CURATIVE HEALTH SERVICES INC
Form 10-Q
August 13, 2001

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

FORM 10Q

(Mark One)

X Quarterly report pursuant to Section 13 or 15(d) of the Securities
----------Exchange Act of 1934

For the quarterly period ended June 30, 2001

OR

Transition report pursuant to Section 13 or 15 (d) of the
----------Securities Exchange Act of 1934

Commission File Number: 000-19370

Curative Health Services, Inc.

(Exact name of registrant as specified in its charter)

MINNESOTA	41-1503914
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number)

150 Motor Parkway
Hauppauge, NY 11788-5108
(Address of principal executive offices)
Telephone Number (631) 232-7000

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 _____

As of July 31, 2001 there were 7,158,819 shares of the Registrant's Common Stock, $.01 par value, outstanding.

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Part I. Financial Information

Item 1. Condensed Consolidated Financial Statements

Curative Health Services, Inc. and Subsidiaries

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(In thousands, except per share data)
(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2001	2000	2001	2000

Revenues	$23,971	$21,590	$37,488	$43,790
Costs and operating expenses:				
Cost of sales and services	17,173	13,684	25,270	27,668
Selling, general and administrative	6,633	7,131	11,762	13,666
Total costs and operating expenses	23,806	20,815	37,032	41,334
Income from operations	165	775	456	2,456
Interest income	154	617	711	1,241
Income before taxes	319	1,392	1,167	3,697
Income taxes	309	557	665	1,473
Net income	$ 10	$ 835	$ 502	$ 2,224
Net income per common share, basic	$.-	$.09	$.07	$.23
Net income per common share, diluted	$.-	$.09	$.07	$.23
Weighted average common shares, basic	7,116	9,008	7,119	9,510
Weighted average common shares, diluted	7,545	9,153	7,451	9,755

See accompanying notes

Curative Health Services, Inc. and Subsidiaries

CONDENSED CONSOLIDATED BALANCE SHEETS
(In thousands)

	June 30, 2001	December 31, 2000
	(Unaudited)	
ASSETS		
Cash and cash equivalents	$ 7,048	$ 19,016
Marketable securities held-to-maturity	-	26,978
Accounts receivable, net	20,158	9,843
Deferred tax assets	3,511	2,806
Note receivable	493	-
Assets available for sale	-	3,683
Inventory	1,592	-
Prepaid and other current assets	777	1,664

Total current assets	33,579	63,990
Property and equipment, net	6,427	7,065
Goodwill	35,212	2,988
Other assets	1,116	1,123
Total assets	$ 76,334	$ 75,166
LIABILITIES AND STOCKHOLDERS' EQUITY		
Accounts payable	$ 13,262	$ 7,308
Accrued expenses	7,600	12,288
Total current liabilities	20,862	19,596
Stockholders' equity		
Common stock	70	71
Additional paid in capital	30,297	30,896
Retained earnings	25,105	24,603
Total stockholders' equity	55,472	55,570
Total liabilities and stockholders' equity	$ 76,334	$ 75,166

See accompanying notes

Curative Health Services, Inc. and Subsidiaries

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)
(Unaudited)

	Six Months Ended June 30, 2001	2000
OPERATING ACTIVITIES:		
Net income	$ 502	$ 2,224
Adjustments to reconcile net income to net cash provided by operating activities:		
Equity in operations of investee	242	148
Depreciation and amortization	1,680	2,499
Changes in operating assets and liabilities	(4,953)	4,548
NET CASH (USED IN) PROVIDED BY OPERATING ACTIVITIES	(2,529)	9,419
INVESTING ACTIVITIES:		
Notes receivable	3,190	-
Acquisition of Millennium Health, Inc.	(38,657)	-

Purchase of property and equipment	(350)	(1,102)
Sales of marketable securities	26,978	2,428
NET CASH (USED IN) PROVIDED BY INVESTING ACTIVITIES	(8,839)	1,326
FINANCING ACTIVITIES:		
Stock repurchases	(1,118)	(8,309)
Proceeds from exercise of stock options	518	36
NET CASH USED IN FINANCING ACTIVITIES	(600)	(8,273)
(DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(11,968)	2,472
Cash and cash equivalents at beginning of period	19,016	16,215
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$ 7,048	$ 18,687

SUPPLEMENTAL INFORMATION PERTAINING TO NONCASH
INVESTING AND FINANCING ACTIVITIES
In March 2000, the Company recorded an increase of $1,417,000 to its investment in Accordant Health Services, Inc. and a corresponding increase to paid in capital related to an increase in the value of the Company's equity interest in Accordant.

See accompanying notes

Curative Health Services, Inc. and Subsidiaries

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Note 1. Basis of Presentation

The condensed consolidated financial statements are unaudited and reflect all adjustments (consisting only of normal recurring adjustments) which are, in the opinion of management, necessary for a fair presentation of the financial position and operating results for the interim periods. The condensed consolidated financial statements should be read in conjunction with the consolidated financial statements for the year ended December 31, 2000 and notes thereto contained in the Company's Annual Report on Form 10-K filed with the Securities and Exchange Commission. The results of operations for the three and six months ended June 30, 2001 are not necessarily indicative of the results to be expected for the entire fiscal year ending December 31, 2001.

Note 2. Net Income per Common Share

Net income per common share, basic, is computed by dividing the net income by the weighted average number of common shares outstanding. Net income per common share, diluted, is computed by dividing net income by the weighted average number of shares outstanding plus dilutive common share equivalents. The following table sets forth the computation of basic and diluted earnings per share:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2001	2000	2001	2000
Weighted average shares, basic	7,116	9,008	7,119	9,510
Effect of diluted stock options	429	145	332	245
Weighted average shares, diluted	7,545	9,153	7,451	9,755

Note 3. Purchase of Millennium Health, Inc.

On March 31, 2001 the Company purchased all of the outstanding capital stock of eBiocare.com, Inc.("eBiocare") which does business as Millennium Health, Inc. for $32.3 million in cash and the assumption and repayment of approximately $5 million in debt. eBiocare is a specialty pharmacy which contracts with insurance companies, government and other payors to provide direct to patient distribution of biotechnology drugs. The acquisition was accounted for as a stock purchase and, therefore, operating results of eBiocare have been included in the accompanying financial statements from the date of acquisition. Purchase price allocations have been done on a preliminary basis, subject to adjustment. Goodwill resulting from the acquisition is being amortized over a 20 year period.

Curative Health Services, Inc. and Subsidiaries

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Note 3. Purchase of Millennium Health, Inc. (continued)

Unaudited pro forma results of operations for the six months ended June 30, 2001 and 2000, assuming the eBiocare acquisition had occurred on January 1, 2000 are as follows (in thousands, except per share data):

	Six Months Ended June 30, 2001	2000
Revenues	$ 48,313	$ 58,653
Net income	$ 263	$ 522
Net income per share, diluted	$ .04	$ .05

The pro-forma operating results shown above are not necessarily indicative of operations in the period following acquisition.

Note 4. Segment Information (unaudited)

The Company adheres to the provisions of Statement of Financial Accounting Standards No. 131, "Disclosures about Segments of an Enterprise and Related

Information". The Company has two reportable segments: Wound Care operations and Specialty Pharmacy operations. In its Wound Care operations, the Company contracts with hospitals to manage outpatient Wound Care Centers. In its Specialty Pharmacy operations, the Company contracts with insurance companies, government and other payors to provide direct to patient distribution of biotechnology drugs. The Company evaluates segment performance based on income from operations. Intercompany transactions are eliminated to arrive at consolidated totals.

The following table presents the results of operations and total assets of the reportable segments of the Company for the three months ended June 30, 2001 (000's omitted):

	Wound Care Centers	Specialty Pharmacy	Eliminating Entries	Total
Revenues	$ 12,281	$ 11,690	$ -	$ 23,971
Income from operations	$ (360)	$ 525	$ -	$ 165
Total assets	$ 70,594	$ 8,196	$ (2,456)	$ 76,334

Note 5. Recent Accounting Pronouncements

In July 2001 the Financial Accounting Standards Board published Statement No. 142, Goodwill and Other Intangible Assets. Under Statement 142 (which supersedes APB Opinion No. 17, Intangible Assets), goodwill and intangible assets with indefinite lives are no longer amortized but are reviewed annually, or more frequently if impairment indicators arise, for impairment. Separable intangible assets that are not deemed to have an indefinite life will continue to be amortized over their useful lives. The amortization provisions of Statement 142 requires non-amortization of goodwill and indefinite lived intangible assets acquired after June 30, 2001. However, the impairment provisions of Statement 142 apply to these assets upon adoption of Statement 142. With respect to goodwill and intangible assets acquired prior to July 1, 2001, companies are required to adopt Statement 142 in their fiscal year beginning after December 15, 2001 (i.e., year beginning January 1, 2002 for Curative Health Services, Inc.). Early adoption is permitted for companies with fiscal years beginning after March 15, 2001 provided that their first quarter financial statements have not been issued. In all cases, the provisions of Statement 142 must be adopted as of the beginning of a fiscal year.

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

Overview

Curative Health Services, Inc. is a leading disease management company that operates in two business segments: Wound Care and Specialty Pharmaceuticals. In its Wound Care operations, the Company contracts with hospitals to manage outpatient Wound Care Centers. These Wound Care Centers offer a comprehensive range of services which enable the Company to provide patient specific wound care diagnosis and treatments on a cost effective basis. Currently, the Company has 112 such contracts.

In its Specialty Pharmacy operations, the Company derives its revenues primarily from the provision of biopharmaceutical drugs to individuals with chronic conditions such as hemophilia, rheumatoid arthritis, multiple sclerosis, hepatitis C, and others, pursuant to contracts with insurance companies,

government and other payors at contracted or allowable billing rates, and from the provision of biopharmaceutical drugs and related product services to retail pharmacies, pursuant to contracts with such pharmacies.

Results of Operations

Revenues. The Company's revenues for the second quarter of 2001 increased 11 percent to $23,971,000 compared to $21,590,000 for the second quarter of the prior fiscal year. The revenue increase is attributable to the inclusion of Specialty Pharmacy revenues of $11,690,000 related to the acquisition of eBiocare, offset by a reduction in Wound Care Center revenues of $9,309,000. For the first six months of 2001 revenues decreased $6,302,000 from $43,790,000 in 2000 to $ 37,488,000 for the same period in 2001, a 14 percent decrease. The reduction in revenues for the first six months of 2001 is attributable to a reduction in Wound Care revenues of $17,992,000 offset by the inclusion of $11,690,000 of Specialty Pharmacy revenues. The reduction in Wound Care revenues is attributable to the termination of 40 hospital based programs during the last 12 months, re-negotiation of existing contracts which resulted in reduced revenue to the Company, the conversion of 15 under arrangement model programs to management models which have lower revenue and expenses, and a reduction of Procuren revenues as a result of a decline in Procuren patients. The reduction in Wound Care Center revenue was partially offset by the opening of 7 new programs over the last 12 months. The Company ended the second quarter of 2001 with 112 hospital based Wound Care Centers operating compared to 149 at the end of the second quarter 2000. Revenues at existing centers declined 30 percent in the second quarter of 2001 as compared to the same period in 2000, primarily due to such contract renegotiations and declining Procuren revenues. At any time during the year, 10% to 20% of the Company's Wound Care Center contracts are being renegotiated with the client hospital for a variety of contractual terms or issues. Historically, some contracts have expired without renewal and others have been terminated by the Company or the client hospital for various reasons prior to their scheduled expiration. Hospitals are currently facing financial challenges associated with lower occupancy rates and reduced revenue streams due to pricing pressures from third party payors. Program terminations by client hospitals have been effected for such reasons as reduced reimbursement, financial restructuring, layoffs, bankruptcies or even hospital closings. Further, the Medicare program implemented a new reimbursement system during 2000 for hospital outpatient services which has reduced reimbursement rates to hospitals. The termination, non-renewal or renegotiation of a material number of management contracts could result in a continued decline in the Company's revenue. As the result of the legal action against the Company (See Legal Proceedings Part II item I), further unanticipated terminations or non-renewals may take place. Additionally, new business development has been slower than normal given the legal uncertainties facing the Company. Any inability of the Company to develop new Wound Care Centers could continue the revenue decline. The Company has and expects that it will continue to modify its management contracts with many of its hospital customers which could result in reduced

revenue to the Company or even contract terminations.
Further, the Company has been notified by Cytomedix, Inc. that it has exercised its option under the asset purchase agreement to close its Procuren processing facilities. These facilities were all closed during July 2001. As a result, there will be no revenue and expenses related to Procuren in subsequent periods other than revenues and expenses related to the dispensing of existing inventory. Although the Company does not expect that this event will have a material effect on its operations or financial condition other than reducing revenues and expenses, there can be no assurance that this event will not result in the termination of hospital contracts. The Company has a number of initiatives to counter the decline in Wound Care Center revenue, although there can be no assurance that the initiatives will be successful. Total new patients

to the Wound Care Centers decreased 22 percent from 15,957 in the second quarter of 2000 to 12,448 for the same period in 2001. The total number of new patients receiving Procuren(R) therapy decreased from 938 in the second quarter of 2000 to 238 in the second quarter of 2001. The percentage of patients receiving Procuren(R) therapy decreased during the second quarter of 2001 to 2 percent from 5.9 percent for the same period in 2000. For the first six months of 2001 total new patients to the Wound Care Centers decreased 19% from 31,593 in 2000 to 25,708 in 2001. The total number of new patients receiving Procuren therapy decreased from 1,956 for the first six months of 2000 to 674 for the same period in 2001. The percentage of patients receiving Procuren therapy decreased from 6% in the first six months of 2000 to 3% for the same period in 2001.

Costs of Product Sales and Services. Costs of product sales and services for the second quarter increased from $13,684,000 in 2000 to $17,173,000 in 2001, an increase of 25 percent, and for the first six months of 2001 totaled $25,270,000 compared to $27,668,000 for the same period in 2000. For the second quarter of 2001 the increase is attributable to the inclusion of $9,931,000 of cost of sales and services related to Specialty Pharmacy operations, offset by a reduction in Wound Care operation costs of $6,442,000. The decrease in Wound Care costs is attributable to reduced staffing and operating expenses of approximately $1,516,000 related to the operation of 112 programs at the end of the second quarter 2001 compared with 149 programs operating at the end of the second quarter 2000, and reduced expenditures of approximately $985,000 related to Procuren production. Additionally there were 25 fewer under-arrangement programs in operation at the end of the second quarter of 2001 as compared to the same period for 2000 at which the services component of costs is higher than at the Company's other centers due to the additional clinical staffing and expenses that these models require. For the second quarter of 2001 this reduction in the number of under-arrangement programs accounted for approximately $1,691,000 of the decrease in product costs and services. During 2000, the Company eliminated 58 sales positions which resulted in a reduction of approximately $1,454,000 in product costs and services for the second quarter of 2001 as compared with the same period in 2000. As a percentage of revenues, costs of product sales and services for the second quarter of 2001 was 72 percent compared to 63 percent for the same period in 2000. For the first six months of 2001 cost of product sales and services decreased 9 percent. The decrease is attributed to a reduction in Wound Care costs of $12,329,000, offset by the inclusion of Specialty Pharmacy costs of $9,931,000. The reduction in Wound Care costs is attributable to reduced staffing and operating expenses of approximately $3,075,000 related to the operation of 112 programs at the end of the second quarter 2001 compared with 149 programs operating at the end of the second quarter 2000, and reduced expenditures of approximately $1,819,000 related to Procuren production. Additionally there were 25 fewer under-arrangement programs in operation at the end of the second quarter of 2001 as compared to the same period for 2000 at which the services component of costs is higher than at the Company's other centers due to the additional clinical staffing and expenses that these models require. For the first six months of 2001 this reduction in the number of under-arrangement programs accounted for approximately $3,192,000 of the decrease in Wound Care product costs and services. During 2000, the Company eliminated 58 Wound Care sales positions which resulted in a reduction of approximately $2,769,000 in product costs and services for the first six months of 2001 as compared with the same period in 2000.

Selling, General and Administrative. Selling, general and administrative expenses for the second quarter decreased from $7,131,000 in 2000 to $6,633,000 in 2001 a decrease of 8 percent. The reduction is due to a decrease in expenditures related to Wound Care operations of $1,022,000 offset by inclusion of $524,000 in selling, general and administrative related to Specialty

Pharmacy. The decrease in the Wound Care related expense is primarily attributable to the positions eliminated at the Company during 2000 as well as the closing of the Company's Dallas field office. As a percentage of revenues, selling, general and administrative expenses were 28 percent in the second quarter of 2001 compared to 33 percent for 2000. The decrease is due to the increased revenue base and lower expenses in 2001. For the first six months of 2001 selling, general and administrative expenses decreased from $13,666,000 in 2000 to $11,762,000, a decrease of 14 percent. The reduction is due to a decrease in expenditures for the Wound Care business of $2,428,000 offset by the inclusion of $524,000 in selling, general and administrative related to the Specialty Pharmacy business. The decrease in the Wound Care related costs is primarily attributable to the positions eliminated at the Company during 2000 as well as the closing of the Company's Dallas field office. As a percentage of revenues, selling, general and administrative expenses were 31 percent for the first six months of 2001 and 2000.

Net Income. Net income was $10,000 or a breakeven per diluted share in the second quarter of 2001 compared to $835,000 or $0.09 per diluted share in the first quarter of 2000. For the first six months of 2001 net income was $502,000 or $.07 per diluted share compared to $2,224 or $.23 per diluted share for the same period in 2000. The decrease in earnings of $825,000 for the second quarter of 2001 and the decrease of $1,722,000 in earnings for the first six months of 2001 as compared to the same periods in 2000 is attributable to reduced operating margins in the Wound Care business as a result of the reduced revenue and the recording of $390,000 in goodwill amortization related to the purchase of eBiocare.com Inc., offset by the inclusion of operations of the Specialty Pharmacy business.

Liquidity and Capital Resources.

Working capital was $12.7 million at June 30, 2001 compared to $44.4 million at December 31, 2000. Total cash and cash equivalents as of June 30, 2001 was $7.0 million and was invested primarily in highly liquid money market funds, commercial paper and government securities. The Company's cash and cash equivalents and marketable securities held-to-maturity declined from $46 million at December 31, 2000 to $7.0 million at June 30, 2001. The decline is primarily attributable to the use of $38.7 million for the purchase of Millennium Health, Inc. on March 30, 2001. The ratio of current assets to current liabilities was 3.3:1 at December 31, 2000 and 1.6:1 at June 30, 2001.

Cash flows used in operating activities for the first six months of 2001 totaled $2,529,000 primarily attributable to a reduction in accounts payable and accrued expenses. Cash flows used in investing activities totaled $8,839,000 primarily attributable to the purchase of Millennium Health, Inc. offset by the sale of marketable securities. Cash flows used in financing activities totaled $600,000, primarily attributable to the Company's repurchase of shares of common stock.

For the first six months of 2001, the Company experienced a net increase in accounts receivable of $10,315,000 primarily attributable to the purchase of Millennium Health. Accounts receivable days outstanding were 76 days as of June 30, 2001 as compared to 61 days at December 31, 2000. Days outstanding for the Wound Care business was 65 days and for the Specialty Pharmacy business 87 days at June 30, 2001.

The Company's longer term cash requirements include working capital for the expansion of its wound care and specialty pharmacy businesses. Other cash requirements are anticipated for capital expenditures in the normal course of business, the acquisition of software, computers and equipment related to the Company's management information systems. Additionally the Company expects to

incur significant legal costs related to the Department of Justice actions and shareholder class action lawsuits filed against the Company (See Legal Proceedings, Part II Item 1). The Company expects that based on its current business plan, its existing cash and cash equivalents will be sufficient to satisfy its current working capital needs. The Company anticipates obtaining a revolving line of credit to supplement its working capital needs as the result of the Millennium acquisition and the Department of Justice's letter of credit request (See Part II, Item 1). The effects of inflation and foreign currency translation risks are considered immaterial.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

The Company does not have operations subject to risks of material foreign currency fluctuations, nor does it use derivative financial instruments in its operations or investment portfolios. The Company places its investments in instruments that meet high credit quality standards, as specified in the Company's investment policy guidelines. The Company does not expect any material loss with respect to its investment portfolio or exposure to market risks associated with interest rates.

Part II. Other Information

Item 1. Legal Proceedings

With respect to the Company's pending litigation and legal actions previously disclosed, there have been no material developments other than disclosed in Item 3 - "Legal Proceedings" in the Company's Annual Report on form 10K filed for the year ended December 31, 2000.

Item 4. Submission of Matters to a Vote of Security Holders

The Company held its 2001 annual meeting of stockholders on May 30, 2001. Proxies for the meeting were solicited pursuant to Section 14 of the Securities Exchange Act of 1934, as amended, and there was no solicitation in opposition to management's nominees as listed in the proxy statement. There were present at the Annual Meeting in person or by proxy the holders of 6,384,260 votes. At the meeting the stockholders elected all seven members of the Company's Board of Directors to serve for a term of one year.

Elected members of the Board of Directors: (Shares voted affirmative in parenthesis)

	Affirmative	Withheld/Against
Paul Auerbach	(5,729,773)	654,487
Daniel Berce	(5,730,946)	653,314
Lawrence English	(5,731,073)	653,187
Joseph Feshbach	(5,729,773)	654,487
Timothy I. Maudlin	(5,757,546)	656,714
Gerard Moufflet	(5,728,161)	656,099
John C. Prior	(5,726,753)	657,507

The stockholders disapproved the following:

(a) The proposed amendments to the Curative Health Services, Inc. 2000 Stock Incentive Plan. Number of votes for were, 1,558,482, against 2,148,979 and 9,455 abstained. Broker non-votes were 2,667,344.

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits

Exhibit 10.33 Employment Agreement dated June 25, 2001 between Nancy Lanis and the Company.

(b) Form 8-K

Form 8-K dated April 13, 2001, reporting under Item 2 on the acquisition of eBiocare.com Inc. on March 30, 2001.

Form 8-K/A dated June 12, 2001, reporting under Item 7 on the financial statements of the business acquired. This Form 8-K/A amends the Form 8-K filed with the Securities and Exchange Commission on April 13, 2001.

SIGNATURES

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

Dated: August 13, 2001

Curative Health Services, Inc.
(Registrant)

/s/ John C. Prior

John C. Prior
President

/s/ Thomas Axmacher

Thomas Axmacher
Chief Financial Officer
(Principal Financial and Accounting Officer)

EXHIBIT 10.33

EMPLOYMENT AGREEMENT

THIS EMPLOYMENT AGREEMENT (the "Agreement") is made effective as of June 25, 2001 (the "Effective Date"), between CURATIVE HEALTH SERVICES, INC., a Minnesota corporation (the "Company"), and Nancy F. Lanis ("Executive").

WHEREAS, the Company wishes to retain Executive as a key employee; and

WHEREAS, the Company and Executive want the terms and conditions of Executive's employment to be governed by this Agreement;

NOW, THEREFORE, in consideration of the promises and the mutual covenants and agreements herein contained, the Company and Executive hereby agree as follows:

1. Employment

1.1 Employment and Duties. The Company hereby agrees to employ Executive for the Term (as hereinafter defined) as Senior Vice President - General Counsel, subject to the direction of the President, and in connection therewith, to perform such duties as she shall reasonably be directed by the President to perform. Executive hereby accepts such employment and agrees to render such services. Executive shall perform her duties and carry out her responsibilities hereunder in a diligent manner, shall devote her exclusive and full working time, attention and effort to the affairs of the Company, shall use her best efforts to promote the interests of the Company and shall be just and faithful in the performance of her duties and in carrying out her responsibilities.

1.2 Location. The principal location for performance of Executive's services hereunder shall be at the Company's executive offices, which are currently located in Hauppauge, New York, subject to reasonable travel requirements during the course of such performance.

2. Employment Term

The term of Executive's employment hereunder (the "Term") shall be deemed to commence on the Effective Date and shall end on the first anniversary of the Effective Date, unless sooner terminated as hereinafter provided; provided, however, that the Term shall be automatically renewed and extended for an additional period of one (1) year on each anniversary thereafter unless either party gives a Notice of Termination (as defined below) to the other party at least three (3) months prior to such anniversary.

3. Compensation and Benefits

3.1 Cash Compensation.

(a) Base Salary. The Company shall pay Executive an annual salary

of $200,000 payable in bi-weekly installments, in arrears (the "Base Salary"). The Base Salary shall be reviewed annually by the Company's Board of Directors and may be increased, but not decreased (unless mutually agreed upon by Executive and the Company).

(b) Signing Bonus. Executive shall be entitled to a one time bonus payment of $15,000, payable on the six month anniversary from the Effective Date.

(c) Bonus Plan. Executive shall be entitled to participate in the Company's Executive Bonus Compensation Program, in accordance with and subject to the terms and provisions thereof.

3.2 Participation in Benefit Plans. Executive shall be entitled to participate in all employee benefit plans or programs of the Company to the extent that her position, title, tenure, salary, age, health and other qualifications make her eligible to participate. The Company does not guarantee the continuance of any particular employee benefit plan or program during the Term, and Executive's participation in any such plan or program shall be subject to all terms, provisions, rules and regulations applicable thereto. Executive will be entitled to twenty (20) days of vacation per year, to be used in accordance with the Company's vacation policy for senior executives as it may change from time to time. For the Benefit Period, if any, (as hereinafter defined), the Company will arrange to provide Executive with welfare benefits (including life and health insurance benefits) of substantially similar design and cost to Executive as the welfare benefits and other employee benefits available to Executive prior to Executive's or the Company's, as the case may be, receipt of Notice of Termination (as hereinafter defined). In the event that Executive shall obtain full-time employment providing welfare benefits during the Benefit Period, such benefits as otherwise receivable hereunder by Executive shall be discontinued.

3.3 Expenses. The Company will pay or reimburse Executive for all reasonable and necessary out-of-pocket expenses incurred by her in the performance of her duties under this Agreement. Executive shall keep detailed and accurate records of expenses incurred in connection with the performance of her duties hereunder and reimbursement therefor shall be in accordance with policies and procedures to be established from time to time by the Board.

3.4 Automobile Expenses. During the Term and in accordance with the Company's Executive Automobile Policy, Executive shall be repaid by the Company for the monthly lease expense for an automobile leased in the name of the Executive and for all normal automobile operating expenses incurred by the Executive in the performance of her duties under this Agreement.

3.5 Stock Options. On the Effective Date; the Company agrees to grant Executive an Incentive Stock Option award for the purchase of 50,000 shares of the Company's common stock at an exercise price equal to the fair market value of such shares equal to the closing price of the Company's stock on the Effective Date. Such option award will be subject to such other terms and conditions as are set and determined by the Company's Board of Directors.

4. Termination of Employment

4.1 Definitions

(a) "Benefit Period" shall mean (i) the twelve (12) month period commencing on the Date of Termination which occurs in connection with a termination of employment described in the first sentence of Section 4.5(a), or (ii) the twenty-four (24) month period commencing on the Date of Termination which occurs in connection with a termination of employment described in the first sentence of Section 4.5(b).

(b) "Cause" shall mean any of the following:

(i) any act or failure to act (or series or combination thereof) by Executive done with the intent to harm in any material respect to the interests of the Company;

(ii) the commission by Executive of a felony;

(iii) the perpetration by Executive of a dishonest act or common law fraud against the Company or any subsidiary thereof;

(iv) a grossly negligent act or failure to act (or series or combination thereof) by Executive detrimental in any material respect to the interests of the Company;

(v) the material breach by Executive of her agreements or obligations under this Agreement; or

(vi) the continued refusal to follow the directives of the President or Board of Directors that are consistent with Executive's duties and responsibilities identified in Section 1.1 hereof.

(c) A "Change of Control" shall mean any of the following:

(i) a sale of all or substantially all of the assets of the Company;

(ii) the acquisition of more than eighty percent (80%) of the Common Stock of the Company (with all classes or series thereof treated as a single class) by any person or group of persons, except a Permitted Shareholder (as hereinafter defined), acting in concert. A "Permitted Shareholder" means a holder, as of the date of the Plan was adopted by the Company, of Common Stock;

(iii) a reorganization of the Company wherein the holders of Common Stock of the Company receive stock in another company, a merger of the Company with another company wherein there is an eighty percent (80%) or greater change in the ownership of the Common Stock of the Company as a result of such merger, or any other transaction in which the Company (other than as the parent corporation) is consolidated for federal income tax purposes or is eligible to be consolidated for federal income tax purposes with another corporation;

(iv) in the event that the Common Stock is traded on an established securities market, a public announcement that any person has acquired or has the right to acquire beneficial ownership of fifty-one percent (51%) or more of the then-outstanding Common Stock and for this purpose the terms "person" and "beneficial ownership" shall have the meanings provided in Section 13(d) of the Securities and Exchange Act of 1934 or related rules promulgated by the Securities and Exchange Commission, or the commencement of or public announcement of an intention to make a tender offer or exchange offer for

fifty-one percent (51%) or more of the then outstanding Common Stock;

(v) a majority of the Board of Directors is not comprised of Continuing Directors. A "Continuing Director" means a director recommended by the Board of Directors of the Company for election as a director of the Company by the stockholders; or

(vi) the Board of Directors of the Company, in its sole and absolute discretion, determines that there has been a sufficient change in the share ownership of the Company to constitute a change of effective ownership or control of the Company.

(d) "Good Reason" shall mean, at any time the Company's requiring Executive to be based at a location in excess of fifty (50) miles from the location of Executive's principal office on the effective date, or within the twelve (12) month period immediately following a Change of Control, the occurrence of any one or more of the following events:

(i) the assignment to Executive of any duties inconsistent in any respect with Executive's position (including status, offices, title, and reporting requirements), authority, duties or other responsibilities as in effect immediately prior to the Change of Control or any other action of the Company that results in a diminishment in such position, authority, duties or responsibilities, other than an insubstantial and inadvertent action that is remedied by the Company promptly after receipt of notice thereof given by Executive;

(ii) a reduction by the Company in Executive's Base Salary as in effect on the date hereof and as the same shall be increased from time to time hereafter;

(iii) the Company's requiring Executive to be based at a location in excess of fifty (50) miles from the location of Executive's principal office immediately prior to the Change of Control;

(iv) the failure by the Company to (a) continue in effect any material compensation or benefit plan, program, policy or practice in which Executive was participating at the time of the Change of Control or (b) provide Executive with compensation and benefits at least equal (in terms of benefit levels and/or reward opportunities) to those provided for under each employee benefit plan, program, policy and practice as in effect immediately prior to the Change of Control (or as in effect following the Change of Control, if greater);

(v) the failure of the Company to obtain a satisfactory agreement from any successor to the Company to assume and agree to perform this Agreement; and

(vi) any purported termination by the Company of Executive's employment that is not effected pursuant to a Notice of Termination (as defined below).

(e) "Date of Termination" shall mean the date specified in the Notice of Termination (as hereinafter defined) (except in the case of Executive's death, in which case Date of Termination shall be the date of death); provided, however, that if Executive's employment is terminated by the Company other than for Cause, the date specified in the Notice of Termination shall be at least thirty (30) days from the date the Notice of Termination is

given to Executive and if Executive's employment is terminated by Executive for Good Reason, the date specified in the Notice of Termination shall not be more than sixty (60) days from the date the Notice of Termination is given to the Company.

(f) "Notice of Termination" shall mean a written notice either from the Company to Executive, or Executive to the Company, that indicates Section 2 or the specific provision of Section 4 of this Agreement relied upon as the reason for such termination or nonrenewal, the Date of Termination, and, in reasonable detail, the facts and circumstances claimed to provide a basis for termination or nonrenewal pursuant to Section 2 or this Section 4 of this Agreement.

4.2 Termination Upon Death or Disability. This Agreement, and Executive's employment hereunder, shall terminate automatically and without the necessity of any action on the part of the Company upon the death of Executive. In addition, if at any time during the Term Executive shall become physically or mentally disabled, whether totally or partially, so that she is unable substantially to perform her duties and services hereunder for (i) a period of six (6) consecutive months, or (ii) for shorter periods aggregating six (6) months during any twelve (12) month period, the Company may at any time after the last day of the sixth consecutive month of disability or the day on which the shorter periods of disability shall have equalled an aggregate of six (6) months, by written notice to Executive (but before Executive has recovered from such disability), terminate this Agreement and Executive's employment hereunder.

4.3 Company's and Executive's Right to Terminate-Prior to Change of Control. Prior to a Change of Control, this Agreement and Executive's employment hereunder may be terminated at any time by the Company, with or without Cause, upon thirty (30) days prior written notice to Executive, and by Executive, at any time, upon thirty (30) days prior written notice to the Company. Any termination of Executive's employment by the Company without Cause prior to a Change of Control that occurs at the request or insistence of any person (other than the Company) relating to such Change of Control shall be deemed to have occurred after the Change of Control for the purposes of this Agreement.

4.4 Company's and Executive's Right to Terminate-Following a Change of Control. Following a Change of Control, this Agreement and Executive's employment hereunder may be terminated at any time (i) by the Company, with or without Cause, upon thirty (30) days prior written notice to Executive, and (ii) by Executive for Good Reason upon thirty (30) days prior written notice to the Company. Executive's right to terminate her employment pursuant to this Section 4.4 shall not be affected by incapacity due to physical or mental illness. Executive's continued employment following a Change of Control shall not constitute consent to, or a waiver of rights with respect to, any circumstance constituting Good Reason hereunder.

4.5 Compensation Upon Termination.

(a) Termination Prior to Change of Control. In the event the Company terminates (or elects not to renew) this Agreement without Cause, or Executive terminates (or elects not to renew) this Agreement for Good Reason and such termination (or nonrenewal) without Cause occurs prior to any Change of Control, Executive shall be entitled to receive her Base Salary through the Date of Termination, the welfare benefits described in Section 3.2 for the Benefit Period, and not later than thirty (30) days after the Date of Termination, a lump sum severance payment equal to the sum of Executive's then Current Base Salary plus the arithmetic average of payments made to Executive pursuant to the

Company's Executive Bonus Compensation Program with respect to the three (3) fiscal years immediately preceding the fiscal year in which the Date of Termination occurs. In addition, to the extent not otherwise required under the Company's Stock Option Plan or any award agreement with Executive, any unvested stock option awards theretofore awarded to Executive which would otherwise vest and become exercisable during the twelve (12) month period commencing on the Date of Termination shall vest and become exercisable on the Date of Termination. In the event this Agreement is terminated (or not renewed) for any reason other than by the Company without Cause, and such termination (or nonrenewal) occurs prior to a Change of Control, Executive shall not be entitled to the continuation of any compensation, bonuses or benefits provided hereunder, or any other payments following the Date of Termination, other than Base Salary earned through such Date of Termination.

(b) Termination Following Change of Control. If this Agreement is terminated (or not renewed) (i) by the Company without Cause, or (ii) by Executive for Good Reason during the twelve (12) month period immediately following a Change of Control, and such termination (or nonrenewal) occurs following a Change of Control, Executive shall be entitled to receive her full Base Salary through the Date of Termination, the welfare benefits described in Section 3.2 for the Benefit Period and, not later than thirty (30) days after the Date of Termination, a lump sum severance payment equal to the product of two (2) times the sum of Executive's then current Base Salary plus the arithmetic average of payments made to Executive pursuant to the Company's Executive Bonus Compensation Program with respect to the three (3) fiscal years immediately preceding the fiscal year in which the Date of Termination occurs. In addition, to the extent not otherwise required under the Company's Stock Option Plan or any award agreement with Executive, any unvested stock option awards theretofore awarded to Executive shall vest and become immediately exercisable in full. In the event this Agreement is terminated (or not renewed) for any reason other than (i) by the Company without Cause, or (ii) by Executive for Good Reason, and such termination (or nonrenewal) occurs following a Change of Control, Executive shall not be entitled to the continuation of any compensation, bonuses or benefits provided hereunder, or any other payments following the Date of Termination, other than Base Salary earned through the Date of Termination.

(c) At Executive's option to be exercised by written notice to the Company, the severance benefits payable under this Section 4.5 shall be paid in accordance with the Company's normal payroll procedures over the twelve (12) or twenty-four (24) month period, as the case may be, corresponding to the amount of the payments instead of in a lump sum.

(d) Anything to the contrary contained herein notwithstanding, as a condition to Executive receiving severance benefits to be paid pursuant to this Section 4.5, Executive shall execute and deliver to the Company a general release in form and substance reasonably satisfactory to the Company releasing the Company and its officers, directors, employees and agents from all liabilities, claims and obligations of any nature whatsoever, excepting only the Company's obligations under this Agreement, under any Stock Option Award Agreements, and under any other employee benefit plans or programs in which Executive participates under Section 3.2 hereof, subject to all terms and conditions of such plans or programs and this Agreement.

(e) Anything to the contrary contained herein notwithstanding, in the event that any payment or benefit received or to be received by Executive in connection with a Change in Control of the Company or termination of Executive's employment (whether payable pursuant to the terms of this Agreement or any other

plan, contract, agreement or arrangement with the Company, with any person whose actions result in a Change in Control of the Company or with any person constituting a member of an "affiliated group" as defined in Section 280G(d)(5) of the Internal Revenue Code of 1986, as amended (the "Code"), with the Company or with any person whose actions result in a Change in Control of the Company (collectively, the "Total Payments")) would not be deductible (in whole or in part) by the Company or such other person making such payment or providing such benefit solely as a result of Section 280G of the Code, the amount payable to Executive pursuant to this Section 4.5 shall be reduced until no portion of the Total Payments is not deductible solely as a result of Section 280G of the Code or such amount payable to Executive pursuant to Section 4.5 is reduced to zero. For purposes of this limitation, (a) no portion of the Total Payments the receipt or enjoyment of which Executive shall have effectively waived in writing prior to the date of payment of the amount pursuant to Section 4.5 shall be taken into account; (b) no portion of the Total Payments shall be taken into account which in the opinion of tax counsel selected by the Company and reasonably acceptable to Executive does not constitute a "parachute payment" within the meaning of Section 280G(b)(2) of the Code; (c) the payment pursuant to Section 4.5 shall be reduced only to the extent necessary so that the Total Payments (other than those referred to in the immediately preceding clause (b)) in their entirety constitute reasonable compensation within the meaning of Section 280G(b)(4)(B) of the Code, in the opinion of the tax counsel referred to in the immediately preceding clause (b); and (d) the value of any other non-cash benefit or of any deferred cash payment included in the Total Payments shall be determined by the Company's independent auditors in accordance with the principles of Sections 280G(d)(3) and (4) of the Code.

5. Employment Covenants

5.1 Trade Secrets and Confidential Information. Executive agrees that she shall, during the course of her employment and thereafter, hold inviolate and keep secret all documents, materials, knowledge or other confidential business or technical information of any nature whatsoever disclosed to or developed by her or to which she had access as a result of her employment (hereinafter referred to as "Confidential Information"). Such Confidential Information shall include technical and business information, including, but not limited to, inventions, research and development, engineering, products, designs, manufacture, methods, systems, improvements, trade secrets, formulas, processes, marketing, merchandising, selling, licensing, servicing, customer lists, records or financial information, manuals or Company strategy concerning its business, strategy or policies. Executive agrees that all Confidential Information shall remain the sole and absolute property of the Company. During the course of her employment, Executive shall not use, disclose, disseminate, publish, reproduce or otherwise make available such Confidential Information to any person, firm, corporation or other entity, except for the purpose of conducting business on behalf of the Company. Following the Term, Executive shall not use, disclose, disseminate, publish, reproduce or otherwise make available such Confidential Information to any person, firm, corporation or other entity. Upon termination of her employment with the Company, Executive will leave with or deliver to the Company all records and any compositions, articles, devices, equipment and other items which disclose or embody Confidential Information including all copies or specimens thereof, whether prepared by her or by others. The foregoing restrictions on disclosure of Confidential Information shall apply so long as the information has not properly come into the public domain through no action of Executive.

5.2 Transfer of Inventions. Executive, for himself and her heirs and representatives, will promptly communicate and disclose to the Company, and upon request will, without additional compensation, execute all papers reasonably necessary to assign to the Company or the Company's nominees, free of

encumbrance or restrictions, all inventions, discoveries, improvements, whether patentable or not, conceived or originated by Executive solely or jointly with others, at the Company's expense or at the Company's facilities, or at the Company's request, or in the course of her employment, or based on knowledge or information obtained during the Term. All such assignments shall include the patent rights in this and all foreign countries. Notwithstanding the foregoing, this Section 5.2 shall not apply to any invention for which no equipment, supplies, facilities or trade secret information of the Company was used and which was developed entirely on Executive's own time and (a) that does not relate (1) directly to the business of the Company or (2) to the Company's actual or demonstrably anticipated research or development, or (b) that does not result from any work performed by Executive for the Company.

5.3 Exclusivity of Employment. During the Term, Executive shall not directly or indirectly engage in any activity competitive with or adverse to the Company's business or welfare or render a material level of services of a business, professional or commercial nature to any other person or firm, whether for compensation or otherwise.

5.4 Covenant Not to Compete. Executive agrees to be bound and abide by the following covenant not to compete:

(a) Term and Scope. During her employment with the Company and for a period of two (2) years after the Term, Executive will not render to any Conflicting Organization (as hereinafter defined), services, directly or indirectly, anywhere in the world in connection with any Conflicting Product, except that Executive may accept employment with a large Conflicting Organization whose business is diversified (and which has separate and distinct divisions) if Executive first certifies to the Board of Directors in writing that she has provided a copy of Section 5 of this Agreement to such prospective employer, that such prospective employer is a separate and distinct division of the Conflicting Organization and that Executive will not render services directly or indirectly in respect of any Conflicting Product (as hereinafter defined). Such two-year time period shall be tolled during any period that Executive is engaged in activity in violation of this covenant.

(b) Judicial Action. Executive and the Company agree that, if the period of time or the scope of the restrictive covenant not to compete contained in this Section 5.4 shall be adjudged unreasonable in any court proceeding, then the period of time and/or scope shall be reduced accordingly, so that this covenant may be enforced in such scope and during such period of time as is judged by the court to be reasonable. In the event of a breach or violation of this Section 5.4 by Executive, the parties agree than in addition to all other remedies, the Company shall be entitled to equitable relief for specific performance, and Executive hereby agrees and acknowledges that the Company has no adequate remedy at law for the breach of the covenants contained herein.

(c) Definitions. For purposes of this Agreement, the following terms shall have the following meanings:

"Conflicting Product" means any product, method or process, system or service of any person or organization other than the Company, in existence or under development at the time Executive's employment with the Company terminates, that is the same as or similar to or competes with a product, method or process, system or service of or provided by the Company or any of its affiliates or about which Executive acquires Confidential Information.

"Conflicting Organization" means any person or organization which is engaged in or about to become engaged in, research on or development, production, marketing, licensing, selling or servicing of a Conflicting Product.

5.5 Disclosure to Prospective Employers. Executive will disclose to any prospective employer, prior to accepting employment, the existence of Section 5 of this Agreement. The obligation imposed by this Section 5.5 shall terminate two (2) years after termination of Executive's employment with the Company; provided, however, the running of such two-year period shall be tolled to the extent the covenant not to compete contained in Section 5.4(a) hereof is tolled.

5.6 Non-Solicitation. For one (1) year after termination of employment with the Company for any reason, the Executive shall not directly or indirectly solicit or hire, or assist any other person in soliciting or hiring, any employee of the Company (as of the date of termination) or any person who, as of the date of termination, was in the process of being recruited by the Company or induce any such employee to terminate his or her employment with the Company.

6. Miscellaneous

6.1 Notices. Any notice required or permitted to be delivered hereunder shall be in writing and shall be deemed to be delivered on the earlier of (i) the date received, or (ii) the date of delivery, refusal or non-delivery indicated on the return receipt, if deposited in a United States Postal Service depository, postage prepaid, sent registered or certified mail, return receipt requested, addressed to the party to receive the same at the address of such party set forth below, or at such other address as may be designated in a notice delivered or mailed as herein provided.

To Company: Curative Health Services, Inc.
150 Motor Parkway, 4th Flr.
Hauppauge, NY 11788

Executive: Nancy Lanis
37 Longview Road
Port Washington, NY 11050

6.2 Headings. The headings of the articles and sections of this Agreement are inserted for convenience only and shall not be deemed a part of or affect the construction or interpretation of any provision hereof.

6.3 Modifications; Waiver. No modification of any provision of this Agreement or waiver of any right or remedy herein provided shall be effective for any purpose unless specifically set forth in a writing signed by the party to be bound thereby. No waiver of any right or remedy in respect of any occurrence or event on one occasion shall be deemed a waiver of such right or remedy in respect of such occurrence or event on any other occasion.

6.4 Entire Agreement. This Agreement contains the entire agreement of the parties with respect to the subject matter hereof and supersedes all other agreements, oral or written, heretofore made with respect thereto, including, without limitation, the Original Agreement.

6.5 Severability. Any provision of this Agreement prohibited by or unlawful or unenforceable under any applicable law of any jurisdiction shall as to such jurisdiction be ineffective without affecting any other provision hereof. To the full extent, however, that the provisions of such applicable law

may be waived, they are hereby waived, to the end that this Employment Agreement be deemed to be a valid and binding agreement enforceable in accordance with its terms.

6.6 Controlling Law. This Agreement has been entered into by the parties in the State of New York and shall be continued and enforced in accordance with the laws of that State.

6.7 Assignments. The Company shall have the right to assign this Agreement and to delegate all rights, duties and obligations hereunder to any entity that controls the Company, that the Company controls or that may be the result of the merger, consolidation, acquisition or reorganization of the Company and another entity. Executive agrees that this Agreement is personal to her and her rights and interest hereunder may not be assigned, nor may her obligations and duties hereunder be delegated (except as to delegation in the normal course of operation of the Company), and any attempted assignment or delegation in violation of this provision shall be void.

6.8 Attorney Fees. In the event of litigation between the parties, to enforce their respective rights under this Agreement, the prevailing party shall be entitled to receive from the non-prevailing party reimbursement of the prevailing party's reasonable attorney's fees and costs at all levels of trial and appeal.

IN WITNESS WHEREOF, the parties have executed this Agreement as of the Effective Date.

CURATIVE HEALTH SERVICES, INC.

By:

Its: President

Executive