



BioScrip: Why Tolerate Friedman and his Cronies?

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I. Current Situation Review

Current Situation Review

- ❑ BIOS hosted its annual shareholders' meeting ("ASM") on April 29, 2008 where CEO Richard Friedman indicated that BIOS experienced a margin decline of ~1% in Q1 08
 - ▶ Margin decline was temporary and due to a shift in payor mix and an increase in drug acquisition costs that BIOS was unable to pass on until later in Q1 08
- ❑ Shares declined to \$5.50 from \$6.52 per share, or 16%, the day following the ASM
- ❑ BIOS reported Q1 08 results on May 2, 2008 recognizing a loss of \$0.01 per share vs. a loss of \$0.04 per share QvQ
 - ▶ Sales were up 11% quarter vs. quarter ("QvQ") to \$327.5MM vs. \$296.2MM but Gross Profit fell to \$32.4MM or 9.9% margin vs. \$32.6MM or 11.0% margin
 - ▶ SG&A was \$31.1MM or 9.5% of revenues in Q1 08 while SG&A was \$28.0MM or 9.5% of revenues in Q1 07
 - ▶ Excluding Bad Debt Expense (non-cash) and Amortization of Intangibles, BIOS Income from Ops was \$1.3MM in Q1 08 or 0.4% margin vs. \$4.6MM in Q1 07 or 1.6% margin
 - ▶ The Company required a waiver due to non-compliance with facility covenant costing shareholders an additional \$150k, material given the Company's razor thin margins
 - ▶ CAP program was not profitable in Q1 due to CMS reducing reimbursement rates, perhaps an indication of why BIOS was the sole CAP participant as other competitors may have anticipated these changes
- ❑ Since the announcement and Q1 08 results, BIOS shares are down to \$1.95 or 70% from the closing price on April 29, 2008 and 75% YTD 2008
- ❑ Despite Q1 08 mishaps and an established history of delivering dreadful returns to BIOS shareholders, Friedman's contract was extended and provided a 15% salary raise to \$850,000 on June 3, 2008
- ❑ Why do BIOS investors tolerate this horrific level of incompetence? Where is the Board to protect shareholder interests?

II. BIOS Overview

Overview

- ❑ BIOS is a specialty pharmaceutical services provider founded through the botched merger of Chronimed and MIM Corp. ("MIM") in March 2005
 - ▶ Friedman was CEO of MIM and prior to the combination where MIM experienced margin pressures in certain product areas and also lost contracts with companies such as MedImmune
 - ▶ Despite warning signs regarding operating acumen at MIM, Friedman was allowed to serve as Chairman of the Board before taking over as CEO for BIOS
- ❑ The Company operates two segments - Specialty Pharmaceutical Services ("SPS") and Pharmacy Benefit Management ("PBM")
 - ▶ SPS: Focuses on therapy management services for specialty pharmaceuticals ("SP") used to treat chronic diseases such as Crohn's Disease, AIDS/HIV, hemophilia, and Multiple Sclerosis ("MS")
 - ❖ SP tend to have high production/delivery costs due to dosage requirements, side effects, storage/handling, and administration needs
 - ❖ BIOS works with payors, drug manufacturers, physicians, and patients by coordinating dispensing, coordination of benefits, and therapy management including adherence programs
 - ❖ Operates a distribution center for SP fulfillment and 33 specialty pharmacies in urban locations and has a growing infusion program that is benefiting from growing trend towards shifting infusion from hospitals to clinics and homes due to lower costs
 - ❖ Company has secured preferred distribution agreements ("PDAs") with drug manufacturers for various SP
 - In mid 2007 was awarded a contract with UNH to serve as a provider for HIV/AIDS and Solid Organ Transplant drugs to UNH insured patients
 - ▶ PBM: Claims processing, benefit design, and mail order fulfillment for plan sponsors

Historical P&L

	2005	2006	2007	Q1 07	Q1 08	LTM Q1 08
Revenues	1,073.24	1,151.94	1,197.73	296.22	327.47	1,228.99
Growth	70.22%	7.33%	3.98%	NA	10.6%	NA
Gross Profit	116.27	118.06	137.02	32.56	32.37	136.83
Margin	10.83%	10.25%	11.44%	10.99%	9.89%	11.13%
SG&A	96.52	115.26	120.15	27.98	31.05	123.22
% of Sales	8.99%	10.01%	10.03%	9.45%	9.48%	10.03%
Bad Debt Expense	12.81	12.44	5.12	3.00	0.65	2.77
% of Sales	1.19%	1.08%	0.43%	1.01%	0.20%	0.23%
Amort of Intangibles	6.40	6.54	2.90	1.45	0.48	1.94
% of Sales	0.60%	0.57%	0.24%	0.49%	0.15%	0.16%
Merger Expenses	4.58	0.06	0.00	0.00	0.00	0.00
% of Sales	0.43%	0.01%	0.00%	0.00%	0.00%	0.00%
Goodwill Impairment	25.17	0.00	0.00	0.00	0.00	0.00
% of Sales	2.34%	0.00%	0.00%	0.00%	0.00%	0.00%
Total Operating Expenses	145.47	134.30	128.16	32.42	32.19	127.93
% of Sales	13.55%	11.66%	10.70%	10.94%	9.83%	10.41%
EBIT	(29.20)	(16.24)	8.85	0.14	0.19	8.90
Margin	-2.72%	-1.41%	0.74%	0.05%	0.06%	0.72%
Interest Expense	0.39	3.02	3.27	1.09	0.59	2.77
TAXABLE INCOME	(29.60)	(19.26)	5.58	(0.95)	(0.40)	6.13
Margin	-2.76%	-1.67%	0.47%	-0.32%	-0.12%	0.50%
Income Taxes	(5.75)	19.03	2.26	0.40	0.08	1.94
% of Taxable Income	19.42%	-98.81%	40.57%	-41.94%	-19.25%	31.70%
Net Income	(23.85)	(38.29)	3.32	(1.35)	(0.48)	4.19
Margin	-2.22%	-3.32%	0.28%	-0.45%	-0.15%	0.34%
Diluted EPS	\$ (0.70)	\$ (1.03)	\$ 0.09	\$ (0.04)	\$ (0.01)	\$ 0.11
Growth	-325.55%	46.90%	-108.40%	NA	-65.23%	NA
Adjusted EBIT	13.35	(3.74)	13.97	3.13	0.84	11.67
Margin	1.24%	-0.32%	1.17%	1.06%	0.25%	0.95%
Adjusted EBITDA	23.27	7.11	21.06	5.62	2.39	17.82
Margin	2.17%	0.62%	1.76%	1.90%	0.73%	1.45%
Adjusted EBITDAO	23.38	9.66	24.06	5.96	3.34	21.44
Margin	2.18%	0.84%	2.01%	2.01%	1.02%	1.74%

No consistency with Gross Profit Margins

SG&A continues to scale with revenue growth offering minimal operating leverage

Only positive is reduction of Bad Debt

\$25MM impairment illustrates value destruction of MIM/Chronimed merger which Friedman oversaw

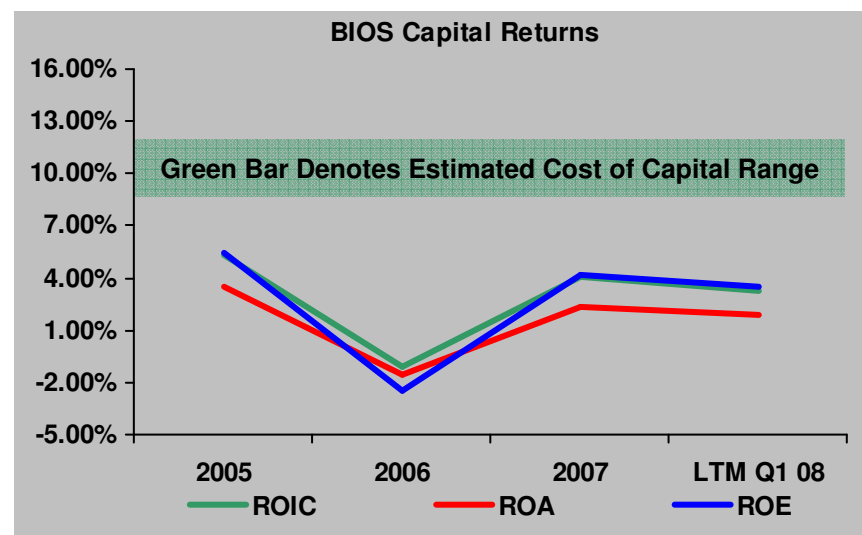
Top line problems result in rare periods of profitability

Even adjusting for various items still demonstrates erratic, inconsistent, and generally poor operating performance

Historical Capital Returns

Capital returns demonstrate BIOS has been poorly managed

	2005	2006	2007	LTM Q1 08
EBIT	13.35	(3.74)	13.97	11.67
less: Taxes (35%)	4.67	(1.31)	4.89	4.09
Operating Prof after Taxes	8.68	(2.43)	9.08	7.59
Average Invested Capital	163.53	214.37	220.24	227.08
Average Assets	242.21	302.04	301.14	312.67
Average Equity	155.72	178.80	164.02	166.40
Return on Avg Inv Capital	5.3%	-1.1%	4.1%	3.3%
Adjusted Net Income	8.42	(4.39)	6.95	5.79
Return on Average Assets	3.5%	-1.5%	2.3%	1.9%
Return on Average Equity	5.4%	-2.5%	4.2%	3.5%



Even the Company's "high watermark" metrics in 2005 are subpar and most likely below the Company's cost of capital indicating management is destroying value

Note(s):

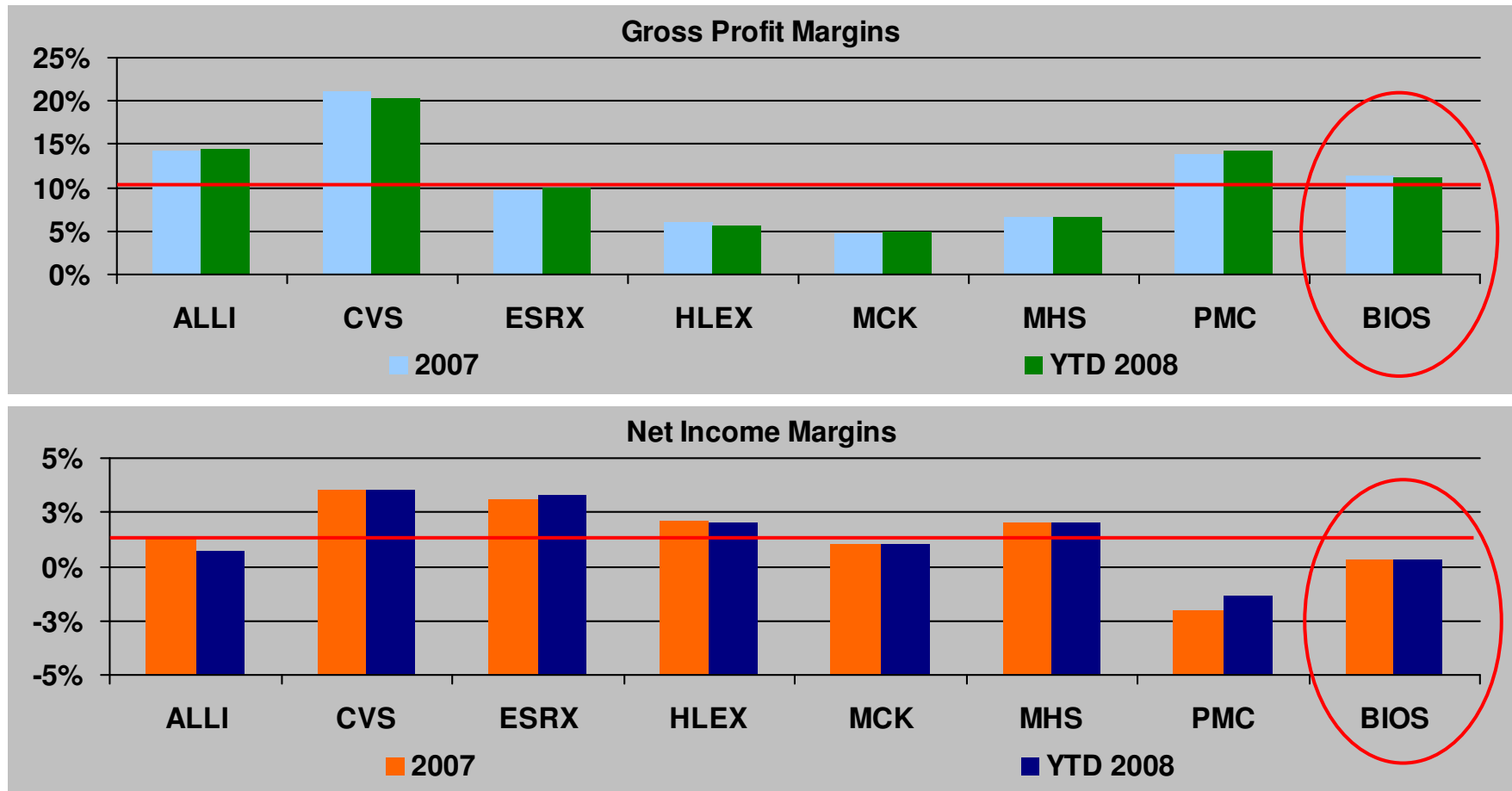
1) EBIT excludes Bad Debt Expense, Merger Expenses, and Goodwill Impairment

2) Tax rate based on 35% to allow for better annual comparability; BIOS historical tax has fluctuated significantly due to establishment of valuation allowance recorded against deferred tax assets

3) Adjusted Net Income = EBIT less reported net interest expense less 35% tax rate

Public Comparables Operating Metrics

The Company had been unable to drive above-industry gross profits into meaningful income



Companies like ESRX, MCK, MHS have gross profit margins below, and in some cases half of the Company's gross profit margin levels, yet are managed more efficiently such that net income margins are well above BIOS

Note(s):

1) Red line denotes industry median

Public Comparables Valuation Metrics

Mismanagement of BIOS leads to pathetic relative valuation levels

Company Name	Ticker	Description	Market Cap (\$MM)	EV (\$MM)	EV/LTM Sales	EV/LTM EBITDA	P/E	EV/09 Rev	P/09 EPS
Allion Healthcare	NasdaqNM:ALLI	Provides specialty pharmacy and disease management services focused on HIV/AIDS patients in the United States	\$100	\$71	0.3x	6.3x	47.8x	0.2x	11.3x
CVS Caremark	NYSE:CVS	Operates retail pharmacy and PBM businesses in the US through 6,245 retail drugstores in 40; 462 retail healthcare clinics in 25 states; 56 retail specialty pharmacy stores, 20 specialty mail order pharmacies, and 9 mail service pharmacies in 26 states	\$55,017	\$64,137	0.8x	9.9x	19.5x	0.7x	13.9x
Express Scripts	NasdaqNM:ESRX	Offers PBM services in North America and various specialty services, including patient care and direct specialty home delivery of injectible and infusion biopharmaceutical products to patients; distribution of infusion drugs to patient homes, physician offices, and infusion centers	\$15,817	\$17,266	0.9x	14.4x	25.3x	0.9x	17.7x
Healthextras	NasdaqNM:HLEX	Provides pharmacy benefit management services and supplemental benefit programs in the US	\$1,246	\$1,100	0.5x	16.5x	30.4x	0.4x	19.0x
McKesson Corp.	NYSE:MCK	Provides supply, information, and care management products and services for the healthcare industry	\$15,105	\$15,540	0.2x	8.4x	16.4x	0.1x	12.5x
MedcoHealth Solutions	NYSE:MHS	Pharmacy benefit manager offering various programs and services, including plan design, clinical management, pharmacy management, health management, physician services, and Web-based services	\$23,468	\$27,047	0.6x	13.1x	28.1x	0.5x	17.1x
PharMerica Corporation	NYSE:PMC	Offers services to healthcare facilities and provides management pharmacy services to hospitals as well as ancillary services such as infusion products through 115 institutional pharmacies in 40 states	\$669	\$888	0.6x	14.4x	NA	0.4x	21.0x
High					0.9x	16.5x	47.8x	0.9x	21.0x
Low					0.2x	6.3x	16.4x	0.1x	11.3x
Mean					0.6x	11.9x	27.9x	0.5x	16.1x
Median					0.6x	13.1x	26.7x	0.4x	17.1x
BioScrip Inc.	NasdaqNM:BIOS	Provides specialty pharmaceutical and pharmacy benefit management (PBM) services in the United States	\$89	\$138	0.1x	9.2x	21.5x	0.1x	9.0x

The market has no confidence in Friedman's ability to execute based on current valuation multiples such as 0.1x EV/LTM Sales valuation and 0.1x EV/2009 Revenue and 9.0x P/2009 EPS. Seemingly "high" trailing EV/EBITDA and P/E reflect depressed trailing EBITDA and earnings due to management blunders.

Public Comparables Stock Performance 2008 YTD

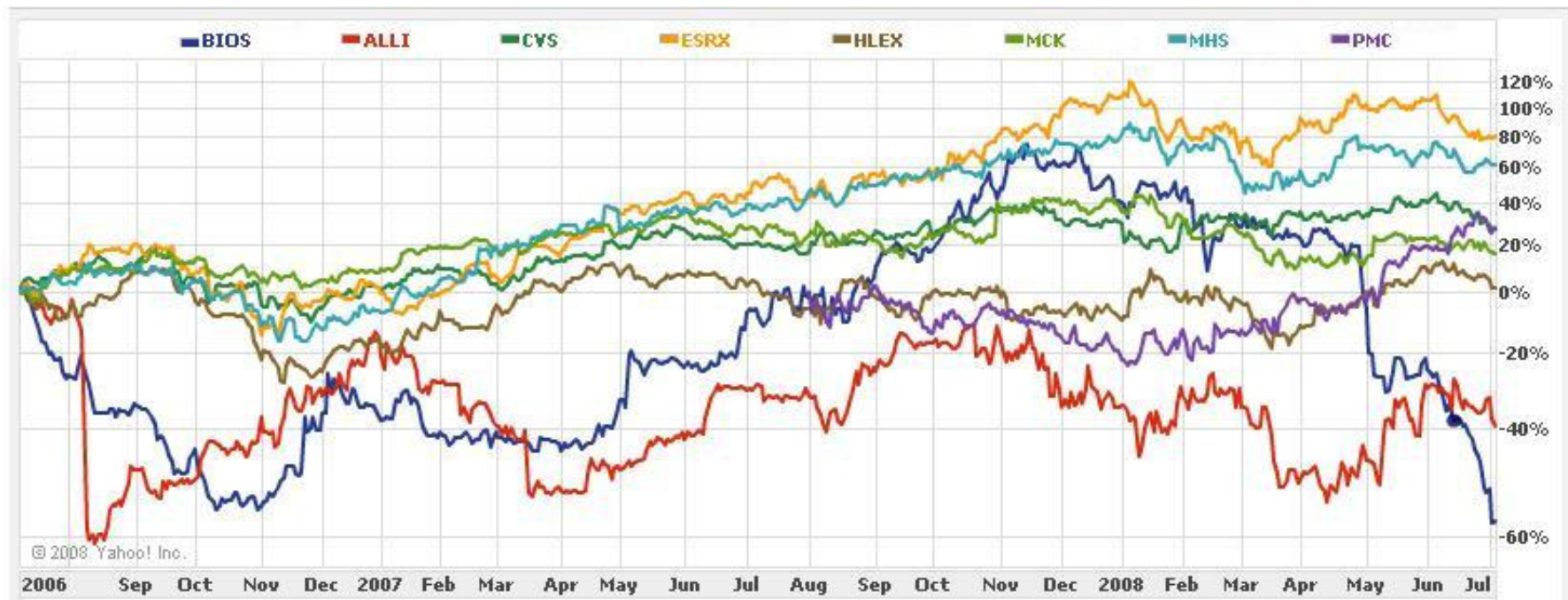
BIOS has registered the worst performance amongst its peers in 2008



Source: Yahoo! Finance

Public Comparables Stock Performance 2006 – 2008 YTD

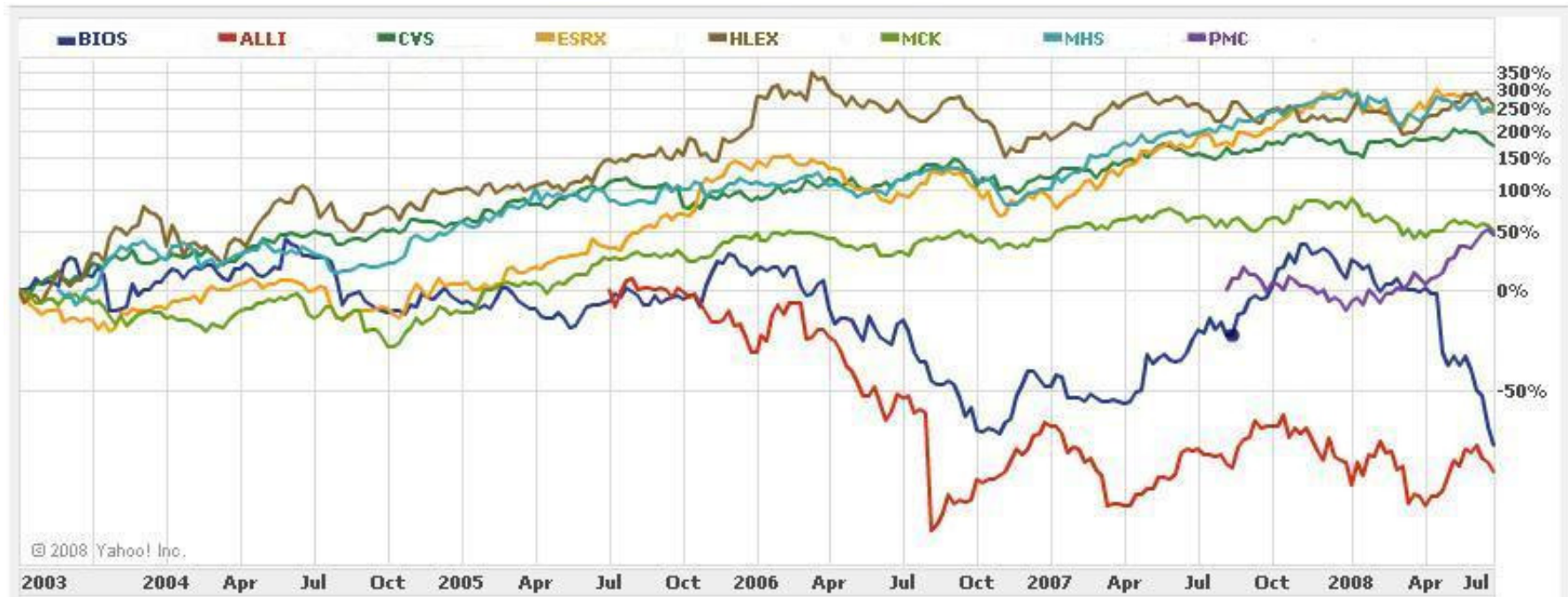
BIOS is just one of two peers to register negative stock performance since 2006...



Source: Yahoo! Finance

Public Comparables Stock Performance 2003 – 2008 YTD

BIOS is one of just two peers to register a negative return over the past five years



As of July 7, 2008, BIOS has surpassed ALLI in being the worst performer in the group over the past five years

III. Management & Board Overview

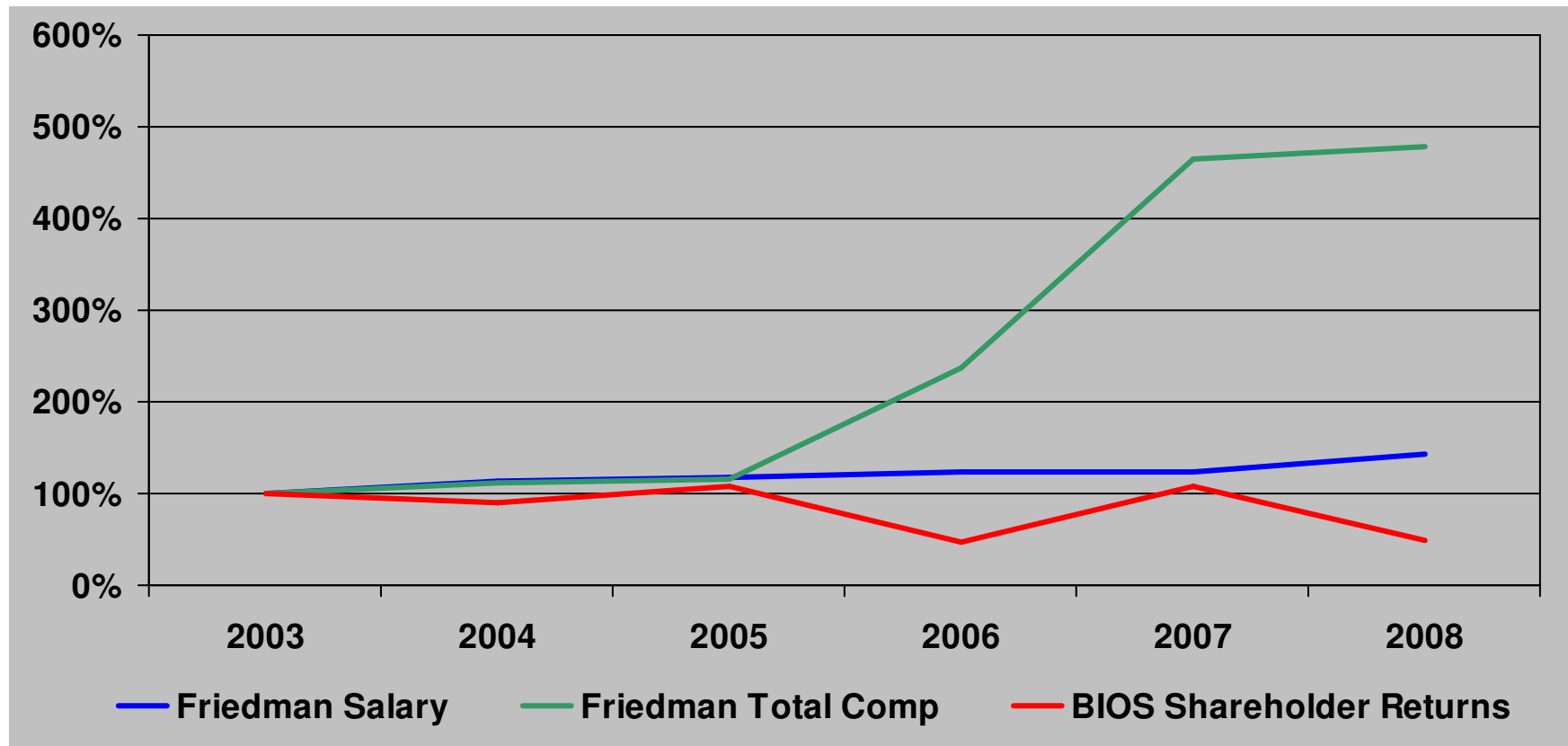
Board Member Ownership

- ❑ Board members have overseen gross mismanagement and underperformance for several years by BIOS management but have done nothing for shareholders except take Board fees
- ❑ Since 2005, there have been just four open market purchases by insiders
 - ▶ May 14, 2008: Richard Robbins purchased 50,000 shares at \$3.85
 - ▶ May 8, 2008: Stuart Samuels purchased 3,000 shares at \$4.07
 - ▶ Nov 13, 2006: David Hubers purchased 50,000 shares at \$2.66
 - ▶ Sept 18, 2006: Charlotte Collins purchased 300 shares at \$3.20
- ❑ All other insider transactions are market sales, stock grants, and dilutive option grants/exercises
- ❑ Board members cannot be expected to represent the best interests of shareholders
 - ▶ Board members' interests are mostly represented by free share/option grants, not stock that Board members actually purchased with their own money
 - ▶ Rather than represent shareholders, Board members collect an annuity in the form of laughable Board fees

Name	Age	Shares Held	Tenure	"Earned" Fees	
				2006	2007
Martin Kooper	72	40,000 Based on exercise of vested portion of options	May 1998	\$44,629	\$43,500
Charlotte Collins	55	30,300 Based on exercise of vested portion of options	Apr 2003	\$44,013	\$38,000
Louis DiFazio	70	42,500 Based on exercise of vested portion of options	May 1998	\$56,129	\$53,000
Myron Holubiak	61	49,267 Based on exercise of vested portion of options	Mar 2005	\$50,629	\$47,000
David Hubers	65	138,867 88,867 shares issuable upon vested portion of options	Mar 2005	\$49,129	\$47,000
Richard Robbins	67	21,667 Based on exercise of vested portion of options	Mar 2005	\$58,629	\$47,500
Stuart Samuels	66	88,867 Based on exercise of vested portion of options	Mar 2005	\$63,629	\$56,500
Steven Schelhammer	53	0 NA	May 2007	NA	\$22,297
				\$366,787	\$354,797

Friedman's Returns vs. BIOS Shareholders' Returns

Board's interests are unaligned with shareholders, resulting in ridiculous compensation for Friedman



BIOS shareholders have suffered through poor management while Friedman has enjoyed incredible “returns” through a complicit Board and compensation policies including remuneration for country club fees, car allowances, etc

Note(s):

1) Total compensation for 2008 assumes a 15% increase based on 2008 salary increase over 2007; 2007 total compensation increased by 96% so 15% estimate is not unreasonable

Friedman Compensation vs. Public Comparables CEOs

Friedman is the highest paid CEO amongst peers based on compensation vs. market capitalization

Company	Market Cap (\$MM)	2007 CEO Comp	% of Market Cap	Audit Fees	
				2006	2007
ALLI	\$100	\$542,500	0.54%	\$870,029	\$749,092
CVS	\$55,017	\$26,097,790	0.05%	\$2,811,000	\$6,969,000
ESRX	\$15,817	\$7,964,163	0.05%	\$1,472,488	\$2,449,726
HLEX	\$1,246	\$1,899,764	0.15%	\$1,166,500	\$1,150,500
MCK	\$15,105	\$39,942,625	0.26%	\$11,577,164	\$12,699,882
MHS	\$23,468	\$10,588,847	0.05%	\$2,465,000	\$2,240,000
PMC	\$669	\$2,761,125	0.41%	NA	\$1,632,460
BIOS	\$89	\$2,965,794	3.32%	\$1,714,400	\$1,575,000

- ❑ Friedman's compensation represents over 3% of the Company's market capitalization
- ❑ Michael Moran of ALLI runs a company that the market values slightly higher than BIOS yet Moran's 2007 compensation was 18% of Friedman's
 - ▶ ALLI has similar performance to BIOS since 2003 but outperformed BIOS over the past two years
- ❑ George Pax of ESRX manages a company that maintains a value 15x greater than BIOS yet is paid just 2.7x of Friedman's compensation
 - ▶ ESRX has gained roughly 80% over two years while BIOS has lost 60%
- ❑ Why are audit fees for BIOS comparable to those of companies far larger in terms of market capitalization and absolute business/revenue size?
 - ▶ With no real equity in BIOS, why should the Board-managed audit committee care?

IV. Next Steps

Next Steps

- ❑ Reviewing this analysis makes BIOS appear to be an obvious stock to avoid but if the Company can be managed properly, shareholders can achieve impressive returns
 - ▶ CFO of a private specialty pharmacy company suggested gross profit margins should be higher
 - ▶ The Company's fixed cost structure can offer considerable operating leverage resulting in outsized operating earnings if properly managed
 - ❖ Small changes in gross profits can have big changes in operating earnings
 - ▶ SPS segment on the cusp of being profitable (finally)

BIOS Segment Data (USD MM)						
	2005	2006	2007	Q1 07	Q1 08	LTM Q1 08
<u>Revenues:</u>						
Specialty Services	\$688.5	\$866.6	\$974.2	\$234.9	\$276.7	\$1,016.0
<i>Growth</i>	NA	25.9%	12.4%	NA	17.8%	NA
PBM Services	\$384.4	\$285.3	\$223.5	\$61.3	\$50.8	\$213.0
<i>Growth</i>	NA	-25.8%	-21.7%	NA	-17.1%	NA
Total	\$1,072.9	\$1,152.2	\$1,197.9	\$296.2	\$327.6	\$1,229.0
<i>Growth</i>	NA	7.4%	4.0%	NA	10.6%	NA
<u>Operating Income:</u>						
Specialty Services	(\$16.9)	(\$19.6)	(\$2.4)	(\$2.2)	(\$2.1)	(\$2.2)
PBM Services	(\$12.3)	\$3.4	\$11.2	\$2.4	\$2.2	\$11.1
Total	(\$29.2)	(\$16.2)	\$8.9	\$0.1	\$0.2	\$8.9
<u>Segment Margin:</u>						
Specialty Services	-2.5%	-2.3%	-0.2%	-1.0%	-0.7%	-0.2%
PBM Services	-3.2%	1.2%	5.0%	3.9%	4.4%	5.2%
Total	-2.7%	-1.4%	0.7%	0.0%	0.1%	0.7%

Next Steps

- ❑ Despite potential, BIOS needs management and a Board that can execute and represent owners
- ❑ BIOS stock is in a tailspin, Friedman and the Board need be fired
 - ▶ Despite reaching new lows on a daily basis insiders are not purchasing shares demonstrating lack of faith in their own abilities
 - ▶ How much value destruction can shareholders tolerate?
- ❑ Goal should be to put a real Board in place and find a competent executive to run this co
 - ▶ Forcing a sale is a bad idea given current situation and valuation and most importantly, no strategic buyer wants BIOS
- ❑ With a <\$100MM market cap it should not take much to effect change
 - ▶ Heartland owns 16%, other investors may elect to buy in as well
- ❑ Investors should not tolerate continued mismanagement, incompetence, and frankly theft by BIOS insiders
 - ▶ Company insiders have had several years to make this work, it's time to move on
- ❑ Contact amit.chokshi@kinnaras.com to discuss organizing next steps