merger and restructuring costs (primarily severance liabilities)	468	468
Other debt obligations	130	130
Legal and professional liabilities	98	98
Total liabilities subject to compromise	$ 16,366	$ 16,846

In addition to the amounts disclosed in the above table, the holders of the CI Series A Cumulative Preferred Stock and the CI Series B Cumulative Preferred Stock asserted claims within the Bankruptcy Cases in the aggregate amount of their cumulative liquidation preferences (see Note 10 for further details). However, in its October 5, 2004 opinion, the Bankruptcy Court ruled that such parties were entitled to post-petition interest on their allowed claims at the federal judgment rate rather than the contractual rates of the underlying financial instruments. The CI preferred stockholders have filed notices of appeal regarding the Bankruptcy Court s ruling.

Schedules were filed with the Bankruptcy Court setting forth the Debtors assets and liabilities as of the bankruptcy filing date. Amended schedules, which identified the Debtors remaining outstanding pre-petition liabilities, were filed with the Bankruptcy Court on August 28, 2003. Differences between amounts shown by the Debtors and claims filed by creditors are being investigated by management and the Chapter 11 trustee. Furthermore, in order to resolve certain pre-petition disputes, the Chapter 11 trustee is involved in settlement negotiations with several parties that claim to hold pre-petition general unsecured claims. If, upon the completion of such investigations, settlements and/or other

related activities it is determined that the Debtors amounts need to be modified and the requisite approvals related thereto have been obtained, the company s consolidated financial statements will be adjusted accordingly. During the three and nine months ended September 30, 2004, the company reduced its liabilities subject to compromise by approximately $0.4 million and $0.5 million, respectively, whereas during the three and nine months ended September 30, 2003 the company recorded approximately $0.8 million of additional liabilities subject to compromise. The ultimate amount and settlement terms for all the liabilities subject to compromise will be determined upon review by the Chapter 11 trustee and approval 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, 2004 and December 31, 2003 due to the Bankruptcy Cases and the uncertainty surrounding the ultimate amount and settlement terms for such liabilities.

CORAM HEALTHCARE CORPORATION
NOTES TO UNAUDITED CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS (Continued)

Reorganization expenses are items of expense or income that are incurred or realized by the Debtors as a proximate result of the reorganization. These items include, but are not limited to, professional fees, plan of reorganization mailing/distribution costs, key employee retention plans, Office of the United States Trustee fees and other expenditures during the Bankruptcy Cases, offset by interest earned on accumulated cash due to the Debtors not paying their liabilities subject to compromise during the pendency of the Bankruptcy Cases. The Chapter 11 trustee is involved in negotiations with certain administrative professionals to resolve disputes related to professional fees and expenses submitted to the Bankruptcy Court for reimbursement. In connection therewith, on November 15, 2004 the Bankruptcy Court ordered the reduction of a certain administrative professional s fees and expenses in the aggregate amount of approximately $0.7 million (such reduction will be reflected in the company s consolidated financial statements during the quarter ending December 31, 2004). The principal components of reorganization expenses are as follows (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2004	**2003**	**2004**	**2003**
Legal, accounting and consulting fees	$ 345	$ 3,752	$ 5,835	$ 8,484
Key employee retention plan expenses	1,254	995	1,551	2,318
Publishing, mailing and noticing of plans of reorganization		676		676
Office of the United States Trustee fees	10	10	31	31
Interest income	(116)	(78)	(308)	(277)
Total reorganization expenses, net	$ 1,493	$ 5,355	$ 7,109	$ 11,232

Refer to Note 3 to the company s audited consolidated financial statements included in CHC s 2003 Form 10-K for further discussion of the Bankruptcy Cases.

3. DISCONTINUED OPERATIONS

Prior to January 1, 2000, the company provided ancillary network management services through the Resource Network Subsidiaries, which managed networks of home healthcare providers on behalf of HMOs, PPOs, at-risk physician groups and other managed care organizations. As more fully discussed at Note 11, on November 12, 1999 the Resource Network Subsidiaries filed voluntary bankruptcy petitions under Chapter 11 of the Bankruptcy Code in the Bankruptcy Court.

Following the voluntary bankruptcy petition filings by the Resource Network Subsidiaries, Coram accounted for such division as a discontinued operation. R-Net had no operating activity for the nine months ended September 30, 2004 and 2003; however, during such periods, the company recorded nominal incremental losses from disposal of discontinued operations related to certain litigation between the Official Committee of Unsecured Creditors of Coram Resource Network, Inc. and Coram Independent Practice Association, Inc. (the R-Net Creditors Committee) and the

Debtors and several of their non-debtor subsidiaries, as well as legal costs associated with corresponding indemnifications provided to the company s officers and directors in the Resource Network Subsidiaries bankruptcy proceedings/litigation.

As of September 30, 2004, the company has provided approximately $27.2 million to fully and completely liquidate the Resource Network Subsidiaries, including the R-Net Creditors Committee litigation, legal costs related thereto (beyond any insurance recoveries that the company may avail itself of), proofs of claims asserted against the Debtors and other related matters. The Confirmed Plan of Reorganization, if ultimately upheld on appeal, will significantly reduce the company s net liabilities for liquidation of discontinued operations. See Notes 2 and 11 for further details regarding the R-Net Creditors Committee litigation, the Confirmed Plan of Reorganization and related matters.

4. RELATED PARTY TRANSACTIONS

The company s former Chairman of the Board of Directors, Chief Executive Officer and President, Daniel D. Crowley, owns Dynamic Healthcare Solutions, LLC (DHS), a management consulting and investment firm from which the company purchased services. Effective with the commencement of the Bankruptcy Cases, DHS employees who were then serving as consultants to Coram terminated their employment with DHS and became full time Coram employees. Mr. Crowley s employment with the company terminated effective March 31, 2003. As more fully discussed in CHC s 2003 Form 10-K (Part III and Note 3 to the company s audited consolidated financial statements), during the three months ended March 31, 2003 the company paid Mr. Crowley based on a proposed termination and employment extension agreement. The Chapter 11 trustee requested repayment from Mr. Crowley of the

CORAM HEALTHCARE CORPORATION
NOTES TO UNAUDITED CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS (Continued)

2003 salary differential between Mr. Crowley s employment contract, which expired by its own terms on November 29, 2002, and the proposed termination and employment extension agreement (i.e., a requested repayment of $41,792 that remains unpaid at November 15, 2004).

Through March 31, 2003, DHS charged the company for the actual costs it attributed to DHS Sacramento, California location where Mr. Crowley and other persons were located and performed services for or on behalf of the company. Effective April 1, 2003, DHS and the Chapter 11 trustee entered into a month-to-month lease agreement for office space at DHS Sacramento, California location where certain company employees and consultants remained; however, on July 25, 2004, the Chapter 11 trustee terminated such lease agreement with an effective date of August 31, 2004. During the nine months ended September 30, 2004 and 2003, the company paid DHS approximately $67,000 and $115,000, respectively, in connection with the aforementioned arrangements for base rent, parking, utilities and other related costs.

Effective August 2, 2000, the CHC Board of Directors approved a contingent bonus to Mr. Crowley wherein, subject to certain material terms and conditions, Mr. Crowley would have a claim for $1.8 million following the successful refinancing of the company s debt. In connection therewith and a certain December 2000 debt to preferred stock exchange transaction (refer to Note 8 to the company s audited consolidated financial statements included in CHC s 2003 Form 10-K for further details), the company recorded a $1.8 million reorganization expense for the success bonus during the year ended December 31, 2000. The success bonus is not payable unless and until such time that it is approved by the Chapter 11 trustee and the Bankruptcy Court. Based on overall company performance and the consideration thereof under certain Management Incentive Plans, Mr. Crowley also has claims for incentive bonuses for the years ended December 31, 2002, 2001 and 2000 aggregating approximately $13.8 million. Additionally, he participated in certain of the company s key employee retention plans. Mr. Crowley indicated that he reserves the right to claim the full outstanding amounts of his incentive, retention, success bonus and other compensation. The Chapter 11 trustee reserves the right to seek disallowance by the Bankruptcy Court of all such amounts and/or seek disgorgement in future litigation. Moreover, the Confirmed Plan of Reorganization rejects Mr. Crowley s expired employment agreement with the company. Management cannot predict what, if any, reduction in Mr. Crowley s incentive, retention or success bonuses, which are accrued in the condensed consolidated financial statements in the aggregate amount of approximately $16.4 million, will result from actions taken by the Chapter 11 trustee pursuant to the Confirmed Plan of Reorganization.

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 former debtor-in-possession financing agreement, Senior Credit Facility and Securities Exchange Agreement), executed an employment agreement whereby Mr. Crowley was paid approximately $1 million per annum plus potential performance-related bonuses, equity options and fringe benefits. The services rendered by Mr. Crowley to Cerberus included, but were not limited to, providing business and strategic healthcare investment advice to executive management at Cerberus and its affiliates. Mr. Crowley and Cerberus agreed to suspend their contract and all related obligations immediately after the Bankruptcy Court s denial of the Debtors second proposed joint plan of reorganization on December 21, 2001. Mr. Crowley represented that he formally terminated the Cerberus employment contract in September 2002.

On January 14, 2003, the Equity Committee filed a motion with the Bankruptcy Court seeking an order to (i) immediately terminate Mr. Crowley s employment with the Debtors and remove him from all involvement in the Debtors affairs, (ii) terminate all consulting arrangements between the Debtors and DHS, (iii) substantially terminate all future payments to Mr. Crowley and DHS and (iv) require Mr. Crowley and DHS to return all payments received to date, except as otherwise authorized by the Bankruptcy Court as administrative claims. On March 26, 2003, the

Bankruptcy Court entered an order denying the Equity Committee s motion to terminate Mr. Crowley s employment as moot and reserved its decision on the other relief requested, including disgorgement, until future litigation, if any, arises.

The Confirmed Plan of Reorganization provides that net recoveries, if any, arising from litigation or causes of action against Mr. Crowley will be distributed in the order of priority discussed in Note 2. Additionally, see Note 2 for discussion of certain Equity Committee appeals regarding the Confirmed Plan of Reorganization.

In November 2001, the Official Committee of Unsecured Creditors of Coram Resource Network, Inc. and Coram Independent Practice Association, Inc. brought an adversary proceeding in the Bankruptcy Court against, among other defendants, the Debtors and certain of their operating subsidiaries, as well as several related parties, including Foothill Capital Corporation (now known as Wells Fargo Foothill, Inc.), Foothill Income Trust, L.P., Goldman Sachs Credit Partners L.P., Cerberus, one of Cerberus principals, certain current members of CHC s Board of Directors and certain current and former members of management. The Confirmed Plan of

CORAM HEALTHCARE CORPORATION
NOTES TO UNAUDITED CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS (Continued)

Reorganization, if ultimately upheld on appeal, will resolve substantially all of the Resource Network Subsidiaries matters. See Notes 2 and 11 for further details.

On March 7, 2002, the Bankruptcy Court approved the appointment of Arlin M. Adams, Esquire, as the Debtors Chapter 11 trustee. As more fully discussed in Note 2, Mr. Adams has assumed CHC s Board of Directors management rights and responsibilities. Subsequent to Bankruptcy Court appointment, the Chapter 11 trustee engaged the law firm of Schnader, Harrison, Segal & Lewis LLP (Schnader Harrison) to provide professional services in connection with the Bankruptcy Cases. Mr. Adams is *of counsel* at such law firm. Schnader Harrison was approved by the Bankruptcy Court as counsel to the Chapter 11 trustee and, in connection therewith, reimbursement of professional fees and related expenses are subject to Bankruptcy Court review and approval prior to interim and final payments by the company. Additionally, Mr. Adams is entitled to compensation and reimbursement of related expenses attributable to his services on behalf of the Debtors. Mr. Adams is compensated on an hourly basis at a rate that has been approved by the Bankruptcy Court. For the nine months ended September 30, 2004 and 2003, the company recorded aggregate compensation and reimbursable expenses for Mr. Adams of approximately $135,000 and $67,000, respectively. In addition, the company recorded aggregate professional fees and reimbursable expenses during the nine months ended September 30, 2004 and 2003 for Schnader Harrison of approximately $2,331,000 and $2,927,000, respectively. Through November 15, 2004, the company paid $193,566 to Mr. Adams for compensation and reimbursable expenses incurred from March 7, 2002 to November 30, 2003. Moreover, through November 15, 2004, the company paid $6,950,814 to Schnader Harrison for professional services rendered and reimbursable expenses incurred from March 7, 2002 to May 31, 2004. The amounts paid to Mr. Adams are net of certain holdbacks available to the company pursuant to Chapter 11 of the Bankruptcy Code.

5. MERGER AND RESTRUCTURING RESERVES

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

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 facilities and the reduction of personnel. In connection therewith, the company reserved for (i) personnel reduction costs relating to severance payments, fringe benefits and taxes for employees terminated under the plan and (ii) facility costs consisting of rent, common area maintenance and utilities to fulfill lease commitments at approximately fifteen branch and corporate facilities that were to be closed or downsized. As part of the Coram Restructure Plan, the company closed certain reimbursement sites during the first half of 2001 and terminated approximately 80 employees.

Under the Caremark Business Consolidation Plan and the Coram Restructure Plan, the total charges through September 30, 2004, the estimate of total future cash expenditures and the estimated total charges are as follows (in thousands):

	Charges Through September 30, 2004		Balances at September 30, 2004
	Cash	Non-Cash	Total

	Expenditures	Charges	Totals	Estimated Future Cash Expenditures	Charges
Caremark Business Consolidation Plan:					
Personnel reduction costs	$11,300	$	$11,300	$	$ 11,300
Facility reduction costs	10,437	3,900	14,337	250	14,587
Subtotals	21,737	3,900	25,637	250	25,887
Coram Restructure Plan:					
Personnel reduction costs	2,361		2,361	104	2,465
Facility reduction costs	1,351		1,351	137	1,488
Subtotals	3,712		3,712	241	3,953
Totals	$25,449	$3,900	$29,349	491	$ 29,840
Restructuring costs subject to compromise				(468)	
Accrued merger and restructuring costs per the condensed consolidated balance sheet				$ 23	

CORAM HEALTHCARE CORPORATION
NOTES TO UNAUDITED CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS (Continued)

A rollforward of the restructuring reserves that were not subject to compromise for the nine months ended September 30, 2004 is summarized as follows (in thousands):

Balance at January 1, 2004	$ 55
Payments under the plans	(32)
Balance at September 30, 2004	$ 23

Management anticipates that substantially all future cash expenditures related to the restructuring plans will be made on or before September 30, 2005.

6. CONCENTRATIONS OF REVENUE AND CREDIT RISK

Accounts receivable are primarily from third party payers, including insurance companies, managed care plans and federal and state governmental payers such as Medicare and Medicaid, and are unsecured. Accounts receivable under the Medicare program represented approximately 26% and 27% of the company s consolidated accounts receivable at September 30, 2004 and December 31, 2003, respectively. No other individual payer exceeded 5% of consolidated accounts receivable at those dates. However, upon aggregating the individual Medicaid program accounts receivable for all states where the company does business, such totals represented approximately 9.1% and 8.5% of consolidated accounts receivable at September 30, 2004 and December 31, 2003, respectively. Credit risk is mitigated by the large number of entities that comprise the third party payer base and insurance verification performed by company personnel contemporaneous with the acceptance of patient referrals.

Revenue from the Medicare and Medicaid programs accounted for approximately 25% of the company s consolidated net revenue for the three and nine months ended September 30, 2004 and 2003. Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation and revision. Compliance with such laws and regulations can be subject to future government review and interpretation, as well as significant regulatory action, including punitive fines, penalties and exclusion from the Medicare and Medicaid programs. Management acknowledges and is complying with certain ongoing audits and reviews with respect to prior reimbursements from Medicare and Medicaid. The company records reserves for regulatory matters after management has reviewed the underlying circumstances and applied the principles of Statement of Financial Accounting Standards No. 5, *Accounting for Contingencies.* See Note 11 for further discussion of the company s reserves for regulatory matters.

Approximately 5.6% and 7.3% of the company s consolidated net revenue for the three months ended September 30, 2004 and 2003, respectively, and approximately 5.9% and 7.1% of the company s consolidated net revenue for the nine months ended September 30, 2004 and 2003, respectively, related to an agreement with Health Net Inc. (Health Net) to provide services to its members in California pursuant to fee-for-service and capitated fee reimbursement arrangements. Additionally, Coram owns 50% of a partnership located in California that derived approximately 34.7% and 37.3% of its net revenue during the three months ended September 30, 2004 and 2003, respectively, and approximately 33.6% and 42.2% of its net revenue during the nine months ended September 30, 2004 and 2003, respectively, from services provided under such agreement. The Health Net agreement, as amended effective October 1, 2003, terminates on December 31, 2005; however, Health Net has reserved the right to reevaluate

the amended agreement based upon the status of the Bankruptcy Cases, as well as material changes, if any, to Coram s senior management during the term of the Health Net agreement. The loss of the Health Net agreement or significant modifications to the terms and conditions of such agreement could have a materially adverse effect on the results of operations, cash flows and financial condition of the company and its partnership.

The company was a party to several individual healthcare provider contracts under the purview of a single national health insurance carrier that commenced implementation of a national ancillary care management program in 2002. In connection therewith, all but one of the company s individual provider contracts with such national health insurance carrier have been terminated. The terminated contracts represented approximately 0.8% and 2.9% of the company s consolidated net revenue for the nine months ended September 30, 2004 and 2003, respectively, and the aggregate contracted and non-contracted business with the national health insurance carrier during such periods was approximately 1.7% and 3.6%, respectively. Additionally, approximately 2.7% of the company s consolidated accounts receivable at September 30, 2004 relate to the aggregate contracted and non-contracted business with the individual healthcare plans. Management can provide no assurances that the remaining active provider contract affiliated with this national health insurance carrier, which generated net revenue of approximately $1.8 million and $1.0 million during the nine months ended September 30, 2004 and 2003, respectively, will continue under terms that are favorable to the company. Moreover, notwithstanding certain favorable negotiations and settlements regarding accounts receivable that have transpired during 2004 and

Table of Contents

CORAM HEALTHCARE CORPORATION
NOTES TO UNAUDITED CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS (Continued)

2003, including the realization of approximately 40% of the September 30, 2004 outstanding accounts receivable balance in November 2004, no assurances can be given that meaningful collection/settlement activities will continue in the future. The termination of the remaining provider contract, the loss of the non-contracted business and/or continued delays in collecting, adjudicating and/or settling the outstanding accounts receivable from the individual healthcare plans under this national health insurance carrier could have a materially adverse effect on the company s results of operations, cash flows and financial condition.

From time to time, the company negotiates settlements with its third party payers in order to resolve outstanding disputes, terminate business relationships or facilitate the establishment of new or enhanced payer contracts. In connection therewith, the company entered into three settlement agreements during 2004 and recorded bad debt recoveries of approximately $0.5 million and $0.7 million during the three and nine months ended September 30, 2004, respectively. Additionally, the company entered into two settlement agreements during 2003 and recorded bad debt recoveries aggregating approximately $1.1 million during the nine months ended September 30, 2003 (no amounts were recorded during the three months ended September 30, 2003). All such 2004 and 2003 settlement agreements were with healthcare plans affiliated with the aforementioned national health insurance carrier. Furthermore, management is aware of certain claims, disputes or unresolved matters with third party payers arising in the normal course of business and, although there can be no assurances, management believes that the resolution of such matters will not have a materially adverse effect on the company s financial position, results of operations or cash flows.

7. DEBT OBLIGATIONS

Debt obligations are as follows (in thousands):

	September 30, 2004	December 31, 2003
Series B Senior Subordinated Unsecured Convertible Notes (the Series B Notes) in default	$ 9,000	$ 9,000
Insurance note payable	1,509	
Specialized Clinical Solutions, Inc. note payable	799	1,201
Accreditation notes payable	290	51
Other	130	130
	11,728	10,382
Less: Debt obligations subject to compromise (See Note 2)	(9,130)	(9,130)
Less: Current maturities	(2,295)	(660)
Long-term debt, less current maturities	$ 303(1)	$ 592

(1) Approximately $239 and $64 will become due and payable during the years ending September 30, 2006 and 2007, respectively.

The Series B Notes were not paid on their June 30, 2003 scheduled maturity date and, as a result, the company is in default of the underlying Securities Exchange Agreement; however, the holders of such notes are stayed from pursuing any remedies without prior authorization from the Bankruptcy Court. Other than such default for non-payment of principal, management believes that on September 30, 2004 the company was substantially compliant with all other covenants of the Securities Exchange Agreement. However, there can be no assurances as to whether covenant violations or events of default will occur in future periods or whether waivers would be granted by the noteholders. Pursuant to the terms and conditions of the Confirmed Plan of Reorganization, the Series B Notes will be cancelled on the effective date of such plan of reorganization. See Note 2 for further details regarding the Confirmed Plan of Reorganization and certain Equity Committee appeals relating thereto.

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 2001 Financing Agreement) to finance the payment of premiums under certain of the Debtors insurance policies. The final installment payment thereunder was made in December 2001. In May 2004, pursuant to the order authorizing the Debtors to enter into the 2001 Financing Agreement, the Debtors entered into an insurance premium financing agreement with Imperial Premium Finance, Inc., an affiliate of AICCO, Inc., (the 2004 Financing Agreement) to finance the premiums under certain insurance policies. The terms of the 2004 Financing Agreement required the Debtors to remit a down payment of approximately $2.2 million on May 7, 2004. Approximately $4.0 million was financed and is being paid in eight monthly installments of approximately $0.5 million, including interest at a rate of 3.70% per annum. Such installment payments commenced on May 17, 2004 and will continue through December 2004. Imperial Premium Finance, 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

CORAM HEALTHCARE CORPORATION
NOTES TO UNAUDITED CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS (Continued)

by the 2004 Financing Agreement. Additionally, the 2004 Financing Agreement is secured by the unearned premiums and any loss payments under the covered insurance policies.

In August 2004, the company entered into an agreement with the Accreditation Commission for Health Care, Inc. (ACHC) whereby ACHC is to, among other things, provide the company with national accreditation services. The agreement commenced on the date that it was executed and expires in November 2007. Under the terms of the agreement, which is an unsecured arrangement, the company (i) made an upfront payment of approximately $0.3 million in August 2004 and (ii) will make nine equal non-interest bearing quarterly payments of approximately $32,000 commencing on January 1, 2005. As a result of executing the ACHC agreement, the company recorded an intangible asset for approximately $0.6 million during the three months ended September 30, 2004.

Refer to Note 8 to the company s audited consolidated financial statements included in CHC s 2003 Form 10-K for further details regarding the company s debt obligations.

8. CAPITAL LEASE OBLIGATIONS

Capital lease obligations are as follows (in thousands):

	September 30, 2004	December 31, 2003
B. Braun Medical, Inc. pole-mounted infusion pumps	$ 1,072	$ 1,278
Baxter Healthcare Corporation (Baxter) ambulatory infusion pumps	5,442	1,280
Other	75	108
	6,589	2,666
Less: Current portion	(2,038)	(1,052)
Capital lease obligations, less current portion	$ 4,551	$ 1,614

Baxter Capital Lease Obligations. On December 22, 2003, the Bankruptcy Court approved a motion submitted by the Chapter 11 trustee that, among other things, authorized the company to enter into a series of lease agreements with Baxter for a minimum of 5,200 6060 Multi-Therapy Ambulatory Infusion Pumps. Thereafter, Baxter and the company entered into six individual five year agreements for 5,900 leased pumps. Upon expiration of the Baxter lease agreements, legal title of the pumps will effectively pass to the company.

Future non-cancelable capital lease payments for each of the years in the five year period ending September 30, 2009 and thereafter are as follows (in thousands):

Years Ending September 30th	
2005	$2,254
2006	1,471
2007	1,130
2008	1,319
2009	981
Thereafter	
Total minimum lease payments	7,155
Less amounts representing interest	(566)
Present value of capital lease obligations	$6,589

Refer to Note 9 to the company s audited consolidated financial statements included in CHC s 2003 Form 10-K for further details regarding the company s capital lease obligations.

Table of Contents

CORAM HEALTHCARE CORPORATION
NOTES TO UNAUDITED CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS (Continued)

9. INCOME TAXES

During the nine months ended September 30, 2004 and 2003, the company recorded income tax expense of approximately $119,000 and $72,000, respectively. The effective income tax rates for such periods were lower than the federal statutory rate because the company is able to utilize net operating loss carryforwards (NOLs) that are fully reserved by a valuation allowance. At September 30, 2004, deferred tax assets were net of a valuation allowance of approximately $148.5 million. Realization of deferred tax assets is generally dependent upon the company s ability to generate taxable income in the future. Accordingly, deferred tax assets have been limited to amounts expected to be recovered against deferred tax liabilities that would otherwise become payable in the carryforward period. Furthermore, as management believes that the realization of the balance of deferred tax assets is sufficiently uncertain, they have been wholly offset by valuation allowances at both September 30, 2004 and December 31, 2003.

Deferred tax assets relate primarily to temporary differences consisting, in part, of accrued restructuring costs, charges 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, certain tax credits and NOLs. At September 30, 2004, the company had NOLs for federal income tax purposes of approximately $194.1 million that may be available to offset future federal taxable income and expire in varying amounts in the years 2005 through 2024. These NOLs include approximately $22.4 million generated by certain predecessor companies prior to the formation of the company and such amount is subject to an annual usage limitation of approximately $4.5 million. In addition, the ability to utilize the full amount of the $194.1 million of federal NOLs and certain of the company s state NOLs is uncertain due to rules and regulations covering the exchanges of debt and related interest for Coram, Inc. Series A Cumulative Preferred Stock (the CI Series A Preferred Stock) in December 2001 and December 2000 and Coram, Inc. Series B Cumulative Preferred Stock (the CI Series B Preferred Stock) in December 2002 (refer to Notes 8 and 12 to the company s audited consolidated financial statements included in CHC s 2003 Form 10-K for further details). As of September 30, 2004, the company had alternative minimum tax (AMT) credit carryforwards of approximately $2.9 million, which have an indefinite carryforward period and may be available to offset future federal income taxes.

CI currently operates under the jurisdiction of the Bankruptcy Court and meets certain other bankruptcy related conditions of the Internal Revenue Code (IRC). Pursuant to IRC Section 382, the issuance of the CI Series A Preferred Stock in December 2000 caused an ownership change at CI for federal income tax purposes. The bankruptcy provisions of IRC Section 382 impose certain limitations on the utilization of NOLs and other tax attributes. Additionally, the gains on troubled debt restructurings that resulted from the abovementioned exchanges of CI Series A Preferred Stock and CI Series B Preferred Stock for debt and related interest are generally not subject to income tax pursuant to the cancellation of debt provisions in IRC Section 108; however, such gains could affect the company s utilization of NOLs and certain other tax attributes.

During 2004, the company and the Internal Revenue Service (the IRS) executed a settlement agreement and a deferred payment plan (collectively the IRS Settlement) to resolve a federal income tax dispute. In addition to the application of an AMT refund of approximately $1.7 million against the amount due, the IRS Settlement requires the company to make quarterly payments of approximately $0.7 million until such time as the remaining IRS Settlement amount, post-settlement interest and penalties are fully liquidated. Under the terms of the agreement, interest accrues at a variable rate, compounded daily, as determined by reference to rates published by the IRS (at November 15, 2004 the corresponding effective interest rate was 7.0%).

The company will amend certain state income tax returns that are indirectly affected by the results of the IRS Settlement. Although the precise financial impact of such amended state income tax returns is not presently determinable, management has estimated the corresponding amount of tax, interest and penalties to approximate $1.2 million and has included such amount as a current liability in the company s condensed consolidated financial statements. There can be no assurances that such estimate will not increase upon completion of the requisite state income tax returns, which are currently being compiled and are anticipated to be filed with the corresponding state taxing jurisdictions in early 2005. The state tax estimates will be reviewed by management and may be revised in subsequent periods as more information becomes available.

Pursuant to the terms and conditions of the Amended and Restated Plan Funding and Settlement Agreement underlying the Confirmed Plan of Reorganization, Cerberus Partners, L.P., Goldman Sachs Credit Partners L.P., Wells Fargo Foothill, Inc. (formerly known as Foothill Capital Corporation) and Foothill Income Trust will pay when due the remaining obligation under the IRS Settlement as of the effective date of such plan of reorganization. See Note 2 for further details regarding the Confirmed Plan of Reorganization and certain Equity Committee appeals relating thereto.

Table of Contents

CORAM HEALTHCARE CORPORATION
NOTES TO UNAUDITED CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS (Continued)

The future principal payments under the IRS Settlement for each of the years in the five year period ending September 30, 2009 and thereafter are estimated as follows (in thousands):

Years Ending September 30th	
2005	$ 1,799
2006	1,929
2007	2,069
2008	2,217
2009	2,380
Thereafter	5,859
Totals	$16,253

Refer to Note 10 to the company s audited consolidated financial statements included in CHC s 2003 Form 10-K for further details regarding the IRS Settlement and related matters.

10. MINORITY INTERESTS

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

	September 30, 2004	December 31, 2003
Preferred stock of Coram, Inc.	$ 5,538	$ 5,538
Majority-owned companies	629	972
Totals	$ 6,167	$ 6,510

A summary of the CI Series A Cumulative Preferred Stock and the CI Series B Cumulative Preferred Stock (collectively the CI Preferred Stock) activity and related liquidation preference amounts during the nine months ended September 30, 2004 is as follows (in thousands, except share amounts):

	CI Series A Cumulative Preferred Stock	CI Series B Cumulative Preferred Stock

	Shares	Liquidation Preferences	Shares	Liquidation Preferences
Balances at January 1, 2004	1,685.3	$ 203,583	1,414.4	$ 170,862
Dividends In-Kind	199.8	24,139	167.7	20,259
Balances at September 30, 2004	1,885.1	$ 227,722	1,582.1	$ 191,121

See Note 2 for discussion of the Confirmed Plan of Reorganization and its impact on the CI Preferred Stock. Additionally, refer to Note 12 to the company s audited consolidated financial statements included in CHC s 2003 Form 10-K for further information regarding the CI Preferred Stock.

CORAM HEALTHCARE CORPORATION
NOTES TO UNAUDITED CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS (Continued)

11. COMMITMENTS AND CONTINGENCIES

Commitments

The table below summarizes the company s operating lease, purchase and other commitments for each of the years in the five year period ending September 30, 2009 and thereafter (in thousands):

Years Ending September 30th	Operating Leases	Purchase Commitments and Other Obligations	Totals
2005	$ 9,377	$35,920	$45,297
2006	7,390	11,959	19,349
2007	5,142	2,900	8,042
2008	4,350	2,900	7,250
2009	2,668	483	3,151
Thereafter	1,819		1,819
Totals	$30,746	$54,162	$84,908

The company s debt, capital lease and IRS settlement obligations are not included in the above table. Such matters are discussed in Notes 7, 8 and 9, respectively. Additionally, excluded from the above table are open purchase orders in the normal course of business.

Purchase and Other Commitments. On April 29, 2003, the Bankruptcy Court approved a motion that, among other things, allowed the company to assume an agreement with B. Braun Medical, Inc (B. Braun) to purchase drugs and supplies (the Supply Agreement). The Supply Agreement expires in February 2005 and, pursuant to its terms, the company is required to purchase at least 95% of its annual volume requirements related to twelve product categories from B. Braun. However, the company has the right to remove any product category from the purview of the Supply Agreement if such product category is offered by another vendor at pricing that is 10% lower, in the aggregate, for that entire product category, provided that B. Braun waives its right to match such pricing. The company also has the right to terminate the Supply Agreement after sixty days written notice if B. Braun provides products or services of a quality or technical level that fail to meet customary standards of the medical industry. However, if the company terminates the Supply Agreement for any other reason, it must reimburse B. Braun (i) certain incentives previously paid to the company, which are calculated at $150,550 per unexpired quarter under the Supply Agreement and (ii) the greater of $4.0 million or 50% of the company s purchases for the twelve months immediately preceding the early termination date. Additionally, if it is determined that the company does not satisfy the 95% purchasing requirement for any of the twelve product categories and such failure is not related to a lack of product availability, then the company is required to pay B. Braun an amount equal to 10% of the previous quarter s purchases. Since the inception of the Supply Agreement, no such quarterly shortfall has been in evidence and, while no assurances can be given,

management does not expect that such circumstances will arise during the remaining term of the Supply Agreement. Moreover, due to the company s business relationship with B. Braun and the advantageous drug and supply pricing enjoyed by the company, management currently has no intentions of terminating the Supply Agreement. Accordingly, management believes it is unlikely that the early termination penalties will be invoked. However, if an early contract termination did occur, the penalties, which would have aggregated approximately $4.2 million at November 15, 2004, would have a materially adverse effect on the company s financial position, liquidity and results of operations.

Although no assurances can be given, management believes that the company s recurring business and operational requirements will meet substantially all of its purchase commitments. However, based on preliminary forecasts, management projects that the company will not attain its purchase commitments for certain individual products under one drug and supply contract for the year ending December 31, 2005. Management is currently evaluating the company s options to remedy the projected shortfalls; however, if such purchasing shortfalls are ultimately experienced, the affected vendor will have the right to assess monetary damages against the company in an amount that could have a materially adverse impact on the company s financial position, results of operations and liquidity.

CORAM HEALTHCARE CORPORATION
NOTES TO UNAUDITED CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS (Continued)

Refer to Note 14 to the company s audited consolidated financial statements included in CHC s 2003 Form 10-K for further discussion regarding the company s purchase and other commitments.

The Chapter 11 trustee established the 2004 Key Employee Retention Plan (the 2004 KERP) which, among other things, provides for (i) retention bonus payments of approximately $2.6 million to key employees of the company (the 2004 KERP Compensation) and (ii) other payments of approximately $0.3 million to certain branch management personnel (the Branch Incentive Compensation). Pursuant to the provisions of the 2004 KERP, the 2004 KERP Compensation is payable in two equal installments as follows: (i) upon approval of the 2004 KERP by the Bankruptcy Court and (ii) the earlier of 60 days after the effective date of a plan or plans of reorganization or December 31, 2004 (the Second Payment Date). Should a 2004 KERP Compensation participant voluntarily leave the company or be terminated for cause prior to the Second Payment Date, such participant must return any amounts previously received under the 2004 KERP, less applicable taxes withheld. Approximately $1.6 million, which represented the first installment under the 2004 KERP Compensation and the entire Branch Incentive Compensation amount, was paid to eligible participants in July 2004. Through November 15, 2004, approximately $0.1 million of the 2004 KERP Compensation was forfeited by employees who voluntarily terminated employment with the company. Accordingly, management currently estimates that the 2004 KERP Compensation payment on the Second Payment Date will aggregate approximately $1.2 million (at September 30, 2004, approximately $0.6 million of such amount was included in accrued compensation and related liabilities in the company s condensed consolidated balance sheet).

Guarantees and Indemnifications. In May 2003, one of the company s unconsolidated joint ventures and a related affiliate (collectively the Joint Venture) entered into a five year real property lease in connection with the consolidation of two existing Joint Venture locations into one new facility. CI and its Joint Venture partner have jointly and severally guaranteed the Joint Venture s financial performance under such real property lease. As of November 15, 2004, the maximum amount of future payments CI could be required to make through the termination of the real property lease (exclusive of any amounts potentially recoverable from CI s Joint Venture partner) was (i) approximately $0.2 million for recurring monthly lease payments and (ii) certain other presently undeterminable contingent amounts such as utility costs, common area maintenance charges and landlord legal fees necessary to assert his rights; however, management estimates such miscellaneous contingent amounts to be nominal. The fair value of CI s guarantee has been estimated by management to be less than $0.1 million and has been accrued as a long-term liability in the company s condensed consolidated financial statements in accordance with the provisions of Financial Accounting Standards Board Interpretation No. 45, *Guarantor s Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others.* In subsequent periods, management will evaluate and adjust the aforementioned liability in relation to changes in the estimated fair value of the guarantee.

In connection with divestitures of certain operating assets and businesses in prior years, two separate CI subsidiaries provided the acquirers of such operating assets and businesses with indemnifications for certain contingent regulatory liabilities that might arise in connection with pre-divestiture activities. As of November 15, 2004, the maximum amount of potential future payments the CI subsidiaries could be required to make under these indemnification agreements aggregated approximately $0.2 million, which would be partially offset by an immaterial amount of escrowed funds. No amounts have been accrued in the company s condensed consolidated financial statements in connection with such indemnification agreements because management considers the probability of payment to be remote and, accordingly, the fair value of the indemnifications are nominal.

The primary obligor of the Series B Notes is CI; however, such liabilities are guaranteed by CHC and substantially all of its subsidiaries (see Note 8 to the company s audited consolidated financial statements included in CHC s 2003 Form 10-K for further discussion regarding the Series B Notes). The B. Braun and Baxter capital lease agreements

(see Note 8 for further details) were executed by a non-debtor subsidiary but the obligations are guaranteed by the Debtors and CI, respectively. Additionally, CHC, CI and certain of their subsidiaries are parties to various real property and personal property operating lease agreements. In certain circumstances, individual members of the Coram consolidated group have provided guarantees to third party lessors on behalf of, or for the benefit of, the primary Coram obligor.

Litigation

Bankruptcy Cases. On August 8, 2000, the Debtors commenced the Bankruptcy Cases. None of the company s other subsidiaries is a debtor in the Bankruptcy Cases and, other than the Resource Network Subsidiaries, none of the company s other subsidiaries is a debtor in any bankruptcy case. See Notes 2 and 3 for further details.

CORAM HEALTHCARE CORPORATION
NOTES TO UNAUDITED CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS (Continued)

Except as may otherwise be determined by the Bankruptcy Court, the protection afforded by Chapter 11 of the Bankruptcy Code generally provides for an automatic stay relative to any litigation proceedings pending against either or both of the Debtors. All such claims will be addressed by the Bankruptcy Court in the Bankruptcy Cases. The automatic stay does not, however, apply to actions brought against the company s non-debtor subsidiaries.

Resource Network Subsidiaries Bankruptcy. On August 19, 1999, a small group of parties with claims against the Resource Network Subsidiaries filed an involuntary petition pursuant to Section 303 of Chapter 11 of the Bankruptcy Code against Coram Resource Network, Inc. in the Bankruptcy Court. On November 12, 1999, the Resource Network Subsidiaries filed voluntary petitions under Chapter 11 of the Bankruptcy Code, Case No. 99-2888 (MFW) and Case No. 99-2889 (MFW). The two cases were consolidated for administrative purposes and are now pending under the docket of *In re Coram Resource Network, Inc. and Coram Independent Practice Association, Inc.,* Case No. 99-2889 (MFW). On October 21, 2002, the Official Committee of Unsecured Creditors of Coram Resource Network, Inc. and Coram Independent Practice Association, Inc. (the R-Net Creditors Committee) filed a proposed Liquidating Chapter 11 Plan. On August 28, 2003, the R-Net Creditors Committee filed with the Bankruptcy Court its Disclosure Statement With Second Modifications, including, as an attachment, the Liquidating Chapter 11 Plan With Second Modifications (collectively the Second Modified R-Net Plan). The Second Modified R-Net Plan, which was confirmed by the Bankruptcy Court on December 23, 2003 and became effective on or about January 31, 2004, is available in the Resource Network Subsidiaries bankruptcy cases at docket number 1151.

In November 2001, the R-Net Creditors Committee filed a complaint in the Bankruptcy Court, subsequently amended twice, both on its own behalf and as assignee for causes of action that may belong to the Resource Network Subsidiaries, which named as defendants the Debtors, several non-debtor subsidiaries, several current and former directors, current executive officers of CHC and several other current and former employees of the company. This complaint, as amended, also named as defendants Cerberus Partners, L.P., Goldman Sachs Credit Partners L.P., Foothill Capital Corporation (now known as Wells Fargo Foothill, Inc.) and Foothill Income Trust, L.P. (parties to certain of the company s debt agreements or affiliates of such entities). The complaint alleged that the defendants violated various state and federal laws in connection with alleged wrongdoings related to the operation and corporate structure of the Resource Network Subsidiaries, including, among other allegations, breach of fiduciary duty, conversion of assets and preferential payments to the detriment of the Resource Network Subsidiaries estates, misrepresentation and fraud, conspiracy, fraudulent concealment and a pattern of racketeering activity. The complaint sought damages in the amount of approximately $56 million and additional monetary and non-monetary damages, including disallowance of the Debtors claims against the Resource Network Subsidiaries, punitive damages and attorneys fees. This complaint was ultimately filed with the United States District Court for the District of Delaware (the District Court); however, the District Court eventually dismissed the complaint without prejudice to renew (subject to the successful resolution of the proposed settlement agreement discussed below). The company notified its insurance carrier of this complaint and certain related matters and intends to avail itself of insurance coverage for its directors and officers; however, management cannot readily determine the amount of recoveries, if any.

The Confirmed Plan of Reorganization, if ultimately upheld on appeal, will resolve substantially all of the Resource Network Subsidiaries matters through the Settlement Agreement and Mutual Release arrangement (the R-Net Settlement Agreement), which was executed by the Chapter 11 trustee, the Debtors, the R-Net Creditors Committee, the Resource Network Subsidiaries and the Resource Network Subsidiaries Chief Restructuring Officer. Among other things, the R-Net Settlement Agreement provides for (i) the fixing and allowance of a Resource Network Subsidiaries general unsecured claim against the Debtors for $7.95 million, plus interest, under certain circumstances, at the applicable federal judgment rate, (ii) the fixing and allowance of the Debtors general unsecured claim against the Resource Network Subsidiaries for $1,000 per proof of claim filed, (iii) dismissal of the adversary

proceeding in the District Court with prejudice and (iv) mutual releases from the parties to the R-Net Settlement Agreement. See Note 2 for discussion of certain Equity Committee appeals regarding the Confirmed Plan of Reorganization.

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); however, on July 5, 2001, the company received a letter from TBOB s legal counsel requesting that the arbitration remain in abeyance pending resolution of the Bankruptcy Cases. In its demand, TBOB claims that the company breached its obligations under an agreement entered into by the parties in 1996 relating to an earn-out obligation of the company that originated from an 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. TBOB alleges, among other things, that the company 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

CORAM HEALTHCARE CORPORATION
NOTES TO UNAUDITED CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS (Continued)

CPS by marketing its products and services. In addition to the final scheduled earn-out payment of approximately $1.3 million that was due in March 2001, TBOB alleges damages of more than $0.9 million. TBOB reiterated its monetary demand through a proof of claim filed against CHC s estate for the aggregate amount of approximately $2.2 million (i.e., the scheduled earn-out payment plus the alleged damages).

On August 25, 2003, the Chapter 11 trustee and TBOB entered into the Settlement Agreement and Mutual Release (the TBOB Settlement Agreement), which resolves the aforementioned matters by fixing and allowing TBOB s claim against CHC at $1.5 million, plus interest, under certain circumstances, at the applicable federal judgment rate. The company s liabilities subject to compromise at both September 30, 2004 and December 31, 2003 reflect the full TBOB Settlement Agreement amount. The TBOB Settlement Agreement is subject to and contingent upon confirmation of a plan of reorganization on or before December 31, 2003. As no plan of reorganization was confirmed before the prescribed date, TBOB may, at its sole discretion, (i) elect to extend the deadline for a period up to and including December 31, 2004 or (ii) seek allowance of its original claim amount against CHC; however, if TBOB does seek allowance of its original claim amount, the Chapter 11 trustee is permitted to seek a reduction of such claim to an amount lower than the $1.5 million settlement amount included in the TBOB Settlement Agreement. TBOB elected to extend the deadline date through October 31, 2004; however, no assurances can be given that TBOB will elect to extend the deadline date again.

In the event that the TBOB Settlement Agreement is not consummated, additional liabilities may result from post-petition interest on the final scheduled earn-out payment and/or the TBOB allegations. In accordance with SOP 90-7, such interest, estimated to aggregate approximately $0.8 million at both September 30, 2004 and November 15, 2004 using the contractual interest rate of 18%, has not been recorded in the company s consolidated financial statements because TBOB s original claim for interest ultimately may not be sustainable (moreover, in accordance with the terms and conditions of the Confirmed Plan of Reorganization, post-petition interest, if any, will be limited to the federal judgment rate). Management does not believe that the final resolution of this matter will have a materially adverse impact on the company s financial position or results of operations.

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

The company and its subsidiaries are also parties to various other actions arising in the normal course of their businesses, including, among other things, employee claims, employee incentive compensation disputes and reviews of cost reports and billings submitted to Medicare and Medicaid. Management believes that the ultimate resolution of such matters will not have a materially adverse effect on the company s financial position, results of operations or liquidity.

Regulatory Audits and Reviews. As a healthcare provider, the company is subject to extensive governmental regulation, including laws directed at preventing fraud and abuse and laws regulating reimbursement under various government programs. Moreover, marketing, billing, documentation and other practices of healthcare companies are subject to government scrutiny. To ensure compliance with Medicare, Medicaid and other government programs, government agencies and their designees periodically conduct payment reviews or audits and request patient records and other documents to support reimbursement claims submitted by healthcare providers. Similarly, government agencies periodically conduct investigations and obtain healthcare information from such providers. Violations of

federal and state regulations can result in severe criminal, civil and administrative penalties and sanctions, including disqualification from Medicare, Medicaid and other governmental reimbursement programs.

Management acknowledges and is complying with certain ongoing audits and reviews with respect to prior reimbursements from Medicare and Medicaid. As a result of external state Medicaid audit findings and other related matters, during 2003 and 2004 management initiated internal reviews focused on certain critical components of the company s internal control environment. Management ultimately concluded that there were deficiencies in the company s internal control structure relating to certain elements of the company s Medicaid billing and reimbursement practices. As a consequence thereof, among other things, the company recorded incremental reserves for regulatory matters during the nine months ended September 30, 2004, including approximately $0.8 million for pre-2004 revenue that was attributable to one of the company s consolidated joint ventures. At September 30, 2004 and December 31, 2003, other current and accrued liabilities in the company s condensed consolidated balance sheets included reserves for regulatory matters aggregating approximately $8.1 million and $7.7 million, respectively. Such reserve estimates will be reviewed and may be revised in subsequent periods as more information becomes available to management. To the extent that specific Medicaid refund obligations have been, or may be, identified, the company has processed, is processing or will process such transactions.

CORAM HEALTHCARE CORPORATION
NOTES TO UNAUDITED CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS (Continued)

Moreover, management is taking corrective actions to remedy the aforementioned Medicaid billing and reimbursement internal control deficiencies.

The financial impact of regulatory matters beyond what has already been recognized by the company, if any, is currently unknown. In the event that Medicare and Medicaid investigative matters or similar reviews/audits by other agencies result in adverse findings, the company could face exclusion from the Medicare and Medicaid programs, as well as civil, criminal and/or administrative regulatory actions, sanctions and/or penalties that, in the aggregate, could be material to its business, financial position, results of operations and liquidity.

Federal Serostim® and Somatropin Subpoenas. On March 8, 2004, CHC and its wholly-owned subsidiary, Curaflex Health Services, Inc. (Curaflex), were served with a grand jury subpoena from the United States Attorney s Office in Boston, Massachusetts requesting records of certain prescriptions for the drugs Serostim® and Somatropin that were dispensed by the company from January 1, 1998 through December 31, 1999. This grand jury subpoena appears to be a follow-up to an administrative subpoena issued by the same United States Attorney s Office on March 14, 2003 wherein records were requested from January 1, 1996 to the date of the subpoena. The federal government has informed CHC that it is investigating allegations concerning purchases and sales of Serostim®, claims submitted to Medicaid for reimbursement of Serostim® and the relationship between CHC (including its subsidiaries) and the manufacturer of such drug, Serono Laboratories, Inc. (Serono) and/or its parent company (i.e., Ares-Serono, S.A.), including allegations of the receipt of improper rebates and/or discounts and possibly other things of value from Serono. During what appears to be the applicable time period, CHC s business with Serono that is related to the subject matter of the investigations was conducted through Curaflex. CHC and Curaflex have produced documents requested by the federal government and are cooperating with the investigations. Management cannot currently predict the course or outcome of the investigations or provide any assurances as to whether or not the federal government will institute proceedings against CHC and/or Curaflex or any employees or subsidiaries thereof.

PricewaterhouseCoopers LLP. On July 7, 1997, the company filed a lawsuit 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; however, the case is still in the discovery stage and no trial date has been scheduled. Management cannot predict the outcome of this litigation or whether there will be any recovery from PricewaterhouseCoopers LLP or its insurance carriers. The Confirmed Plan of Reorganization provides that a net recovery in this matter, if any, will be distributed in the order of priority discussed in Note 2. Additionally, see Note 2 for discussion of certain Equity Committee appeals regarding the Confirmed Plan of Reorganization.

Insurance. The services performed and products sold by the company involve an inherent risk of professional and product liability. While the company maintains insurance coverage consistent with industry practices and at amounts deemed appropriate by management, there can be no assurances that the amount of such insurance will satisfy claims made against Coram or that the company will be able to obtain insurance in the future in amounts adequate to meet its needs. Claims in excess of the company s insurance coverage or the inability to obtain/maintain adequate levels of insurance coverage could have a materially adverse effect on the company s business, results of operations and liquidity.

Omnibus Budget Reconciliation Act of 1993 (commonly referred to as Stark II). Under the physician ownership and referral provisions of Stark II, it is unlawful for a company to bill the Medicare or Medicaid programs for certain designated health services provided by or ordered by a physician who has, or whose family has, a financial relationship with the company unless the financial relationship fits within an exception enumerated in Stark II or regulations promulgated thereunder. A financial relationship under Stark II is broadly defined 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. 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 and its implementing regulations. 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 CHC s common stock. Stark II includes an exception for the

CORAM HEALTHCARE CORPORATION
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

ownership of publicly traded stock in companies with equity above certain levels. This Stark II exception 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 gains on troubled debt restructurings (refer to Note 8 to the company s audited consolidated financial statements included in CHC s 2003 Form 10-K for further details), at December 31, 2003 the company s stockholders equity was above the required level. As a result, the company is compliant with the Stark II public company exception through the year ending December 31, 2004.

Management has been advised by legal 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 CHC 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 and Medicaid programs or run a significant risk of Stark II noncompliance. Because approximately 25% and 24% of the company s consolidated net revenue for the nine months ended September 30, 2004 and the year ended December 31, 2003, respectively, relate to patients with such government-sponsored benefit programs, discontinuing the acceptance of such patients would have a materially adverse effect on the company s financial condition, results of operations and cash flows. Additionally, ceasing to accept such patients could have a materially adverse effect on the company s business reputation in the marketplace as it may cause the company to be a less attractive provider to which a physician could refer his or her patients.

Table of Contents

CORAM HEALTHCARE CORPORATION
NOTES TO UNAUDITED CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS (Continued)

12. DEBTOR/NON-DEBTOR CONDENSED CONSOLIDATING FINANCIAL STATEMENTS

The following Condensed Consolidating Financial Statements are presented in accordance with SOP 90-7. Certain amounts in the Condensed Consolidating Balance Sheet as of December 31, 2003 and the Condensed Consolidating Statement of Cash Flows for the nine months ended September 30, 2003 have been reclassified to conform to the 2004 presentation.

Condensed Consolidating Balance Sheet
As of September 30, 2004
(Unaudited)
(in thousands)

	Debtors	Non-Debtors	Eliminations	Consolidated
ASSETS				
Current assets:				